

27. “Valuation actuary” means the appointed actuary or, alternatively, a qualified actuary designated by the appointed actuary to render the actuarial opinion. Written documentation of any such designation shall be on file at the company and available for review upon request.

Plan of Operations

28. The plan of operations for a class of contracts shall describe the financial implications for the insurer of the issuance of contracts in the class, and shall include at least the following:

- a. A description of the class of contracts to which the plan of operations pertains. This should include a description of the products, the markets to which the products will be sold, the benefits that are being offered (including whether those benefits will be paid on a market or book value basis);
- b. A statement of the investment policy for the separate account and any supplemental account, including requirements for diversification, maturity, type and quality of assets, and as applicable, target duration for matching guaranteed contract liabilities or the degree to which the investment policy is likely to match the performance of an interest rate series or index on which contract benefits are based;
- c. A description of how the value of the separate account assets and any supplemental account is to be determined, including but not limited to, a statement of procedures and rules for valuing securities and other assets that are not publicly traded;
- d. A description of how the guaranteed contract liabilities are to be valued, including, if applicable, with respect to guaranteed minimum benefits or other benefits, a description of the methodology for calculating spot rates and the rates proposed to be used to discount guaranteed contract liabilities if higher than the applicable spot rates, but the rate or rates used shall not exceed the blended spot rate, except that if the expected time of payment of a contract benefit is more than thirty (30) years, it shall be discounted from the expected time of payment to year thirty (30) at a rate of no more than eighty percent (80%) of the thirty-year blended spot rate and from year thirty (30) to the date of valuation at a rate not greater than the thirty-year blended spot rate, and shall conservatively reflect expected investment returns (taking into account foreign exchange risks);
- e. A statement of how the separate account’s operations are designed to provide for payment of contract benefits as they become due, including but not limited to:
 - i. A description of the method for estimating the amount and timing of benefit payments;
 - ii. The arrangements necessary to provide liquidity to cover contingencies;
 - iii. The method to be used to comply with the asset maintenance requirement;
 - iv. The manner in which account assets will be allocated between the separate account, any supplemental account, and the general account;
 - v. If applicable, the deductions to be used in determining the market value of an asset when determining the asset maintenance requirement when the investment policy of the separate account and any supplemental accounts is not likely to match the performance of an interest rate series or index on which contract benefits are based; and

- vi. For index contracts, the deductions to be used for replicated (synthetic) asset transactions in determining the market value of the separate account.
- vii. For market value separate accounts supporting contracts other than index contracts:
 - (a) A description of the criteria used by the insurer in approving for contract issuance a pooled fund representing multiple employer-sponsored plans;
 - (b) A description of risk-mitigation techniques used by the insurer in connection with contracts issued to pooled funds representing multiple employer-sponsored plans
- f. If hedging transactions are to be utilized in managing separate account or any supplemental account assets, a description of the instruments and techniques and an explanation of how they are intended to reduce risk of loss;
- g. If the amount of the asset maintenance requirement depends on the separate account, any supplemental account or a subportfolio of either being duration matched, a description of the method used to determine the durations of separate account and any supplemental account assets and guaranteed contract liabilities;
- h. If a part of the asset maintenance requirement is to be met by maintaining a reserve liability in the general account, a description of:
 - i. The circumstances under which increases and decreases in the general account portion of the reserve liability will be made;
 - ii. The circumstances under which transfers will be made between the separate account and the general account; and
 - iii. Any arrangements needed to provide sufficient liquidity in the general account to enable the insurance company to make transfers to the separate account when due.
- i. A statement as to the extent to which the contracts in the class will provide or applicable law does provide that the separate account assets shall not be chargeable with liabilities arising out of any other business of the insurance company; and
- j. If any person other than the insurance company may authorize, approve or review the acquisition and disposition of investments for the separate account or any supplemental account, a statement of the safeguards adopted by the insurance company to assure that the actions to be taken by these persons are appropriate, including a description of the criteria used by the insurance company in selecting the person.

29. Notwithstanding the descriptions in the plan of operations, the insurance company may change the rate used pursuant to paragraph 35 to discount guaranteed contract liabilities and other items applicable to the separate account or any supplemental accounts, such as if the investment portfolio is different from that anticipated by the plan of operations, provided that the rates used shall not exceed the blended spot rates as prescribed in paragraph 28.d.

Asset Maintenance Requirements for Market Value Separate Accounts Supporting Contracts other than Index Contracts

30. At all times an insurer shall hold sufficient assets as a reserve in the general account, the separate account or supplemental accounts, as appropriate, such that the:

- a. Market value of the assets held in the separate account, plus
- b. The market value of any supplemental account, plus
- c. Any assets held in the general account as a reserve for guaranteed contract liabilities, less
- d. The deductions provided for in paragraph 31, equals or exceeds the value of guaranteed contract liabilities determined in accordance with paragraphs 35 and 36.

31. In determining compliance with the asset maintenance requirement and the reserve for guaranteed contract liabilities in accordance with paragraph 30, the insurance company shall deduct a percentage of the market value of the separate account or supplemental account asset or an amount attributable to a replicated (synthetic) asset transaction as follows:

- a. For debt instruments, the percentage shall be the NAIC asset valuation reserve “reserve objective factor,” but the factor shall be increased fifty percent (50%) for the purpose of this calculation if the difference in durations of the assets and liabilities is more than one-half year;
- b. For assets that are not debt instruments, the percentage shall be the NAIC asset valuation reserve “maximum reserve factor”; and
- c. For replicated (synthetic) asset transactions, the market value of the separate account or supplemental account assets shall be decreased by an amount equal to the asset valuation reserve for the transaction as if the transaction were occurring in the general account, determined in accordance with SSAP No. 7; but to the extent that the NAIC asset valuation reserve maximum reserve factor was not used in determining the amount of the deduction, the amount of the deduction shall be increased fifty percent (50%) for purposes of this calculation.

32. To the extent that guaranteed contract liabilities are denominated in the currency of a foreign country and are supported by separate account or supplemental account assets denominated in the currency of the foreign country, the percentage deduction for these assets under paragraph 31 shall be that for a substantially similar investment denominated in the currency of the United States.

33. To the extent that guaranteed contract liabilities are denominated in the currency of the United States and are supported by separate account or supplemental account assets denominated in the currency of a foreign country, and to the extent that guaranteed contract liabilities are denominated in the currency of a foreign country and are supported by separate account or supplemental account assets denominated in the currency of the United States, the deduction for debt instruments and replicated (synthetic) assets transactions under paragraph 31 shall be increased by fifteen percent (15%) of its market value unless the currency exchange risk has been adequately hedged, in which case the percentage deduction under paragraph 31 shall be increased by one-half percent (0.5%). No guaranteed contract liabilities denominated in the currency of a foreign country shall be supported by separate account or supplemental account assets denominated in the currency of another foreign country. For purposes of this paragraph, the currency exchange rate on an asset is deemed to be adequately hedged if:

- a. It is an obligation of a jurisdiction that is rated in one of two (2) highest rating categories by an NRSRO or a political subdivision or other governmental unit of the jurisdiction, or is organized under the laws of the jurisdiction; and
- b. At all times the principal amount and scheduled interest payments on the principal are hedged against the United States dollar pursuant to contracts or agreements that are:
 - i. Issued by or traded on a securities exchange or board of trade regulated under the laws of the United States or Canada or a province of Canada;
 - ii. Entered into with a United States banking institution that has assets in excess of \$5 billion and that has obligations outstanding, or has a parent corporation that has obligations, that are rated in one of the two (2) highest rating categories by an NRSRO, or with a broker-dealer registered with the Securities and Exchange Commission that has net capital in excess of \$250 million; or
 - iii. Entered into with any other banking institution that has assets in excess of \$5 billion and that has obligations outstanding, or has a parent corporation that has obligations outstanding, that are rated in one of the two (2) highest rating categories by an NRSRO and that is organized under the laws of a jurisdiction that is rated in one of the two (2) highest rating categories by an NRSRO.

34. All or a portion of the amount needed to comply with the asset maintenance requirement may be allocated to one or more supplemental accounts. If the account contract or applicable law provides that the assets in the separate account shall not be chargeable with liabilities arising out of any other business of the insurance company, the insurance company shall maintain in a supplemental account or the general account the amount of any account assets in excess of the sum of (i) the amounts contributed (net of withdrawals) by the contractholder, and (ii) the earnings attributable to the amounts contributed (net of withdrawals) by the contractholder.

35. For purposes of paragraphs 30-36, the minimum value of guaranteed contract liabilities is defined to be the sum of the expected guaranteed contract benefits, each discounted at a rate corresponding to the expected time of payment of the contract benefit that is not greater than the rate supportable by the expected return from the separate account and any supplemental account assets provided that the rate used shall not exceed the blended spot rates as prescribed in paragraph 28.d. or as described in the actuarial opinion. In calculating the minimum value of contract benefits, all guaranteed contract benefits potentially available to the contractholder shall be considered in the valuation process and analysis, and the reserve held shall be sufficient to fund the greatest present value of each independent guaranteed benefit stream, including guaranteed annuitization options available.

36. To the extent that future cash flows are dependent upon the benefit responsiveness features of an employer-sponsored plan, a best estimate or an estimate based on the insurance company's experience shall be used in the projections of the future cash flows. In addition, the valuation actuary shall periodically review the actual experience under the contract to validate the assumptions used. In projecting cash flows for contingent benefits involving mortality, the mortality tables for these benefits prescribed in Appendix A-820 shall be used.

37. The minimum value of guaranteed contract benefits under a contract issued to a pooled fund representing multiple employer-sponsored plans shall be determined so as to reflect projected plan sponsor contract value withdrawals available to the member plans in the pooled fund. Projections of such future cash flows shall take into account (i) known plan sponsor withdrawals, and (ii) a prudent estimate of future plan sponsor withdrawals. The prudent estimate shall be based on company experience and other relevant criteria.

38. A single valuation rate shall be determined equal to the lesser of:
- The expected return from the separate account, or
 - The blended spot rate based on the duration of the separate account.
39. This single valuation rate shall be used to model future market values of the separate account. Future credited interest rates shall be modeled according to the contractually defined crediting rate formula. Modeled future contract values shall reflect modeled future market values, modeled future credited interest rates, known future plan sponsor withdrawals, the prudent estimate of future plan sponsor withdrawals, future withdrawals consistent with paragraph 37, and any remaining final payment at the modeled contract termination date.
40. All such modeled withdrawals and termination payments shall be discounted using the single valuation rate and the modeled times of those withdrawals and payments. The sum of these present values shall be deemed the minimum value of the guaranteed contract liabilities for a pooled fund contract.

Asset Maintenance Requirements for Market Value Separate Accounts Supporting Index Contracts

41. At all times an insurance company shall hold sufficient assets as a reserve in the general account, the separate account or supplemental accounts, as appropriate, such that the:
- Market value of the assets held in the separate account, plus
 - The market value of any supplemental account, plus
 - Any assets held in the general account as a reserve for guaranteed contract liabilities, less
 - Any deduction provided for in paragraph 42, equals or exceeds the value of guaranteed contract liabilities determined in the manner set forth in the plan of operations.
42. In determining compliance with the asset maintenance requirement and the reserves for guaranteed contract liabilities in accordance with paragraph 41, the insurance company shall deduct a percentage of the market value of a separate account or supplemental account asset as set forth in the plan of operations, and for replication (synthetic asset) transactions, the value of the separate account or supplemental account assets shall be decreased in the manner set forth in the plan of operations.
43. All or a portion of the amount needed to comply with the asset maintenance requirement may be allocated to one or more supplemental accounts. If the account contract or applicable law provides that the assets in the separate account shall not be chargeable with liabilities arising out of any other business of the insurance company, the insurance company shall maintain in a supplemental account or the general account the amount of any account assets in excess of the sum of (i) the amounts contributed (net of withdrawals) by the contractholder, and (ii) the earnings attributable to the amounts contributed (net of withdrawals) by the contractholder.

Asset Maintenance Requirements for Separate Accounts Supporting Book Value Contracts

44. At all times an insurance company shall hold sufficient assets in the general account, the separate account or supplemental accounts, as appropriate, such that the value of the account assets, valued as if the assets were held in the insurance company's general account, equals or exceeds the reserve required for contracts supported by the separate account, determined as if the contracts were held in the general account.

45. All or any portion of the amount needed to comply with the asset maintenance requirement may be allocated to one or more supplemental accounts. If the account contract or applicable law provides that the assets in the separate account shall not be chargeable with liabilities arising out of any other business of the insurance company, the insurance company shall maintain in a supplemental account or the general account the amount of any account assets in excess of the sum of (i) the amounts contributed (net of withdrawals) by the contractholder, and (ii) the earnings attributable to the amounts contributed (net of withdrawals) by the contractholder.

Asset Valuation Reserve

46. When the insurance company values separate account or supplemental account assets at market and complies with the asset maintenance requirements of the section entitled Asset Maintenance Requirements for Market Value Separate Accounts Supporting Contracts other than Index Contracts or the section entitled Asset Maintenance Requirements for Market Value Separate Accounts Supporting Index Contracts, it need not maintain an asset valuation reserve with respect to these assets.

Reserve Valuation and Documentation

47. Reserves for contracts funded by a market value separate account supporting contracts other than index contracts shall be an amount equal to the following:

- a. The total reserve required to be maintained on the valuation date under paragraphs 30-36;
- b. Plus the excess, if any, of the market value of separate account assets (to the extent that the market value of the assets determines the contractholder's benefits, i.e., to the extent the assets are beneficially "client" assets) over the amount determined in accordance with paragraph 47.a.;
- c. Plus any additional amount determined by the valuation actuary as necessary to make adequate provision for all of the contract liabilities.

48. Reserves for index contracts funded by a market value separate account shall be an amount equal to the following:

- a. The total reserve required to be maintained on the valuation date under paragraphs 41-43;
- b. Plus the excess, if any, of the market value of separate account assets (to the extent that the market value of the assets determines the contractholder's benefits, i.e., to the extent the assets are beneficially "client" assets) over the amount determined in accordance with paragraph 48.a.;
- c. Plus any additional amounts determined by the valuation actuary as necessary to make adequate provision for all of the contract liabilities.

49. Reserves for book value contracts shall be determined as if the contracts were held in the general account.

50. The amount of any reserves required by paragraph 47.c. or paragraph 48.c. may be established by either:

- a. Allocating sufficient assets to the separate account or a supplemental account to satisfy the requirement; or
- b. Setting up the additional reserves in the general account.

51. Account assets shall make adequate provision for contract liabilities, taking into account any risk charge payable from the separate account assets and the amount of any reserve liability of the general account and amounts held in any supplemental account with respect to the asset maintenance requirement.
52. The level of risk charges, if any, payable to the general account shall be appropriate in view of such factors as the nature of the guaranteed contract liabilities and losses experienced in connection with account contracts and other pricing factors.
53. The fixed-income asset portfolio shall conform to and justify the rates used to discount contract liabilities for valuation pursuant to paragraph 35 if applicable.
54. The company shall document whether any rates used pursuant to paragraph 35 to discount guaranteed contract liabilities and other items applicable to the separate account or any supplemental account were modified from the rate or rates described in the plan of operations.
55. The company shall substantially conform with Appendix A-822 and maintain internal documentation to either:
- a. Demonstrate the adequacy of account assets based upon cash flow analysis; or
 - b. Explain why cash flow analysis is not appropriate, describe the alternative methodology of asset adequacy testing used, and demonstrate the adequacy of account assets under such methodology.
56. The company's internal documentation pertaining to reserves for contract liabilities under account contracts shall also:
- a. Clearly describe the assumptions used in projecting cash flows under each class of assets, and any dynamic portfolio hedging techniques utilized and the tests performed on the utilization of the techniques;
 - b. Clearly describe how the company reflected the risk of default on obligations and mortgage loans, including obligations and mortgage loans that are not investment grade;
 - c. Clearly describe how the company has reflected withdrawal risks, if applicable, including a discussion of the positioning of the contracts within the benefit withdrawal priority order pertaining to the contracts, the impact of any dynamic lapse assumption and the results of sensitivity testing the prudent estimate of future plan sponsor withdrawals pursuant to paragraphs 37-40;
 - d. If the plan of operations provides for investments in separate account or supplemental account assets other than United States government obligations, demonstrate that the rates used to discount contract liabilities pursuant to paragraph 35 conservatively reflect expected investment returns (taking into account any foreign exchange risks);
 - e. If the contracts provide that in certain circumstances they would cease to be funded by a separate account and, instead, would become contracts funded by the general account, clearly describe how any increased reserves would be provided for if and to the extent these circumstances occurred;
 - f. Document the amount of separate account assets that are not chargeable with liabilities arising out of any other business of the insurance company;
 - g. Document the amount of reserves and supporting assets as of December 31 and where the reserves and assets are shown in the annual statement;

- h. Document the amount of any contingency reserve carried as part of surplus;
- i. For book value contracts, document the market value of supporting assets; and
- j. Where separate account assets are not chargeable with liabilities arising out of any other business of the insurance company, describe how the level of risk charges payable to the general account provider are appropriate compensation for the risk taken by the general account.

Not for Distribution

Appendix A-205

Illustrative Disclosure of Differences Between NAIC Statutory Accounting Practices and Procedures and Accounting Practices Prescribed or Permitted by the State of Domicile

Relevant SSAPs:

SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures

XYZ Insurance Company
Footnotes to Financial Statements
December 31, 2002, and 2001

Note 1—Organization

The XYZ Company is a mutual life insurance company domiciled in the state of ABC and licensed to do business in all 50 states. The company markets traditional whole life, term and disability income insurance policies to individuals through its career agency force.

Notes 2—Basis of Presentation

The financial statements of XYZ Company are presented on the basis of accounting practices prescribed or permitted by the ABC Insurance Department.

The ABC Insurance Department recognizes only statutory accounting practices prescribed or permitted by the state of ABC for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the ABC Insurance Law. The National Association of Insurance Commissioners' (the "NAIC") *Accounting Practices and Procedures Manual* version effective January 1, 2001 ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the state of ABC. The state has adopted certain prescribed accounting practices which differ from those found in NAIC SAP. Specifically, 1) goodwill arising from the purchase of a subsidiary, controlled or affiliated entity is written off directly to surplus in the year it originates by ABC domiciled companies; in NAIC SAP, goodwill in amounts not to exceed 10% of an insurer's capital and surplus may be capitalized and all amounts of goodwill are amortized to unrealized gains and losses on investments over periods not to exceed 10 years, and 2) 100% of all fixed assets may be admitted by ABC domiciled companies; in NAIC SAP, fixed assets are not admitted. The Commissioner of Insurance has the right to permit other specific practices which deviate from prescribed practices.

The Company, with the explicit permission of the Commissioner of Insurance of the state of ABC, records the value of its home office building at fair market value instead of at the depreciated cost method required by NAIC SAP. If the home office building were carried at depreciated cost, home office property and statutory surplus would be decreased by \$2,500,000 and \$2,300,000 as of December 31, 2002 and 2001, respectively. Additionally, net income would be increased by \$120,000 and \$103,000 respectively, for the years then ended.

Illustration to use if prescribed or permitted statutory accounting practices (individually or in the aggregate), which differ from the NAIC basis of accounting, prevent the triggering of a regulatory event:

If the reporting entity had not used the above prescribed and permitted practices that differ from the NAIC basis of accounting a risk based capital regulatory event would have been triggered. The company would have moved to a risk based capital company action level and the total adjusted capital would have been decreased by \$300,000.

Illustration to use if prescribed or permitted practices statutory accounting practices, which differ from the NAIC basis of accounting, have no impact on regulatory events:

If the reporting entity has not used the above prescribed and permitted practices that differ from the NAIC basis of accounting a risk based capital regulatory event would not have been triggered. The impact on net income and capital is shown in the following paragraphs.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the state of ABC is shown below.

	2002	2001
Net Income, ABC state basis	\$3,200,000	\$2,900,000
State Prescribed Practices:		
Depreciation of fixed assets	100,000	110,000
State Permitted Practices:		
Depreciation, home office property	<u>120,000</u>	<u>103,000</u>
Net Income, NAIC SAP	<u>\$3,420,000</u>	<u>\$3,113,000</u>
Statutory Surplus, ABC state basis	\$30,000,000	\$27,900,000
State Prescribed Practices:		
Goodwill, net	3,000,000	2,700,000
Fixed Assets, net	(850,000)	(950,000)
State Permitted Practices:		
Home Office Property	<u>(2,500,000)</u>	<u>(2,300,000)</u>
Statutory Surplus, NAIC SAP	<u>\$29,650,000</u>	<u>\$27,350,000</u>

Appendix A-225

Managing General Agents

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 53—Property and Casualty Contracts—Premiums

SSAP No. 54R—Individual and Group Accident and Health Contracts

SSAP No. 59—Credit Life and Accident and Health Insurance Contracts

Definitions

1. “Managing General Agent” (MGA) means any person, firm, association or corporation who:
 - a. Manages all or part of the insurance business of an insurer (including the management of a separate division, department or underwriting office); and
 - b. Acts as an agent for such insurer whether known as a Managing General Agent, manager or other similar term, who, with or without the authority, either separately or together with affiliates, produces, directly or indirectly, and underwrites an amount of gross direct written premium equal to or more than five percent (5%) of the policyholder surplus as reported in the last annual statement of the insurer in any one quarter or year together with one or more of the following activities related to the business produced:
 - i. Adjusts or pays claims in a material amount;
 - ii. Negotiates reinsurance on behalf of the insurer.
 - c. Notwithstanding the above, the following persons shall not be considered MGAs for the purposes of this Appendix:
 - i. An employee of the insurer;
 - ii. A U.S. Manager of the United States branch of an alien insurer;
 - iii. An underwriting manager which, pursuant to contract, manages all or part of the insurance operations of the insurer, is under common control with the insurer, subject to a regulatory holding company act, if any, and whose compensation is not based on the volume of premiums written;
 - iv. The attorney-in-fact authorized by and acting for the subscribers of a reciprocal insurer or inter-insurance exchange under powers of attorney.
2. “Underwrite” means the authority to accept or reject risk on behalf of the insurer.

Appendix A-235

Interest-Indexed Annuity Contracts

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 52—Deposit-Type Contracts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definition

1. “Interest-indexed annuity contract” means any annuity contract where the interest credits are linked to an external reference.

Valuation Requirements

2. In developing life insurance reserves for interest-indexed annuity contracts, the insurer must be in compliance with the minimum requirements of Appendix A-820.

3. In the calculation of reserves for interest-indexed annuity contracts, future guarantees will be determined by assuming that future interest crediting rates will be equal to the statutory valuation interest rate for such contracts as defined in Appendix A-820.

Not for Distribution

Appendix A-250

Variable Annuities

Relevant SSAPs:

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definitions

1. “Variable annuity” means a policy or contract, individual or group, that provides for annuity benefits that vary according to the investment experience of a separate account or accounts maintained by the insurer as to the policy or contract.
2. The company shall maintain in each such separate account assets with a value at least equal to the reserves and other contract liabilities with respect to the account.
3. The reserve liability for variable annuities shall be established pursuant to the requirements of Appendix A-820 in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.

Not for Distribution

Appendix A-255

Modified Guaranteed Annuities

Relevant SSAPs:

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definitions

1. A “Modified Guaranteed Annuity” is a deferred annuity contract, individual or group, the underlying assets of which are held in a separate account, and the values of which are guaranteed if held for specified periods. The contract contains nonforfeiture values that are based upon a market-value adjustment formula if held for shorter periods. This formula may or may not reflect the value of assets held in the separate account. The assets underlying the contract must be in a separate account during the period or periods when the contract holder can surrender the contract.
2. “Interest credits” means all interest that is credited to the contract.
3. “Separate account” means a separate account established pursuant to the insurance laws pertaining to the insurer.

Valuation Requirements

4. Reserve liabilities for modified guaranteed annuities shall be established as provided in Appendix A-820 in accordance with actuarial procedures that recognize:
 - a. That assets of the separate account are based on market values;
 - b. The variable nature of benefits provided; and
 - c. Any mortality guarantees.
5. As a minimum, the separate account liability will equal the surrender value based upon the market-value adjustment formula contained in the contract. If that liability is greater than the market value of the assets, a transfer of assets will be made into the separate account so that the market value of the assets at least equals that of the liabilities. Any additional reserve that is needed to cover future guaranteed benefits shall be established.
6. The market-value adjustment formula, the interest guarantees, and the degree to which projected cash flow of assets and liabilities are matched must also be considered. The company shall determine whether the assets in the separate account are adequate to provide all future benefits that are guaranteed.

Separate Accounts

7. The insurer shall maintain in each separate account assets with a value at least equal to the valuation reserves and other contract liabilities respecting such account.

Appendix A-270

Variable Life Insurance

Relevant SSAPs:

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definitions

1. “Variable life insurance policy” means an individual or group policy that provides for life insurance the amount or duration of which varies according to the investment experience of any separate account or accounts established and maintained by the insurer as to the policy.
2. “Affiliate” of an insurer means a person, directly or indirectly, controlling, controlled by, or under common control with the insurer; a person who regularly furnishes investment advice to the insurer with respect to its separate accounts for which a specific fee or commission is charged; or any director, officer, partner or employee of the insurer, controlling or controlled person, or person providing investment advice or any member of the immediate family of such person.
3. “Assumed investment rate” means the rate of investment return that would be required to be credited to a variable life insurance policy, after deduction of charges for taxes, investment expenses and mortality and expense guarantees to maintain the variable death benefit equal at all times to the amount of death benefit, other than incidental insurance benefits, which would be payable under the plan of insurance if the death benefit did not vary according to the investment experience of the separate account.
4. “Benefit base” means the amount to which the net investment return is applied.
5. “Control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if a person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing more than ten percent (10%) of the voting securities of any other person. This presumption can be overcome by predominant evidence to the contrary, however, it shall stand until overcome by such predominant contradictory evidence.
6. “Flexible premium policy” means any variable life insurance policy other than a “scheduled premium policy” as defined in paragraph 13.
7. “General account” means all assets of the insurer other than assets in separate accounts.
8. “Incidental insurance benefit” means all insurance benefits in a variable life insurance policy, other than the variable death benefit and the minimum death benefit, including but not limited to, accidental death and dismemberment benefits, disability benefits, guaranteed insurability options, family income or term riders.
9. “Minimum death benefit” means the amount of the guaranteed death benefit, other than incidental insurance benefits, payable under a variable life insurance policy regardless of the investment performance of the separate account.

10. “Net investment return” means the rate of investment return in a separate account to be applied to the benefit base.
11. “Person” means an individual, corporation, partnership, association, trust or fund.
12. “Policy processing day” means the day on which charges authorized in the policy are deducted from the policy’s cash value.
13. “Scheduled premium policy” means a variable life insurance policy under which both the amount and timing of premium payments are fixed by the insurer.
14. “Variable death benefit” means the amount of the death benefit, other than incidental insurance benefits, payable under a variable life insurance policy dependent on the investment performance of the separate account, which the insurer would have to pay in the absence of any minimum death benefit.

Valuation Requirements

15. Reserve liabilities for variable life insurance policies shall be established as provided in Appendix A-820 in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.

16. Reserve liabilities for the guaranteed minimum death benefit shall be the reserve needed to provide for the contingency of death occurring when the guaranteed minimum death benefit exceeds the death benefit that would be paid in the absence of the guarantee, and shall be maintained in the general account of the insurer and shall not be less than the greater of the following minimum reserves:

- a. The aggregate total of the term costs, if any, covering a period of one full year from the valuation date or, if less, covering the period provided for in the guarantee not otherwise provided for by the reserves held in the separate account, on each variable life insurance contract, assuming an immediate one-third depreciation in the current value of the assets in the separate account followed by a net investment return equal to the assumed investment rate; or
- b. The aggregate total of the “attained age level” reserves on each variable life insurance contract. The “attained age level” reserve on each variable life insurance contract shall not be less than zero and shall equal the “residue,” as described in paragraph 16.b.i. below, of the prior year’s “attained age level” reserve on the contract, with any such “residue,” increased or decreased by a payment computed on an attained age basis as described in paragraph 16.b.ii. below.
 - i. The “residue” of the prior year’s “attained age level” reserve on each variable life insurance contract shall not be less than zero and shall be determined by adding interest at the valuation interest rate to the prior year’s reserve, deducting the tabular claims based on the “excess,” if any, of the guaranteed minimum death benefit over the death benefit that would be payable in the absence of a guarantee, and dividing the net result by the tabular probability of survival. The “excess” referred to in the preceding sentence shall be based on the actual level of death benefits that would have been in effect during the preceding year in the absence of the guarantee, taking appropriate account of the reserve assumptions regarding the distribution of death claim payments over the year.
 - ii. The payment referred to in this paragraph shall be computed so that the present value of a level payment of that amount each year over the future period for which charges for this risk will be collected under the contract, is equal to (A) minus (B) minus (C), where (A) is the present value of the future guaranteed

minimum death benefits, (B) is the present value of the future death benefits that would be payable in the absence of such guarantee, and (C) is any “residue,” as described in paragraph 16.b.i. of the prior year’s “attained age level” reserve on such variable life insurance contract. This result shall be divided by the present value, at the valuation date, of a temporary life annuity of one per annum at the current attained age payable over the period in which future charges for this risk will be collected under the contract. If no future charges for this risk will be collected under the contract, the payment shall equal (A) minus (B) minus (C). The amounts of the future death benefits referred to in (B) shall be computed assuming a net investment return of the separate account which may differ from the assumed investment rate or the valuation interest but in no event may exceed the maximum interest rate permitted for the valuation of life contracts.

- c. The valuation interest rate and mortality table used in computing the two minimum reserves described in 16 a. and 16 b. above shall conform to acceptable standards for the valuation of life insurance contracts. In determining the minimum reserves, the company may employ suitable approximations and estimates, including but not limited to groupings and averages.

17. **Incidental Insurance Benefit.** Reserve liabilities for all fixed incidental insurance benefits and any guarantees associated with variable accidental insurance benefits shall be maintained in the general account and reserve liabilities for all variable aspects of the variable incidental insurance benefits shall be maintained in a separate account, in amounts determined in accordance with the actuarial procedures appropriate to the benefit.

Separate Accounts

18. The assets of separate accounts shall be valued at least as often as variable benefits are determined but, in any event, at least monthly.

19. The insurer shall maintain in each separate account assets with a value at least equal to the valuation reserves and other contract liabilities respecting such account.

Appendix A-440

Insurance Holding Companies

Relevant SSAPs:

SSAP No. 25—Affiliates and Other Related Parties

SSAP No. 62R—Property and Casualty Reinsurance

Definitions

1. “Affiliate.” An “affiliate” of, or person “affiliated” with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.
2. “Control.” The term “control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption can be overcome by predominant evidence to the contrary, however, it shall stand until overcome by such predominant contradictory evidence.
3. “Insurance Holding Company System.” An “insurance holding company system” consists of two (2) or more affiliated persons, one or more of which is an insurer.
4. “Person.” A “person” is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert, but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.
5. “Securityholder.” A “securityholder” of a specified person is one who owns any security of such person, including common stock, preferred stock, debt obligations and any other security convertible into or evidencing the right to acquire any of the foregoing.
6. “Subsidiary.” A “subsidiary” of a specified person is an affiliate controlled by such person directly or indirectly through one or more intermediaries.
7. “Voting Security.” The term “voting security” shall include any security convertible into or evidencing a right to acquire a voting security.

Standards and Management of an Insurer Within a Holding Company System

8. Transactions Within a Holding Company System
9. Transactions within a holding company system to which an insurer subject to registration is a party shall be subject to the following standards:
 - a. The terms shall be fair and reasonable;
 - b. Charges or fees for services performed shall be reasonable;
 - c. Expenses incurred and payment received shall be allocated to the insurer in conformity with statutory accounting practices consistently applied;

- d. The books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties; and
- e. The insurer's surplus as regards policyholders following any dividends or distributions to shareholder affiliates shall be reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs. In determining whether an insurer's surplus as regards policyholders is reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs, the following factors, among others, shall be considered:
 - i. The size of the insurer as measured by its assets, capital and surplus, reserves, premium writings, insurance in force and other appropriate criteria;
 - ii. The extent to which the insurer's business is diversified among several lines of insurance;
 - iii. The number and size of risks insured in each line of business;
 - iv. The extent of the geographical dispersion of the insurer's insured risks;
 - v. The nature and extent of the insurer's reinsurance program;
 - vi. The quality, diversification and liquidity of the insurer's investment portfolio;
 - vii. The recent past and projected future trend in the size of the insurer's investment portfolio;
 - viii. The surplus as regards policyholders maintained by other comparable insurers;
 - ix. The adequacy of the insurer's reserves; and
 - x. The quality and liquidity of investments in affiliates.

Appendix A-585

Universal Life Insurance

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definitions

1. “Cash surrender value” means the net cash surrender value plus any amounts outstanding as policy loans.
2. “Fixed premium universal life insurance policy” means a universal life insurance policy other than a flexible premium universal life insurance policy.
3. “Flexible premium universal life insurance policy” means a universal life insurance policy which permits the policyowner to vary, independently of each other, the amount or timing of one or more premium payments or the amount of insurance.
4. “Interest-indexed universal life insurance policy” means any universal life insurance policy where the interest credits are linked to an external referent.
5. “Net cash surrender value” means the maximum amount payable to the policyowner upon surrender.
6. “Policy value” means the amount to which separately identified interest credits and mortality, expense, or other charges are made under a universal life insurance policy.
7. “Universal life insurance policy” means a life insurance policy where separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality and expense charges are made to the policy. A universal life insurance policy may provide for other credits and charges, such as charges for the cost of benefits provided by rider.

Valuation Requirements

8. The minimum valuation standard for universal life insurance policies shall be the Commissioners Reserve Valuation Method, as described below for such policies, and the tables and interest rates specified below. The terminal reserve for the basic policy and any benefits and/or riders for which premiums are not paid separately as of any policy anniversary shall be equal to the net level premium reserves less (C) and less (D), where:
 - a. Reserves by the net level premium method shall be equal to $((A)-(B))r$ where (A), (B) and “r” are as defined below:
 - i. (A) is the present value of all future guaranteed benefits at the date of valuation.
 - ii. (B) is the quantity $\frac{PVFB}{\ddot{a}_x+t}$ where PVFB is the present value of all benefits

guaranteed at issue assuming future guaranteed maturity premiums are paid by the policyowner and taking into account all guarantees contained in the policy or declared by the insurer.

- b. $\ddot{a}_x$ and $\ddot{a}_{x+t}$ are present values of an annuity of one per year payable on policy anniversaries beginning at ages x and $x+t$, respectively, and continuing until the highest attained age at which a premium may be paid under the policy. The letter “ x ” is defined as the issue age and the letter “ t ” is defined as the duration of the policy.
- c. The guaranteed maturity premium for flexible premium universal life insurance policies shall be that level gross premium, paid at issue and periodically thereafter over the period during which premiums are allowed to be paid, which will mature the policy on the latest maturity date, if any, permitted under the policy (otherwise at the highest age in the valuation mortality table), for an amount which is in accordance with the policy structure.¹ The guaranteed maturity premium is calculated at issue based on all policy guarantees at issue (excluding guarantees linked to an external referent). The guaranteed maturity premium for fixed premium universal life insurance policies shall be the premium defined in the policy which at issue provides the minimum policy guarantees.²
- d. The letter “ r ” is equal to one, unless the policy is a flexible premium policy and the policy value is less than the guaranteed maturity fund, in which case “ r ” is the ratio of the policy value to the guaranteed maturity fund.
- e. The guaranteed maturity fund at any duration is that amount which, together with future guaranteed maturity premiums, will mature the policy based on all policy guarantees at issue.
- f. (C) is the quantity $((a)-(b))\ddot{a}_{x+t}r$ where $(a)-(b)$ is as described in paragraph 9 of Appendix A-820 for the plan of insurance defined at issue by the guaranteed maturity premiums and all guarantees contained in the policy or declared by the insurer.
- g. (D) is the sum of any additional quantities analogous to (C) which arise because of structural changes³ in the policy, with each such quantity being determined on a basis consistent with that of (C) using the maturity date in effect at the time of the change.

¹ The maturity amount shall be the initial death benefit where the death benefit is level over the lifetime of the policy except for the existence of a minimum-death-benefit corridor, or shall be the specified amount where the death benefit equals a specified amount plus the policy value or cash surrender value except for the existence of a minimum-death-benefit corridor.

² The Guaranteed Maturity Premium for both flexible and fixed premium policies shall be adjusted for death benefit corridors provided by the policy. The Guaranteed Maturity Premium may be less than the premium necessary to pay all charges. This can especially happen in the first year for policies with large first year expense charges.

³ Structural changes are those changes which are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyholder and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period. For fixed premium universal life policies with redetermination of all credits and charges no more frequently than annually, on policy anniversaries, structural changes also include changes in guaranteed benefits, or in fixed premiums, unanticipated by the guaranteed maturity premium for such policies at the date of issue, even if such changes arise from automatic workings of the policy. The recomputation of (B) in paragraph 8.a.ii. above, for fixed premium universal life structural changes, shall exclude from PVFB, the present value of future guaranteed benefits, those guaranteed benefits which are funded by the excess of the insurer’s declared guarantees of interest, mortality and expenses, over the guarantees contained in the policy at the date of issue.

- h. The guaranteed maturity premium, the guaranteed maturity fund and (B) above shall be recalculated to reflect any structural changes in the policy. This recalculation shall be done in a manner consistent with the descriptions above.
 - i. Future guaranteed benefits are determined by (1) projecting the greater of the guaranteed maturity fund and the policy value, taking into account future guaranteed maturity premiums, if any, and using all guarantees of interest, mortality, expense deductions, etc., contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration which do not depend on the policy value.
 - j. All present values shall be determined using (i) an interest rate (or rates) specified by Appendix A-820 for policies issued in the same year; (ii) the mortality rates specified by Appendix A-820 for policies issued in the same year; and (iii) any other tables needed to value supplementary benefits provided by a rider which is being valued together with the policy.
9. To the extent that the insurer declares guarantees more favorable than those in the policy (contractual guarantees), such declared guarantees shall be applicable to the determination of future guaranteed benefits.
10. The mortality and interest bases for calculating present values are the minimum standards in Appendix A-820.
11. In effecting structural changes, consistent methods are prescribed when calculating reserves. Several such methods are possible, but perhaps the simplest such method would be that of maintaining proportionality between the Guaranteed Maturity Fund and Guaranteed Maturity Premium values and the current face amount. In applying this method, Guaranteed Maturity Fund and Guaranteed Maturity Premium values could be calculated per dollar of face amount and simply multiplied by the new face amount. This would eliminate much of the complexity involved in other methods.

Alternative Minimum Reserves

12. If, in any policy year, the guaranteed maturity premium on any universal life insurance policy is less than the valuation net premium for such policy, calculated by the valuation method actually used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for such contract shall be the greater of a. or b.
- a. The reserve calculated according to the method, the mortality table, and the rate of interest actually used.
 - b. The reserve calculated according to the method actually used but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the Guaranteed Maturity Premium in each policy year for which the valuation net premium exceeds the Guaranteed Maturity Premium.
13. For universal life insurance reserves on a net level premium basis, the valuation net premium is:

$$\frac{PVFB}{\ddot{a}_x}$$

and for reserves on a Commissioners Reserve Valuation Method, the valuation net premium is:

$$\frac{PVFB + (a)-(b)}{\ddot{a}_x}$$

Appendix A-588

Modified Guaranteed Life Insurance

The NAIC no longer maintains Model Law 588 as an NAIC sponsored model law; however, as this appendix is referenced in *SSAP No. 56—Separate Accounts*, the Statutory Accounting Principles (E) Working Group has chosen to retain this appendix as a valid NAIC standard.

Relevant SSAPs:

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definitions

1. “Interest Credits” means all interest that is credited to the policy.
2. “Modified Guaranteed Life Insurance Policy” means an individual or group policy of life insurance, the underlying assets which are held in a separate account, and the values of which are guaranteed if held for specified periods. It contains cash-surrender values that are based upon a market value adjustment formula if held for shorter periods. The formula may, or may not, reflect the value of assets held in the separate account. The assets underlying the policy must be in a separate account during the period or periods when the policyholder can surrender the policy.
3. “Policy processing day” means the day on which charges authorized in the policy are deducted from the policy’s cash value.
4. “Separate account” means a separate account established pursuant to the insurance laws pertaining to the insurer.

Valuation Requirements

5. Reserve liabilities for modified guaranteed life insurance policies shall be established pursuant to the requirements of Appendix A-820 in accordance with actuarial procedures that recognize:
 - a. That assets of the separate account are based on market value;
 - b. The variable nature of the benefits provided; and
 - c. Any mortality guarantees.
6. As a minimum, the separate account liability will equal the surrender value based upon the market value adjustment formula contained in the policy. If that liability is greater than the market value of the assets, a transfer of assets will be made into the separate account so that the market value of the assets at least equals that of the liabilities. Any additional reserve that is needed to cover future guaranteed benefits shall be established.
7. The market value adjustment formula, the interest guarantees and the degree to which projected cash flow of assets and liabilities are matched must also be considered. The company shall determine whether the assets in the separate account are adequate to provide all future guaranteed benefits.
8. Reserve liabilities for all fixed incidental insurance benefits and any guarantees associated with variable incidental insurance benefits shall be maintained in the general account.

Separate Accounts

9. The insurer shall maintain in each separate account assets with a value at least equal to the valuation reserves and other contract liabilities respecting such account.

Not for Distribution

Appendix A-620

Accelerated Benefits

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Purpose

The purpose of this Appendix is to provide guidance with respect to accelerated benefit related to individual and group life insurance policies. This Appendix shall apply to all accelerated benefits provisions of individual and group life insurance policies except those subject to Appendix A-641.

Definitions

1. “Accelerated benefits” covered under this Appendix are benefits payable under a life insurance contract:
 - a. To a policyowner or certificateholder, during the lifetime of the insured, in anticipation of death or upon the occurrence of specified life-threatening or catastrophic conditions as defined by the policy or rider; and
 - b. Which reduce the death benefit otherwise payable under the life insurance contract; and
 - c. Which are payable upon the occurrence of a single qualifying event which results in the payment of a benefit amount fixed at the time of acceleration.
2. “Qualifying event” shall mean one or more of the following:
 - a. A medical condition which would result in a drastically limited life span as specified in the contract, for example, twenty-four (24) months or less; or
 - b. A medical condition which has required or requires extraordinary medical intervention, such as, but not limited to, major organ transplant or continuous artificial life support, without which the insured would die; or
 - c. Any condition which usually requires continuous confinement in an eligible institution as defined in the contract if the insured is expected to remain there for the rest of his or her life; or
 - d. A medical condition which would, in the absence of extensive or extraordinary medical treatment, result in a drastically limited life span. Such conditions may include, but are not limited to, one or more of the following:
 - i. Coronary artery disease resulting in an acute infarction or requiring surgery;
 - ii. Permanent neurological deficit resulting from cerebral vascular accident;

- iii. End stage renal failure; or
- iv. Acquired Immune Deficiency Syndrome.

Valuation Requirements

3. When benefits are provided through the acceleration of benefits under group or individual life policies or riders to such policies, policy reserves shall be determined in accordance with Appendix A-820. Mortality tables and interest for life insurance reserves as specified in Appendix A-820 shall be used as well as appropriate assumptions for the other provisions incorporated in the policy form. Reserves in the aggregate should be sufficient to cover:

- a. Policies upon which no claim has yet arisen.
- b. Policies upon which an accelerated claim has arisen.

4. For policies and certificates which provide actuarially equivalent benefits, no additional reserves need to be established.

5. Policy liens and policy loans, including accrued interest, represent assets of the company for statutory reporting purposes. For any policy on which the policy lien exceeds the policy's statutory reserve liability such excess must be held as a nonadmitted asset.

Not for Distribution

Appendix A-628

Title Insurance

Relevant SSAPs:

SSAP No. 57—Title Insurance

Definitions

1. “Abstract of title” or “abstract” means a written history, synopsis or summary of the recorded instruments affecting the title to real property.
2. “Affiliate” means a specific person that directly, or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with the person specified.
3. “Bona fide employee” of the title insurer or title insurance agent means an individual who devotes substantially all of his or her time to performing services on behalf of a title insurer or title insurance agent and whose compensation for those services is in the form of salary or its equivalent paid by the title insurer or title insurance agent.
4. “Control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position or corporate office held by the person. Control shall be presumed to exist if a person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of another person. This presumption can be overcome by predominant evidence to the contrary; however, it shall stand until overcome by such predominant contradictory evidence.
5. “Escrow” means written instruments, money or other items deposited by one party with a depository, escrow agent or escrowee for delivery to another party upon the performance of a specified condition or the happening of a certain event.
6. “Escrow, settlement or closing fee” means the consideration for supervising or handling the actual execution, delivery or recording of transfer and lien documents and for disbursing funds.
7. “Net retained liability” means the total liability retained by a title insurer for a single risk, after taking into account any ceded liability and collateral, acceptable to the commissioner, maintained by the insurer.
8. “Person” means any natural person, partnership, association, cooperative, corporation, trust or other legal entity.
9. “Security” or “security deposit” means funds or other property received by the title insurer as collateral to secure an indemnitor’s obligation under an indemnity agreement pursuant to which the insurer is granted a perfected security interest in the collateral in exchange for agreeing to provide coverage in a title insurance policy for a specific title exception to coverage.
10. “Title insurance agent” or “agent” means an authorized person, other than a bona fide employee of the title insurer who, on behalf of the title insurer, performs the following acts, in conjunction with the issuance of a title insurance report or policy:

- a. Determines insurability and issues title insurance reports or policies, or both, based upon the performance or review of a search or abstract of title; and
 - b. Performs one or more of the following functions:
 - i. Collects or disburses premiums, escrow or security deposits or other funds;
 - ii. Handles escrows, settlements or closings;
 - iii. Solicits or negotiates title insurance business; or
 - iv. Records closing documents.
11. “Title insurance business” or “business of title insurance” means:
- a. Issuing as insurer or offering to issue as insurer a title insurance policy;
 - b. Transacting or proposing to transact by a title insurer any of the following activities when conducted or performed in contemplation of or in conjunction with the issuance of a title insurance policy:
 - i. Soliciting or negotiating the issuance of a title insurance policy;
 - ii. Guaranteeing, warranting or otherwise insuring the correctness of title searches for all instruments affecting titles to real property, any interest in real property, cooperative units and proprietary leases and for all liens or charges affecting the same;
 - iii. Handling of escrows, settlements or closings;
 - iv. Executing title insurance policies;
 - v. Effecting contracts of reinsurance; or
 - vi. Abstracting, searching or examining titles;
 - c. Guaranteeing, warranting or insuring searches or examinations of title to real property or any interest in real property; or
 - d. Guaranteeing or warranting the status of title as to ownership of or liens on real property and personal property by any person other than the principals to the transaction; or
 - e. Doing or proposing to do any business substantially equivalent to any of the activities listed in this paragraph in a manner designed to evade the provisions of this Appendix.
12. “Title insurance policy” or “policy” means a contract insuring or indemnifying owners of, or other persons lawfully interested in, real or personal property or any interest in real property, against loss or damage arising from any or all of the following conditions existing on or before the policy date and not excepted or excluded:
- a. Defects in or liens or encumbrances on the insured title;
 - b. Unmarketability of the insured title;
 - c. Invalidity, lack of priority or unenforceability of liens or encumbrances on the stated property;

- d. Lack of legal right of access to the land; or
- e. Unenforceability of rights in title to the land.

13. “Title insurance report” or “report” means a preliminary report, commitment or binder issued prior to the issuance of a title insurance policy containing the terms, conditions, exceptions and any other matters incorporated by reference under which the title insurer is willing to issue its title insurance policy.

14. “Title insurer” or “insurer” means a company organized for the purpose of transacting the business of title insurance.

15. “Title plant” means a set of records consisting of documents, maps, surveys or entries affecting title to real property or any interest in or encumbrance on the property, which have been filed or recorded in the jurisdiction for which the title plant is established or maintained.

Admitted Asset Standards

16. An investment in a title plant or plants in an amount equal to the actual cost shall be allowed as an admitted asset for title insurers. The aggregate amount of the investment shall not exceed the lesser of twenty percent (20%) of admitted assets or forty percent (40%) of surplus to policyholders, both as required to be shown on the statutory balance sheet of the insurer for its most recently filed statement with the domiciliary state commissioner; if the amount of the investment exceeds the above limits, the excess amount shall be recorded as a nonadmitted asset.

Reserves

17. A title insurer shall establish and maintain:

- a. A known claim reserve in an amount estimated to be sufficient to cover all unpaid losses, claims and allocated loss adjustment expenses arising under title insurance policies, guaranteed certificates of title, guaranteed searches and guaranteed abstracts of title, and all unpaid losses, claims and allocated loss adjustment expenses for which the title insurer may be liable, and for which the insurer has received notice by or on behalf of the insured, holder of a guarantee or escrow or security depositor.
- b. A Statutory or Unearned Premium Reserve consisting of:
 - i. The amount of the statutory or unearned premium or reinsurance reserve legally held at December 31, 2000. The balance of this reserve shall be released in accordance with the state laws in effect prior to January 1, 2001; and
 - ii. For those title insurance policies and guarantees written after January 1, 2001, reserves shall be established that are equal to the sum of the following items, as set forth in the title insurer’s most recent annual statement:
 - (a) For each title insurance policy on a single risk written or assumed, an amount, as determined by the insurer’s state of domicile, per \$1,000 of net retained liability for policies under \$500,000 and for policies of \$500,000 or greater, or any other reasonable method as required by the insurer’s state of domicile; and
 - (b) An amount as determined by the insurer’s state of domicile for the escrow, settlement and closing fees collected in contemplation of the issuance of title insurance policies or guarantees.

- iii. The aggregate of the amounts set aside in this reserve in any calendar year pursuant to paragraph 17.b.ii. shall be released from the reserve and restored to net profits over a period of twenty (20) years pursuant to the following formula: thirty-five percent (35%) of the aggregate sum on July 1 of the year next succeeding the year of addition; fifteen percent (15%) of the aggregate sum on July 1 of each of the succeeding two (2) years; ten percent (10%) of the aggregate sum on July 1 of the next succeeding year; three percent (3%) of the aggregate sum on July 1 of each of the next three (3) succeeding years; two percent (2%) of the aggregate sum on July 1 of each of the next three (3) succeeding years; and one percent (1%) of the aggregate sum on July 1 of each of the next succeeding ten (10) years.
- iv. The insurer shall calculate a retroactive adjusted statutory or unearned premium reserve on an aggregate basis at January 1, 2001. The adjusted aggregate reserve shall be calculated as if Subsection b. ii. had been in effect for all years beginning twenty (20) years prior to January 1, 2001. If the adjusted aggregate reserve exceeds the aggregate amount set aside for statutory or unearned premiums in the insurer's December 31, 2000 annual statement, the insurer shall increase its statutory or unearned premium reserve by an amount equal to one-sixth of that excess in each of the succeeding six years, commencing with the 2001 calendar year.
- v. The aggregate of the amounts set aside in this reserve in any calendar year as adjustments to the insurer's statutory or unearned premium reserve pursuant to Subsection b. iv. shall be released from the reserve and restored to net profits, or equity if the additions required by paragraph 17.b.iv. of this section reduced equity directly, over a period not exceeding ten (10) years pursuant to the following table:

Year of Addition	Release
2001	Equally over 10 years
2002	Equally over 9 years
2003	Equally over 8 years
2004	Equally over 7 years
2005	Equally over 6 years
2006	Equally over 5 years

- c. A supplemental reserve shall be established consisting of any other reserves necessary, when taken in combination with the reserves required by paragraphs 17.a. and 17.b. to cover the company's liabilities with respect to all losses, claims and loss adjustment expenses.

Appendix A-630

Mortgage Guaranty Insurance

Relevant SSAPs:

SSAP No. 58—Mortgage Guaranty Insurance

Definitions

1. “Mortgage guaranty insurance” is:
 - a. Insurance against financial loss by reason of nonpayment of principal, interest or other sums agreed to be paid under the terms of any note or bond or other evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a lien or charge on real estate, provided the improvement on such real estate is a residential building or a condominium unit or buildings designed for occupancy by not more than four families.
 - b. Insurance against financial loss by reason of nonpayment of principal, interest or other sums agreed to be paid under the terms of any note or bond or other evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a lien or charge on real estate, providing the improvement on such real estate is a building or buildings designed for occupancy by five (5) or more families or designed to be occupied for industrial or commercial purposes.
 - c. Insurance against financial loss by reason of nonpayment of rent or other sums agreed to be paid under the terms of a written lease for the possession, use or occupancy of real estate, provided the improvement on such real estate is a building or buildings designed to be occupied for industrial or commercial purposes.
2. “Authorized real estate security” for the purpose of this Appendix means an amortized note, bond or other evidence of indebtedness, not exceeding ninety-five percent (95%) of the fair market value of the real estate, secured by a mortgage, deed of trust, or other instrument which constitutes, or is equivalent to, a first lien or charge on real estate; provided:
 - a. The real estate loan secured in such manner is one of a type which a bank, savings and loan association, or an insurance company, which is supervised and regulated by a state department or the federal government, is authorized to make, or would be authorized to make, disregarding any requirement applicable to such an institution that the amount of the loan not exceed a certain percentage of the value of the real estate.
 - b. The improvement on such real estate is a building or buildings designed for occupancy as specified by paragraphs 1.a. and 1.b. of this Appendix.
 - c. The lien on such real estate may be subject to and subordinate to the following:
 - i. The lien of any public bond, assessment or tax, when no installment, call or payment of or under such bond, assessment or tax is delinquent.
 - ii. Outstanding mineral, oil, water or timber rights, rights-of-way, easements or rights-of-way of support, sewer rights, building restrictions or other restrictions or covenants, conditions or regulations of use, or outstanding leases upon such real property under which rents or profits are reserved to the owner thereof.

3. “Contingency reserve” means an additional premium reserve established to protect policyholders against the effect of adverse economic cycles.

Investment Limitation

4. A mortgage guaranty insurance company shall not report as an admitted asset notes or other evidences of indebtedness secured by mortgage or other lien upon real property. This provision shall not apply to obligations secured by real property, or contracts for the sale of real property, which obligations or contracts of sale are acquired in the course of the good faith settlement of claims under policies of insurance issued by the mortgage guaranty insurance company, or in the good faith disposition of real property so acquired.

Reserves

5. Unearned Premium Reserves – A mortgage guaranty insurance company shall compute and maintain an unearned premium reserve.

6. Loss Reserve – A mortgage guaranty insurance company shall compute and maintain adequate case basis and other loss reserves which accurately reflect loss frequency and loss severity and shall include components for claims reported and for claims incurred but not reported, including estimated losses on:

- a. Insured loans which have resulted in the conveyance of property which remains unsold;
- b. Insured loans in the process of foreclosure;
- c. Insured loans in default for four (4) months or for any lesser period which is defined as default for such purposes in the policy provisions; and
- d. Insured leases in default for four (4) months or for any lesser period which is defined as default for such purposes in policy provisions.

7. Contingency Reserve – Each mortgage guaranty insurance company shall compute and maintain a contingency reserve.

8. Reinsurance – Whenever a mortgage guaranty insurance company obtains reinsurance from an insurance company which is properly licensed to provide such reinsurance or from an appropriate governmental agency, the mortgage guaranty insurer and the reinsurer shall establish and maintain the reserves required in this Appendix in appropriate proportions in relation to the risk retained by the original insurer and ceded to the assuming reinsurer so that the total reserves established shall not be less than the reserves required by this Appendix.

Appendix A-641

Long-Term Care Insurance

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 54R—Individual and Group Accident and Health Contracts

Relevant NAIC Model Laws/Regulations:

Health Insurance Reserves Model Regulation (#010)

Standard Valuation Law (#820)

Definitions

1. “Long-term care insurance” means any insurance policy or rider advertised, marketed, offered or designed to provide coverage for not less than twelve (12) consecutive months for each covered person on an expense incurred, indemnity, prepaid or other basis; for one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance or personal care services, provided in a setting other than an acute care unit of a hospital. Such term includes group and individual annuities and life insurance policies or riders which provide directly or which supplement long-term care insurance. Such term also includes a policy or rider which provides for payment of benefits based upon cognitive impairment or the loss of functional capacity. The term shall also include qualified long-term care insurance contracts. Long-term care insurance may be issued by insurers; fraternal benefit societies; nonprofit health, hospital, and medical service corporations; prepaid health plans; health maintenance organizations or any similar organization to the extent they are otherwise authorized to issue life or health insurance. Long-term care insurance shall not include any insurance policy which is offered primarily to provide basic Medicare supplement coverage, basic hospital expense coverage, basic medical-surgical expense coverage, hospital confinement indemnity coverage, major medical expense coverage, disability income or related asset-protection coverage, accident only coverage, specified disease or specified accident coverage, or limited benefit health coverage. With regard to life insurance, this term does not include life insurance policies which accelerate the death benefit specifically for one or more of the qualifying events of terminal illness, medical conditions requiring extraordinary medical intervention, or permanent institutional confinement, and which provide the option of a lump-sum payment for those benefits and in which neither the benefits nor the eligibility for the benefits is conditioned upon the receipt of long-term care. Notwithstanding any other provision contained herein, any product advertised, marketed or offered as long-term care insurance shall be subject to the provisions of this Appendix.

2. “Applicant” means:

- a. In the case of an individual long-term care insurance policy, the person who seeks to contract for benefits, and
- b. In the case of a group long-term care insurance policy, the proposed certificate holder.

3. “Certificate” means, for the purposes of this Appendix, any certificate issued under a group long-term care insurance policy, which policy has been delivered or issued for delivery.

4. “Group long-term care insurance” means a long-term care insurance policy which is delivered or issued for delivery to:

- a. One or more employers or labor organizations, or to a trust or to the trustees of a fund established by one or more employers or labor organizations, or a combination thereof, for employees or former employees or a combination thereof or for members or former members or a combination thereof, of the labor organizations; or

- b. Any professional, trade or occupational association for its members or former or retired members, or combination thereof, if such association:
 - i. Is composed of individuals all of whom are or were actively engaged in the same profession, trade or occupation; and
 - ii. Has been maintained in good faith for purposes other than obtaining insurance; or
 - c. An association or a trust or the trustee(s) of a fund established, created or maintained for the benefit of members of one or more associations. Prior to advertising, marketing or offering such policy, the association or associations, or the insurer of the association or associations, shall evidence that the association or associations have at the outset a minimum of 100 persons and have been organized and maintained in good faith for purposes other than that of obtaining insurance; have been in active existence for at least one year; and have a constitution and bylaws which provide that:
 - i. The association or associations hold regular meetings not less than annually to further purposes of the members;
 - ii. Except for credit unions, the association or associations collect dues or solicit contributions from members; and
 - iii. The members have voting privileges and representation on the governing board and committees.
5. “Policy” means, for the purposes of this Appendix, any policy, contract, subscriber agreement, rider or endorsement delivered or issued for delivery by an insurer; fraternal benefit society; nonprofit health, hospital, or medical service corporation; prepaid health plan; health maintenance organization or any similar organization.
6. a. “Qualified long-term care insurance contract” or “federally tax-qualified long-term care insurance contract” means an individual or group insurance contract that meets the requirements of Section 7702B(b) of the Internal Revenue Code of 1986, as amended, as follows:
- i. The only insurance protection provided under the contract is coverage of qualified long-term care services. A contract shall not fail to satisfy the requirements of this subparagraph by reason of payments being made on a per diem or other periodic basis without regard to the expenses incurred during the period to which the payments relate;
 - ii. The contract does not pay or reimburse expenses incurred for services or items to the extent that the expenses are reimbursable under Title XVIII of the Social Security Act, as amended, or would be so reimbursable but for the application of a deductible or coinsurance amount. The requirements of this subparagraph do not apply to expenses that are reimbursable under Title XVIII of the Social Security Act only as a secondary payor. A contract shall not fail to satisfy the requirements of this subparagraph by reason of payments being made on a per diem or other periodic basis without regard to the expenses incurred during the period to which the payments relate;
 - iii. The contract is guaranteed renewable, within the meaning of section 7702B(b)(1)(C) of the Internal Revenue Code of 1986, as amended;

- iv. The contract does not provide for a cash surrender value or other money that can be paid, assigned, pledged as collateral for a loan, or borrowed except as provided in subparagraph 6.a.v. below;
 - v. All refunds of premiums, and all policyholder dividends or similar amounts, under the contract are to be applied as a reduction in future premiums or to increase future benefits, except that a refund on the event of death of the insured or a complete surrender or cancellation of the contract cannot exceed the aggregate premiums paid under the contract; and
 - vi. The contract meets the consumer protection provisions set forth in Section 7702B(g) of the Internal Revenue Code of 1986, as amended.
- b. “Qualified long-term care insurance contract” or “federally tax-qualified long term care insurance contract” also means the portion of a life insurance contract that provides long-term care insurance coverage by rider or as part of the contract and that satisfies the requirements of Sections 7702B(b) and (e) of the Internal Revenue Code of 1986, as amended.

Valuation Requirements

7. When long-term care benefits are provided through the acceleration of benefits under group or individual life policies or riders to such policies, policy reserves for the benefits shall be determined in accordance with Appendix A-820. Claim reserves shall also be established in the case when the policy or rider is in claim status.

8. Reserves for policies and riders subject to this Appendix should be based on the multiple decrement model utilizing all relevant decrements except for voluntary termination rates. Single decrement approximations are acceptable if the calculation produces essentially similar reserves, if the reserve is clearly more conservative, or if the reserve is immaterial. The calculations may consider the reduction in life insurance benefits due to the payment of long-term care benefits. However, in no event shall the reserves for the long-term care benefit and the life insurance benefit be less than the reserves for the life insurance benefit assuming no long-term care benefit.

9. In the development and calculation of reserves for policies and riders subject to this Appendix, due regard shall be given to the applicable policy provisions, marketing methods, administrative procedures and all other considerations which have an impact on projected claim costs, including, but not limited to, the following:

- a. Definition of insured events;
- b. Covered long-term care facilities;
- c. Existence of home convalescence care coverage;
- d. Definition of facilities;
- e. Existence or absence of barriers to eligibility;
- f. Premium waiver provision;
- g. Renewability;
- h. Ability to raise premiums;

- i. Marketing method;
 - j. Underwriting procedures;
 - k. Claims adjustment procedures;
 - l. Waiting period;
 - m. Maximum benefit;
 - n. Availability of eligible facilities;
 - o. Margins in claim costs;
 - p. Optional nature of benefit;
 - q. Delay in eligibility for benefit;
 - r. Inflation protection provisions; and
 - s. Guaranteed insurability option.
10. When long-term care benefits are provided other than as in the above, reserves shall be determined in accordance with Appendix A-010.

Not for Distribution

Appendix A-695

Synthetic Guaranteed Investment Contracts

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 52—Deposit-Type Contracts

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Actuarial Opinion and Memorandum Regulation (#822)

Scope and Application

1. This appendix applies to that portion of a group annuity contract or other agreement described in paragraph 25 and issued by a life insurer:
 - a. That functions as an accounting record for an accumulation fund; and
 - b. That has benefit guarantees relating to a principal amount and levels of interest at a fixed rate of return specified in advance.
2. The fixed rates of return:
 - a. Shall be constant over the applicable rate periods;
 - b. May reflect prior and current market conditions with respect to the segregated portfolio; and
 - c. Shall not reference future changes in market conditions.
3. The updates to the appendix related to interest rates, including revisions to the method for determining the discount rate applied to the calculation of the minimum value of guaranteed contract liabilities, as primarily reflected in paragraph 29, and the definition of the blended spot rate are effective on or after January 1, 2016, for all¹ contracts in force and contracts issued on or after the effective date.

Definitions

4. “Account assets” means the assets in the segregated portfolio plus any assets held in the general account or a separate account to meet the asset maintenance requirements.
5. “Actuarial opinion and memorandum” means the valuation actuary’s opinion and memorandum covering synthetic guaranteed investment contract liabilities that is required to be submitted to the commissioner.

¹ This appendix is not intended to apply to contingent deferred annuities (CDAs), defined in the Contingent Deferred Annuity (A) Working Group recommendation on CDAs adopted by the Life Insurance and Annuities (A) Committee on April 7, 2013, (NAIC Proceedings, Spring 2013, Volume 1, pdf page 416) as “an annuity contract that establishes a life insurer’s obligation to make periodic payments for the annuitant’s lifetime at the time designated investments, which are not owned or held by the insurer, are depleted to a contractually defined amount due to contractually permitted withdrawals, market performance, fees and/or other charges.”

6. “Appointed actuary” means the qualified actuary appointed or retained either directly by or by the authority of the board of directors through an executive officer of the company to prepare the annual statement of actuarial opinion for the company as a whole.
7. “Asset maintenance requirement” means the requirement to maintain assets to fund contract benefits in accordance with paragraph 29 of this appendix.
8. “Class of contracts” means the set of all contracts to which a given plan of operation pertains.
9. “Contract value record” means an accounting record, provided by the contract in relation to a segregated portfolio of assets, that is credited with a fixed rate of return over regular periods, and that is used to measure the extent of the insurer’s obligation to the contractholder. The fixed rate of return credited to the contract value record is determined by means of a crediting rate formula or declared at the inception of the contract and valid for the entire term of the contract.
10. “Crediting rate formula” means a mathematical formula used to calculate the fixed rate of return credited to the contract value record during any rate period and based in part upon the difference between the contract value record and the market value record amortized over an appropriate period. The fixed rate of return calculated by means of this formula may reflect prior and current market conditions with respect to the segregated portfolio, but may not reference future changes in market conditions.
11. “Duration” means, with respect to the segregated portfolio assets or guaranteed contract liabilities, a measure of price sensitivity to changes in interest rates, such as the Macaulay duration or option-adjusted duration.
12. “Fair market value” means a reasonable estimate of the amount that a knowledgeable buyer of an asset would be willing to pay, and a knowledgeable seller of an asset would be willing to accept, for the asset without duress in an arm’s length transaction. In the case of a publicly traded security, the fair market value is the price at which the security is traded or, if no price is available, a price that appropriately reflects the latest bid and asked prices for the security. In the case of a debt instrument that is not publicly traded, the fair market value is the discounted present value of the asset calculated at a reasonable discount rate. For all other non-publicly traded assets, fair market value will be determined in accordance with valuation practices customarily used within the financial industry.
13. “Guaranteed minimum benefits” means contract benefits on a specified date that may be either:
- a. A principal guarantee, with or without a fixed minimum interest rate guarantee, related to the segregated portfolio;
 - b. An assurance as to the future investment return or performance of the segregated portfolio; or
 - c. The fair market value of the segregated portfolio, to the extent that the fair market value of the assets determines the contractholder’s benefits.
14. a. “Hedging instrument” means:
- i. An interest rate futures agreement or foreign currency futures agreement, an option to purchase or sell an interest rate futures agreement or foreign currency futures agreement, or any option to purchase or sell a security or foreign currency, used in a bona fide hedging transaction; or
 - ii. A financial agreement or arrangement entered into with a broker, dealer or bank, qualified under applicable federal and state securities or banking law and regulation, in connection with investment in one or more securities in order to

reduce the risk of changes in market valuation or to create a synthetic investment that, when added to the portfolio, reduces the risk of changes in market valuation.

- b. An instrument shall not be considered a hedging instrument or a part of a bona fide hedging transaction if it is purchased in conjunction with another instrument where the effect of the combined transaction is an increase in the portfolio's exposure to market risk.
15. "Investment guidelines" means a set of written guidelines, established in advance by the person with investment authority over the segregated portfolio, to be followed by the investment manager. The guidelines shall include a description of:
- a. The segregated portfolio's investment objectives and limitations;
 - b. The investment manager's degree of discretion;
 - c. The duration, asset class, quality, diversification, and other requirements of the segregated portfolio; and
 - d. The manner in which derivative instruments may be used, if at all, in the segregated portfolio.
16. "Investment manager" means the person (including the contractholder) responsible for managing the assets in the segregated portfolio in accordance with the investment guidelines in a fiduciary capacity to the owner of the assets.
17. "Market value record" means an accounting record provided by the contract to reflect the fair market value of the segregated portfolio.
18. "Nationally Recognized Statistical Rating Organization (NRSRO)" means a rating organization so designated by the Securities and Exchange Commission of the United States of America (SEC) which has applied to, and whose NRSRO status has been confirmed by, the NAIC Securities Valuation Office.
19. "Permitted custodial institution" means a bank, trust company or other licensed fiduciary services provider.
20. "Plan of operation" means a written plan meeting the requirements of paragraph 28 of this appendix.
21. "Qualified actuary" means an individual who meets the qualification standards set forth in Appendix A-820.
22. "Rate period" means the period of time during which the fixed rate of return credited to the contract value record is applicable between crediting rate formula adjustments.
23. "Segregated portfolio" means:
- a. A portfolio or sub-portfolio of assets to which the contract pertains that is held in a custody or trust account by the permitted custodial institution and identified on the records of the permitted custodial institution as special custody assets held for the exclusive benefit of the retirement plans or other entities on whose behalf the contractholder holds the contract; and
 - b. Any related cash or currency received by the permitted custodial institution for the account of the contractholder and held in a deposit account for the exclusive benefit of

the retirement plans or other entities on whose behalf the contractholder holds the contract.

24. “Spot rate”

- a. “Treasury-based spot rate” corresponding to a given time of benefit payment means the yield on a zero-coupon non-callable and non-prepayable United States government obligation maturing at that time, or the zero-coupon yield implied by the price of a representative sampling of coupon-bearing, non-callable and non-prepayable United States government obligations in accordance with a formula set forth in the plan of operation.
- b. “Index spot rate” corresponding to a given time of benefit payment means the zero-coupon yield implied by (x) the Barclays Short-Term Corporate Index (for a given time of benefit payment under one year) or (y) the zero-coupon yield implied by the Barclays U.S. Corporate Investment Grade Bond Index (for a given time of benefit payment greater than or equal to one year).
- c. “Blended spot rate” corresponding to a given time of benefit payment means a blend of 50% each of (i) the treasury-based spot rate, and (ii) the index spot rate. To the extent that guaranteed contract liabilities are denominated in the currency of a foreign country rated in one of the two (2) highest rating categories by an independent nationally recognized United States rating agency acceptable to the NAIC Securities Valuation Office and are supported by investments denominated in the currency of the foreign country, the treasury-based spot rate component of the blended spot rate may be determined by reference to substantially similar obligations of the government of the foreign country.

25. “Synthetic guaranteed investment contract” or “contract” means a group annuity contract or other agreement that establishes the insurer’s obligations by reference to a segregated portfolio of assets that is not owned by the insurer. The contract functions as an accounting record for an accumulation fund and the fixed rate of return credited to the fund reflects an amortization of the segregated portfolio’s market gains and losses based on the period specified in the crediting formula, subject to any minimum interest rate guarantee.

26. “United States government obligation” means a direct obligation issued, assumed, guaranteed or insured by the United States of America or by an agency or instrumentality of the United States government.

27. “Valuation actuary” means the appointed actuary or, alternatively, a qualified actuary designated by the appointed actuary to render the actuarial opinion. Written documentation of any such designation shall be on file at the company and available for review upon request.

Plan of Operation

28. The plan of operation for a class of contracts shall describe the financial implications for the insurer of the issuance of contracts in the class, and shall include at least the following:

- a. A statement describing the methods and procedures used to value statutory liabilities for purposes of paragraph 29;
- b. A description of the allowable investment parameters (such as objectives, derivative strategies, asset classes, quality, duration and diversification requirements applied to the assets held within the segregated portfolio) to be reflected in the investment guidelines applicable to each contract issued in the class to which the submitted plan of operation applies; and a description of the procedures that will be followed by the insurer in

evaluating the appropriateness of any specific investment guidelines submitted by the contractholder;

- c. A description of the criteria used by the insurer in approving for contract issuance a pooled fund representing multiple employer-sponsored plans and in approving the investment manager for the segregated portfolio of assets associated with such pooled fund contract;
- d. A description of risk-mitigation techniques used by the insurer in connection with contracts issued to pooled funds representing multiple employer-sponsored plans.

Reserves and Documentation

29. Asset maintenance requirements for segregated portfolios covered by this appendix.

- a. At all times an insurer shall hold minimum reserves in the general account or one or more separate accounts, as appropriate, equal to the excess, if any, of the value of the guaranteed contract liabilities, determined in accordance with paragraphs 29.f. and 29.g., over the market value of the assets in the segregated portfolio less the deductions provided for in paragraph 29.b. These reserve requirements shall be applied on a contract-by-contract basis.
- b. In determining compliance with the asset maintenance requirement and the reserve for guaranteed contract liabilities specified in paragraph 29.a., the insurer shall deduct a percentage of the market value of an asset as follows:
 - i. For debt instruments, the percentage shall be the NAIC asset valuation reserve "reserve objective factor," but the factor shall be increased by fifty percent (50%) for the purpose of this calculation if the difference in durations of the assets and liabilities is more than one-half year. The above notwithstanding, in the event that under the terms of the synthetic guaranteed investment contract, the asset default risk for debt instruments is borne solely by the contractholder, there shall be no asset valuation reserve percentage deduction from the market value of an asset, for purposes of complying with the asset maintenance requirement and the reserve for guaranteed contract liabilities specified in paragraph 29.a.
 - ii. For assets that are not debt instruments, the percentage shall be the NAIC asset valuation reserve "maximum reserve factor."
- c. To the extent that guaranteed contract liabilities are denominated in the currency of a foreign country and are supported by segregated portfolio assets denominated in the currency of the foreign country, the percentage deduction for these assets under paragraph 29.b. shall be that for a substantially similar investment denominated in the currency of the United States.
- d. To the extent that guaranteed contract liabilities are denominated in the currency of the United States and are supported by segregated portfolio assets denominated in the currency of a foreign country, and to the extent that guaranteed contract liabilities are denominated in the currency of a foreign country and are supported by segregated portfolio assets denominated in the currency of the United States, the deduction for debt instruments under paragraph 29.b. shall be increased by fifteen percent (15%) of the market value of the assets unless the currency exchange risk on the assets has been adequately hedged, in which case the percentage deduction under paragraph 29.b. shall be increased by one-half percent (.5%). No guaranteed contract liabilities denominated in

the currency of a foreign country shall be supported by segregated portfolio assets denominated in the currency of another foreign country. For purposes of this paragraph, the currency exchange risk on an asset is deemed to be adequately hedged if:

- i. It is an obligation of
 - (a) A jurisdiction that is rated in one of the two (2) highest rating categories by an NRSRO;
 - (b) Any political subdivision or other governmental unit of such a jurisdiction, or any agency or instrumentality of jurisdiction, political subdivision or other governmental unit; or
 - (c) An institution that is organized under the laws of any such jurisdiction; and
- ii. At all times the principal amount of the obligation and scheduled interest payments on the obligation are hedged against the United States dollar pursuant to contracts or agreements that are:
 - (a) Issued by or traded on a securities exchange or board of trade regulated under the laws of the United States or Canada or a province of Canada;
 - (b) Entered into with a United States banking institution that has assets in excess of \$5 billion and that has obligations outstanding, or has a parent corporation that has obligations outstanding, that are rated in one of the two (2) highest rating categories by an NRSRO, or with a broker-dealer registered with the Securities and Exchange Commission that has net capital in excess of \$250 million; or
 - (c) Entered into with any other banking institution that has assets in excess of \$5 billion and that has obligations outstanding, or has a parent corporation that has obligations outstanding, that are rated in one of the two (2) highest rating categories by an NRSRO and that is organized under the laws of a jurisdiction that is rated in one of the two (2) highest rating categories by an NRSRO.
- e. These contracts may provide for the allocation to one or more separate accounts of all or any portion of the amount needed to meet the asset maintenance requirement. If the contract provides that the assets in the separate account shall not be chargeable with liabilities arising out of any other business of the insurer, the insurer shall maintain in a distinct separate account that is so chargeable:
 - i. That portion of the amount needed to meet the asset maintenance requirement that has been allocated to separate accounts; less
 - ii. The amounts contributed to separate accounts by the contractholder in accordance with the contract and the earnings on the contract.
- f. For purposes of this paragraph, the minimum value of guaranteed contract liabilities is defined to be the sum of the expected guaranteed contract benefits, each discounted at a rate corresponding to the expected time of payment of the contract benefit that is not greater than the spot rate supportable by the expected return from the segregated portfolio assets, and in no event greater than the blended spot rate as described in the plan of operation or the actuary's opinion and memorandum, except that if the expected time of

payment of a contract benefit is more than thirty (30) years, it shall be discounted from the expected date of payment to year thirty (30) at a rate of no more than eighty percent (80%) of the thirty-year spot rate and from year thirty (30) to the date of valuation at a rate not greater than the thirty-year blended spot rate.

g. In calculating the minimum value of guaranteed contract benefits:

- i. All guaranteed benefits potentially available to the contractholder on an ongoing basis shall be considered in the valuation process and analysis, and the reserve held must be sufficient to fund the greatest present value of each independent guaranteed contract benefit. For purposes of this subparagraph, the right granted to the contractholder to exit the contract by discharging the insurer of its guarantee obligation under the contract and taking control of the assets in the segregated portfolio shall not be considered a guaranteed benefit.
- ii. To the extent that future guaranteed cash flows are dependent upon the benefit responsiveness of an employer-sponsored plan, a best estimate based on company experience, or other reasonable criteria if company experience is not available, shall be used in the projections of future cash flows.
- iii. The minimum value of guaranteed contract benefits under a contract issued to a pooled fund representing multiple employer-sponsored plans shall be determined so as to reflect projected plan sponsor contract value withdrawals available to the member plans in the pooled fund.

Projections of such future cash flows shall take into account (i) known plan sponsor withdrawals, and (ii) a prudent estimate of future plan sponsor withdrawals. The prudent estimate shall be based on company experience and other relevant criteria.

A single valuation rate shall be determined, consistent with paragraph 29.f., equal to the lesser of:

- (a) The expected return from the segregated portfolio of assets, or
- (b) The blended spot rate based on the duration of the segregated portfolio of assets.

This single valuation rate shall be used to model future market values of the segregated portfolio of assets. Future credited interest rates shall be modeled according to the contractually defined crediting rate formula. Modeled future contract values shall reflect modeled future market values, modeled future credited interest rates, known future plan sponsor withdrawals, the prudent estimate of future plan sponsor withdrawals, future withdrawals consistent with paragraph 29.g.ii. of this subsection and any remaining final payment at the modeled contract termination date.

All such modeled withdrawals and termination payments shall be discounted using the single valuation rate and the modeled times of those withdrawals and payments. The sum of these present values shall be deemed the minimum value of the guaranteed contract liabilities for a pooled fund contract.

30. Account assets shall make adequate provision for contract liabilities, taking into account any risk charge payable, the segregated portfolio assets, and the amount of any reserve liability with respect to the asset maintenance requirement.
31. The fixed-income segregated portfolio shall conform to and justify the rates used to discount contract liabilities for valuation pursuant to paragraph 29.f.
32. The company shall document whether any rates used pursuant to paragraph 29.f. to discount guaranteed contract liabilities and other items applicable to the segregated portfolio were modified from the rate or rates described in the plan of operation.
33. The level of risk charges, if any, retained in the general account shall be appropriate in view of such factors as the nature of the guaranteed contract liabilities and losses experienced in connection with account contracts and other pricing factors.
34. The company shall substantially conform with Appendix A-822 and maintain internal documentation to either:
- a. Demonstrate the adequacy of account assets based upon cash flow analysis, or
 - b. Explain why cash flow testing analysis is not appropriate, describe the alternative methodology of asset adequacy testing used, and demonstrate the adequacy of account assets under that methodology;
35. The company's internal documentation pertaining to reserves for synthetic guaranteed investment contract liabilities shall also:
- a. Clearly describe the assumptions used in projecting cash flows under each class of assets, and any dynamic portfolio hedging techniques utilized and the tests performed on the utilization of the techniques;
 - b. Clearly describe how the company has reflected the cost of capital;
 - c. Clearly describe how the company has reflected the risk of default on obligations and mortgage loans, including obligations and mortgage loans that are not investment grade;
 - d. Clearly describe how the company has reflected withdrawal risks, if applicable, including a discussion of the positioning of the contracts within the benefit withdrawal priority order pertaining to the contracts, the impact of any dynamic lapse assumption and the results of sensitivity testing the prudent estimate of future plan sponsor withdrawals pursuant to paragraph 29.g.iii.;
 - e. If the plan of operation provides for investments in segregated portfolio assets other than United States government obligations, demonstrate that the rates used to discount contract liabilities pursuant to paragraph 29.f. conservatively reflect expected investment returns, taking into account any foreign exchange risks;
 - f. If the contracts provide that in certain circumstances they would cease to be funded by a segregated portfolio and, instead would become contracts funded by the general account, clearly describe how any increased reserves would be provided for if and to the extent these circumstances occurred;
 - g. Document the amount of account assets maintained in a separate account that are not chargeable with liabilities arising out of any other business of the insurance company;

- h. Document the amount of reserves and supporting assets as of December 31 and where the reserves are shown in the annual statement;
- i. Document the amount of any contingency reserve carried as part of surplus;
- j. Document the market value of the segregated asset portfolio; and
- k. Where separate account assets are not chargeable with liabilities arising out of any other business of the insurance company, describe how the level of risk charges payable to the general account provides an appropriate compensation for the risk taken by the general account.

36. When the insurer issues a synthetic guaranteed investment contract and complies with the asset maintenance requirements of paragraph 29, it need not maintain an asset valuation reserve with respect to those account assets.

37. This paragraph describes the reserve valuation requirements for contracts subject to this appendix.

- a. Reserves for synthetic investment contracts subject to this appendix shall be an amount equal to the sum of the following:
 - i. The amounts determined as the minimum reserve as required under paragraph 29; and
 - ii. Any additional amount determined by the insurer's valuation actuary as necessary to make adequate provision for all contract liabilities.
- b. The amount of any reserves required by paragraph 37.a. may be established by either:
 - i. Allocating sufficient assets to one or more separate accounts; or
 - ii. Setting up the additional reserves in the general account.

Appendix A-785

Credit for Reinsurance

Relevant SSAPs:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

SSAP No. 62R—Property and Casualty Reinsurance

SSAP No. 66—Retrospectively Rated Contracts

Definitions

1. “Commissioner” refers to the commissioner of insurance in the state where credit or a reduction from liability is taken.
2. “Jurisdiction” refers to any state, district or territory of the United States and also to territories, provinces or jurisdictions other than the United States.
3. “Liabilities” shall mean the assuming insurer’s gross liabilities attributable to reinsurance ceded by U. S. domiciled insurers that are not otherwise secured by acceptable means.
4. “Beneficiary” means the entity for whose sole benefit the trust has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).
5. “Grantor” means the entity that has established a trust for the sole benefit of the beneficiary. When established in conjunction with a reinsurance agreement, the grantor is the unlicensed, unaccredited assuming insurer.
6. “Obligations,” as used in paragraph 30 of this appendix means:
 - a. Reinsured losses and allocated loss expenses paid by the ceding company, but not recovered from the assuming insurer;
 - b. Reserves for reinsured losses reported and outstanding;
 - c. Reserves for reinsured losses incurred but not reported; and
 - d. Reserves for allocated reinsured loss expenses and unearned premiums.

Credit Allowed a Domestic Ceding Insurer

7. Credit for reinsurance shall be allowed a domestic ceding insurer as either an asset or a reduction from liability on account of reinsurance ceded only when the reinsurer meets the requirements of paragraphs 8, 9, 10, 11, 12, 13 or 14 of this appendix. Credit shall be allowed under paragraphs 8, 9, or 10 of this appendix only as respects cessions of those kinds or classes of business which the assuming insurer is licensed or otherwise allowed to write or assume in its state of domicile or, in the case of a U.S. branch of an alien assuming insurer, in the state through which it is entered and licensed to transact insurance or reinsurance. Credit shall be allowed under paragraphs 10 or 11 of this appendix only if the applicable requirements of paragraph 15 have been satisfied.
8. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is licensed to transact insurance or reinsurance in the domiciliary state of the ceding insurer.

9. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is accredited as a reinsurer by the domiciliary state of the ceding insurer. In order to be eligible for accreditation, a reinsurer must:

- a. File with the commissioner evidence of its submission to the domiciliary state's jurisdiction;
- b. Submit to the domiciliary state's authority to examine its books and records;
- c. Be licensed to transact insurance or reinsurance in at least one state, or in the case of a U.S. branch of an alien assuming insurer, is entered through and licensed to transact insurance or reinsurance in at least one state;
- d. File annually with the commissioner a copy of its annual statement filed with the insurance department of its state of domicile and a copy of its most recent audited financial statement; and
- e. Demonstrate to the satisfaction of the commissioner that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers. An assuming insurer is deemed to meet this requirement as of the time of its application if it maintains a surplus as regards policyholders in an amount not less than \$20,000,000 and its accreditation has not been denied by the commissioner within ninety (90) days after submission of its application.

10. a. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is domiciled in, or in the case of a U.S. branch of an alien assuming insurer is entered through, a state that employs standards regarding credit for reinsurance substantially similar to those of the domiciliary state of the ceding insurer and the assuming insurer or U.S. branch of an alien assuming insurer:

- i. Maintains a surplus as regards policyholders in an amount not less than \$20,000,000; and
- ii. Submits to the authority of the domiciliary state to examine its books and records.

b. The requirement of paragraph 10.a.i. does not apply to reinsurance ceded and assumed pursuant to pooling arrangements among insurers in the same holding company system.

11. a. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that maintains a trust fund in a qualified U.S. financial institution, as defined in paragraph 54, for the payment of the valid claims of its U.S. ceding insurers, their assigns and successors in interest. The assuming insurer shall report annually information substantially the same as that required to be reported on the NAIC Annual Statement form by licensed insurers. The assuming insurer shall submit to examination of its books and records by the commissioner and bear the expense of examination.

b. i. Credit for reinsurance shall not be granted under this paragraph 11 unless the form of the trust and any amendments to the trust have been approved by:

- (a) The commissioner of the state where the trust is domiciled; or
- (b) The commissioner of another state who, pursuant to the terms of the trust instrument, has accepted principal regulatory oversight of the trust.

- ii. The trust instrument shall provide that:
 - (a) Contested claims shall be valid and enforceable out of funds in trust to the extent remaining unsatisfied thirty (30) days after entry of the final order of any court of competent jurisdiction in the United States;
 - (b) Legal title to the assets of the trust shall be vested in the trustee for the benefit of the grantor's U.S. ceding insurers, their assigns and successors in interest;
 - (c) The trust shall be subject to examination as determined by the commissioner;
 - (d) The trust shall remain in effect for as long as the assuming insurer, or any member or former member of a group of insurers, shall have outstanding obligations under reinsurance agreements subject to the trust; and
 - (e) No later than February 28 of each year the trustee of the trust shall report to the commissioner in writing setting forth the balance in the trust and listing the trust's investments at the preceding year-end, and shall certify the date of termination of the trust, if so planned, or certify that the trust shall not expire prior to the following December 31.
- c. The following requirements apply to the following categories of assuming insurer:
 - i. The trust fund for a single assuming insurer shall consist of funds in trust in an amount not less than the assuming insurer's liabilities attributable to reinsurance ceded by U.S. ceding insurers, and, in addition, the assuming insurer shall maintain a trustee's surplus of not less than \$20,000,000, except as provided in paragraph 11.c.ii. of this appendix.
 - ii. At any time after the assuming insurer has permanently discontinued underwriting new business secured by the trust for at least three full years, the commissioner with principal regulatory oversight of the trust may authorize a reduction in the required trustee's surplus, but only after a finding, based on an assessment of the risk, that the new required surplus level is adequate for the protection of U.S. ceding insurers, policyholders and claimants in light of reasonably foreseeable adverse loss development. The risk assessment may involve an actuarial review, including an independent analysis of reserves and cash flows, and shall consider all material risk factors, including when applicable the lines of business involved, the stability of the incurred loss estimates and the effect of the surplus requirements on the assuming insurer's liquidity or solvency. The minimum required trustee's surplus may not be reduced to an amount less than thirty percent (30%) of the assuming insurer's liabilities attributable to reinsurance ceded by U.S. ceding insurers covered by the trust.
 - iii.
 - (a) In the case of a group including incorporated and individual unincorporated underwriters:
 - (1) For reinsurance ceded under reinsurance agreements with an inception, amendment or renewal date on or after January 1, 1993, the trust shall consist of a trustee's account in an amount not less than the respective underwriters' several liabilities

attributable to business ceded by U.S. domiciled ceding insurers to any underwriter of the group;

- (2) For reinsurance ceded under reinsurance agreements with an inception date on or before December 31, 1992, and not amended or renewed after that date, notwithstanding the other provisions contained herein, the trust shall consist of a trustee account in an amount not less than the respective underwriters' several insurance and reinsurance liabilities attributable to business written in the United States; and
 - (3) In addition to these trusts, the group shall maintain in trust a trustee surplus of which \$100,000,000 shall be held jointly for the benefit of the U.S. domiciled ceding insurers of any member of the group for all years of account; and
 - (b) The incorporated members of the group shall not be engaged in any business other than underwriting as a member of the group and shall be subject to the same level of regulation and solvency control by the group's domiciliary regulator as are the unincorporated members.
 - (c) Within ninety (90) days after its financial statements are due to be filed with the group's domiciliary regulator, the group shall provide to the commissioner an annual certification by the group's domiciliary regulator of the solvency of each underwriter member; or if a certification is unavailable, financial statements, prepared by independent public accountants, of each underwriter member of the group.
- iv. In the case of a group of incorporated underwriters under common administration, the group shall:
- (a) Have continuously transacted an insurance business outside the United States for at least three (3) years immediately prior to making application for accreditation;
 - (b) Maintain aggregate policyholders' surplus of at least \$10,000,000,000;
 - (c) Maintain a trust fund in an amount not less than the group's several liabilities attributable to business ceded by U.S. domiciled ceding insurers to any member of the group pursuant to reinsurance contracts issued in the name of the group;
 - (d) In addition, maintain a joint trustee surplus of which \$100,000,000 shall be held jointly for the benefit of U.S. domiciled ceding insurers of any member of the group as additional security for these liabilities; and
 - (e) Within ninety (90) days after its financial statements are due to be filed with the group's domiciliary regulator, make available to the commissioner an annual certification of each underwriter member's solvency by the member's domiciliary regulator and financial statements of each underwriter member of the group prepared by its independent public accountant.

- d. For the purposes of this paragraph 11., the term “liabilities” shall mean the assuming insurer’s gross liabilities attributable to reinsurance ceded by U.S. domiciled insurers excluding liabilities that are otherwise secured by acceptable means, and shall include:
- i. For business ceded by domestic insurers authorized to write accident and health, and property and casualty insurance:
 - (a) Losses and allocated loss expenses paid by the ceding insurer, recoverable from the assuming insurer;
 - (b) Reserves for losses reported and outstanding;
 - (c) Reserves for losses incurred but not reported;
 - (d) Reserves for allocated loss expenses; and
 - (e) Unearned premiums.
 - ii. For business ceded by domestic insurers authorized to write life, health and annuity insurance:
 - (a) Aggregate reserves for life policies and contracts net of policy loans and net due and deferred premiums;
 - (b) Aggregate reserves for accident and health policies;
 - (c) Deposit funds and other liabilities without life or disability contingencies; and
 - (d) Liabilities for policy and contract claims.
12. Credit shall be allowed when the reinsurance is ceded to an assuming insurer that has been certified as a reinsurer in the domestic state of the ceding insurer and secures its obligations in accordance with the requirements of this paragraph 12.
- a. In order to be eligible for certification, the assuming insurer shall meet the following requirements:
 - i. The assuming insurer must be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction, as determined by the domestic state of the ceding insurer pursuant to paragraphs 12.c. and 12.k. of this subsection;
 - ii. The assuming insurer must maintain minimum capital and surplus, or its equivalent, in an amount as provided in paragraph 12.i.iii.(b) of this appendix;
 - iii. The assuming insurer must maintain financial strength ratings from two or more rating agencies deemed acceptable by the domestic state of the ceding insurer, as provided in paragraph 12.i.iii.(c) of this appendix;
 - iv. The assuming insurer must agree to submit to the jurisdiction of the domestic state of the ceding insurer, appoint the commissioner of the domestic state of the ceding insurer as its agent for service of process in that state, and agree to provide security for 100 percent of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers if it resists enforcement of a final U.S. judgment;

- v. The assuming insurer must agree to meet applicable information filing requirements as determined by the domestic state of the ceding insurer, both with respect to an initial application for certification and on an ongoing basis; and
 - vi. The assuming insurer must satisfy any other requirements for certification deemed relevant by the domestic state of the ceding insurer.
- b. An association including incorporated and individual unincorporated underwriters may be a certified reinsurer. In order to be eligible for certification, in addition to satisfying requirements of paragraph 12.a. of this appendix:
 - i. The association shall satisfy its minimum capital and surplus requirements through the capital and surplus equivalents (net of liabilities) of the association and its members, which shall include a joint central fund that may be applied to any unsatisfied obligation of the association or any of its members, in an amount determined by the domestic state of the ceding insurer to provide adequate protection;
 - ii. The incorporated members of the association shall not be engaged in any business other than underwriting as a member of the association and shall be subject to the same level of regulation and solvency control by the association's domiciliary regulator as are the unincorporated members; and
 - iii. Within ninety (90) days after its financial statements are due to be filed with the association's domiciliary regulator, the association shall provide to the domestic state of the ceding insurer an annual certification by the association's domiciliary regulator of the solvency of each underwriter member; or if a certification is unavailable, financial statements, prepared by independent public accountants, of each underwriter member of the association.
- c. The domestic state of the ceding insurer shall create and publish a list of qualified jurisdictions, under which an assuming insurer licensed and domiciled in such jurisdiction is eligible to be considered for certification by the domestic state of the ceding insurer as a certified reinsurer.
 - i. In order to determine whether the domiciliary jurisdiction of a non-U.S. assuming insurer is eligible to be recognized as a qualified jurisdiction, the domestic state of the ceding insurer shall evaluate the appropriateness and effectiveness of the reinsurance supervisory system of the jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the U.S. A qualified jurisdiction must agree to share information and cooperate with the domestic state of the ceding insurer with respect to all certified reinsurers domiciled within that jurisdiction. A jurisdiction may not be recognized as a qualified jurisdiction if the domestic state of the ceding insurer has determined that the jurisdiction does not adequately and promptly enforce final U.S. judgments and arbitration awards. Additional factors may be considered in the discretion of the domestic state of the ceding insurer.
 - ii. A list of qualified jurisdictions shall be published through the NAIC Committee Process. The domestic state of the ceding insurer shall consider this list in determining qualified jurisdictions. If the domestic state of the ceding insurer approves a jurisdiction as qualified that does not appear on the list of qualified

- jurisdictions, the state shall provide thoroughly documented justification in accordance with criteria to be developed under regulations.
- iii. U.S. jurisdictions that meet the requirement for accreditation under the NAIC financial standards and accreditation program shall be recognized as qualified jurisdictions.
 - iv. If a certified reinsurer's domiciliary jurisdiction ceases to be a qualified jurisdiction, the domestic state of the ceding insurer has the discretion to suspend the reinsurer's certification indefinitely, in lieu of revocation.
- d. The domestic state of the ceding insurer shall assign a rating to each certified reinsurer, giving due consideration to the financial strength ratings that have been assigned by rating agencies deemed acceptable to the commissioner pursuant to regulation. The domestic state of the ceding insurer shall publish a list of all certified reinsurers and their ratings.
- e. A certified reinsurer shall secure obligations assumed from U.S. ceding insurers under this subsection at a level consistent with its rating, as specified in paragraph 12.h.i. of this appendix.
- i. In order for a domestic ceding insurer to qualify for full financial statement credit for reinsurance ceded to a certified reinsurer, the certified reinsurer shall maintain security in a form acceptable to the domestic state of the ceding insurer and consistent with the provisions of paragraph 19 of this appendix, or in a multibeneficiary trust in accordance with paragraph 11 of this appendix, except as otherwise provided in paragraph 12.e.ii. through 12.e.v. of this appendix.
 - ii. If a certified reinsurer maintains a trust to fully secure its obligations subject to paragraph 11 of this appendix, and chooses to secure its obligations incurred as a certified reinsurer in the form of a multibeneficiary trust, the certified reinsurer shall maintain separate trust accounts for its obligations incurred under reinsurance agreements issued or renewed as a certified reinsurer with reduced security as permitted by paragraph 12, or comparable laws of other U.S. jurisdictions, and for its obligations subject to paragraph 11 of this appendix. It shall be a condition to the grant of certification under paragraph 12 of this appendix that the certified reinsurer shall have bound itself, by the language of the trust and agreement with the commissioner with principal regulatory oversight of each such trust account, to fund, upon termination of any such trust account, out of the remaining surplus of such trust any deficiency of any other such trust account.
 - iii. The minimum trustee surplus requirements provided in paragraph 11 of this appendix are not applicable with respect to a multibeneficiary trust maintained by a certified reinsurer for the purpose of securing obligations incurred under this subsection, except that such trust shall maintain a minimum trustee surplus of \$10,000,000.
 - iv. With respect to obligations incurred by a certified reinsurer under paragraph 12 of this appendix, if the security is insufficient, the allowable reinsurance credit shall be reduced by an amount proportionate to the deficiency, and the domestic state of the ceding insurer has the discretion to impose further reductions in allowable credit upon finding that there is a material risk that the certified reinsurer's obligations will not be paid in full when due.

- v. For purposes of paragraph 12, a certified reinsurer whose certification has been terminated for any reason shall be treated as a certified reinsurer required to secure 100 percent of its obligations.
 - (a) As used in paragraph 12.e.v., the term “terminated” refers to revocation, suspension, voluntary surrender and inactive status.
 - (b) If the domestic state of the ceding insurer continues to assign a higher rating as permitted by other provisions of paragraph 12, this requirement does not apply to a certified reinsurer in inactive status or to a reinsurer whose certification has been suspended.
- f. If an applicant for certification has been certified as a reinsurer in an NAIC accredited jurisdiction, the domestic state of the ceding insurer has the discretion to defer to that jurisdiction’s certification, and has the discretion to defer to the rating assigned by that jurisdiction, and such assuming insurer shall be considered to be a certified reinsurer in the domestic state of the ceding insurer.
- g. A certified reinsurer that ceases to assume new business in this state may request to maintain its certification in inactive status in order to continue to qualify for a reduction in security for its in-force business. An inactive certified reinsurer shall continue to comply with all applicable requirements of paragraph 12, and the domestic state of the ceding insurer shall assign a rating that takes into account, if relevant, the reasons why the reinsurer is not assuming new business.
- h. The credit allowed under paragraph 12 shall be based upon the security held by or on behalf of the ceding insurer in accordance with a rating assigned to the certified reinsurer by the commissioner. The security shall be in a form consistent with the provisions of paragraph 12 and paragraph 19 of this appendix, and paragraphs 20-51 of this appendix, as applicable. The amount of security required in order for full credit to be allowed shall correspond with the following requirements:

i.	Ratings	Security Required
	Secure – 1	0%
	Secure – 2	10%
	Secure – 3	20%
	Secure – 4	50%
	Secure – 5	75%
	Vulnerable – 6	100%

- ii. Affiliated reinsurance transactions shall receive the same opportunity for reduced security requirements as all other reinsurance transactions.
- iii. The commissioner shall require the certified reinsurer to post one hundred percent (100%), for the benefit of the ceding insurer or its estate, security upon the entry of an order of rehabilitation, liquidation or conservation against the ceding insurer.
- iv. In order to facilitate the prompt payment of claims, a certified reinsurer shall not be required to post security for catastrophe recoverables for a period of one year from the date of the first instance of a liability reserve entry by the ceding company as a result of a loss from a catastrophic occurrence as recognized by the commissioner. The one year deferral period is contingent upon the certified

reinsurer continuing to pay claims in a timely manner. Reinsurance recoverables for only the following lines of business as reported on the NAIC annual financial statement related specifically to the catastrophic occurrence will be included in the deferral:

- (a) Line 1: Fire
- (b) Line 2: Allied Lines
- (c) Line 3: Farmowners multiple peril
- (d) Line 4: Homeowners multiple peril
- (e) Line 5: Commercial multiple peril
- (f) Line 9: Inland Marine
- (g) Line 12: Earthquake
- (h) Line 21: Auto physical damage

v. Credit for reinsurance under paragraph 12 of this appendix shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer. Any reinsurance contract entered into prior to the effective date of the certification of the assuming insurer that is subsequently amended after the effective date of the certification of the assuming insurer, or a new reinsurance contract, covering any risk for which collateral was provided previously, shall only be subject to this section with respect to losses incurred and reserves reported from and after the effective date of the amendment or new contract.

vi. Nothing in paragraph 12 of this appendix shall prohibit the parties to a reinsurance agreement from agreeing to provisions establishing security requirements that exceed the minimum security requirements established for certified reinsurers under this section.

i. Certification Procedure

i. The commissioner of the domestic state of the ceding insurer shall post notice on the insurance department's website promptly upon receipt of any application for certification, including instructions on how members of the public may respond to the application. The commissioner may not take final action on the application until at least thirty (30) days after posting the notice required by this paragraph.

ii. The commissioner of the domestic state of the ceding insurer shall issue written notice to an assuming insurer that has made application and been approved as a certified reinsurer. Included in such notice shall be the rating assigned the certified reinsurer in accordance with paragraph 12.h. of this appendix. The commissioner shall publish a list of all certified reinsurers and their ratings.

iii. In order to be eligible for certification, the assuming insurer shall meet the following requirements:

- (a) The assuming insurer must be domiciled and licensed to transact insurance or reinsurance in a Qualified Jurisdiction, as determined by the commissioner pursuant to paragraph 12.c. and 12.k. of this appendix.
 - (b) The assuming insurer must maintain capital and surplus, or its equivalent, of no less than \$250,000,000 calculated in accordance with paragraph 12.i.iv.(h) of this appendix. This requirement may also be satisfied by an association including incorporated and individual unincorporated underwriters having minimum capital and surplus equivalents (net of liabilities) of at least \$250,000,000 and a central fund containing a balance of at least \$250,000,000.
 - (c) The assuming insurer must maintain financial strength ratings from two or more rating agencies deemed acceptable by the commissioner. These ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. These financial strength ratings will be one factor used by the commissioner in determining the rating that is assigned to the assuming insurer. Acceptable rating agencies include the following:
 - (1) Standard & Poor's;
 - (2) Moody's Investors Service;
 - (3) Fitch Ratings;
 - (4) A.M. Best Company; or
 - (5) Any other Nationally Recognized Statistical Rating Organization.
 - (d) The certified reinsurer must comply with any other requirements reasonably imposed by the commissioner of the domestic state of the ceding insurer.
- iv. Each certified reinsurer shall be rated on a legal entity basis, with due consideration being given to the group rating where appropriate, except that an association including incorporated and individual unincorporated underwriters that has been approved to do business as a single certified reinsurer may be evaluated on the basis of its group rating. Factors that may be considered as part of the evaluation process include, but are not limited to, the following:
- (a) The certified reinsurer's financial strength rating from an acceptable rating agency. The maximum rating that a certified reinsurer may be assigned will correspond to its financial strength rating as outlined in the table below. The commissioner shall use the lowest financial strength rating received from an approved rating agency in establishing the maximum rating of a certified reinsurer. A failure to obtain or maintain at least two financial strength ratings from acceptable rating agencies will result in loss of eligibility for certification:

<u>Ratings</u>	<u>Best</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
Secure – 1	A++	AAA	Aaa	AAA
Secure – 2	A+	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-
Secure – 3	A	A+, A	A1, A2	A+, A
Secure – 4	A-	A-	A3	A-
Secure – 5	B++, B+	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-
Vulnerable – 6	B, B-C++, C+, C, C-, D, E, F	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	BB+, BB, BB-, B+, B, B-, CCC+, CC, CCC-, DD

- (b) The business practices of the certified reinsurer in dealing with its ceding insurers, including its record of compliance with reinsurance contractual terms and obligations;
- (c) For certified reinsurers domiciled in the U.S., a review of the most recent applicable NAIC annual statement blank, either Schedule F (for property/casualty reinsurers) or Schedule S (for life and health reinsurers);
- (d) For certified reinsurers not domiciled in the U.S., a review annually of Form CR-F (for property/casualty reinsurers) or Form CR-S (for life and health reinsurers);
- (e) The reputation of the certified reinsurer for prompt payment of claims under reinsurance agreements, based on an analysis of ceding insurers' Schedule F reporting of overdue reinsurance recoverables, including the proportion of obligations that are more than ninety (90) days past due or are in dispute, with specific attention given to obligations payable to companies that are in administrative supervision or receivership;
- (f) Regulatory actions against the certified reinsurer;
- (g) The report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in paragraph (h) below;
- (h) For certified reinsurers not domiciled in the U.S., audited financial statements, regulatory filings, and actuarial opinion (as filed with the non-U.S. jurisdiction supervisor, with a translation into English). Upon the initial application for certification, the commissioner will consider

audited financial statements for the last two (2) years filed with its non-U.S. jurisdiction supervisor;

- (i) The liquidation priority of obligations to a ceding insurer in the certified reinsurer's domiciliary jurisdiction in the context of an insolvency proceeding;
 - (j) A certified reinsurer's participation in any solvent scheme of arrangement, or similar procedure, which involves U.S. ceding insurers. The commissioner shall receive prior notice from a certified reinsurer that proposes participation by the certified reinsurer in a solvent scheme of arrangement; and
 - (k) Any other information deemed relevant by the commissioner.
- v. Based on the analysis conducted under paragraph 12.i.iv.(e) of a certified reinsurer's reputation for prompt payment of claims, the commissioner may make appropriate adjustments in the security the certified reinsurer is required to post to protect its liabilities to U.S. ceding insurers, provided that the commissioner shall, at a minimum, increase the security the certified reinsurer is required to post by one rating level under paragraph 12.h. if the commissioner finds that:
 - (a) more than fifteen percent (15%) of the certified reinsurer's ceding insurance clients have overdue reinsurance recoverables on paid losses of ninety (90) days or more which are not in dispute and which exceed \$100,000 for each cedent; or
 - (b) the aggregate amount of reinsurance recoverables on paid losses which are not in dispute that are overdue by ninety (90) days or more exceeds \$50,000,000.
- vi. The assuming insurer must submit a properly executed Form CR-1 as evidence of its submission to the jurisdiction of this state, appointment of the commissioner as an agent for service of process in this state, and agreement to provide security for one hundred percent (100%) of the assuming insurer's liabilities attributable to reinsurance ceded by U.S. ceding insurers if it resists enforcement of a final U.S. judgment. The commissioner shall not certify any assuming insurer that is domiciled in a jurisdiction that the commissioner has determined does not adequately and promptly enforce final U.S. judgments or arbitration awards.
- vii. The certified reinsurer must agree to meet applicable information filing requirements as determined by the commissioner, both with respect to an initial application for certification and on an ongoing basis. All information submitted by certified reinsurers which are not otherwise public information subject to disclosure shall be exempted from disclosure under [cite state law equivalent of Freedom of Information Act] and shall be withheld from public disclosure. The applicable information filing requirements are, as follows:
 - (a) Notification within ten (10) days of any regulatory actions taken against the certified reinsurer, any change in the provisions of its domiciliary license or any change in rating by an approved rating agency, including a statement describing such changes and the reasons therefore;

- (b) Annually, Form CR-F or CR-S, as applicable;
 - (c) Annually, the report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in paragraph 12.i.vii.(d) below;
 - (d) Annually, the most recent audited financial statements, regulatory filings, and actuarial opinion (as filed with the certified reinsurer's supervisor, with a translation into English). Upon the initial certification, audited financial statements for the last two (2) years filed with the certified reinsurer's supervisor;
 - (e) At least annually, an updated list of all disputed and overdue reinsurance claims regarding reinsurance assumed from U.S. domestic ceding insurers;
 - (f) A certification from the certified reinsurer's domestic regulator that the certified reinsurer is in good standing and maintains capital in excess of the jurisdiction's highest regulatory action level; and
 - (g) Any other information that the commissioner may reasonably require.
- j. Change in Rating or Revocation of Certification
- i. In the case of a downgrade by a rating agency or other disqualifying circumstance, the commissioner shall upon written notice assign a new rating to the certified reinsurer in accordance with the requirements of paragraph 12.i.
 - ii. The commissioner shall have the authority to suspend, revoke, or otherwise modify a certified reinsurer's certification at any time if the certified reinsurer fails to meet its obligations or security requirements under this section, or if other financial or operating results of the certified reinsurer, or documented significant delays in payment by the certified reinsurer, lead the commissioner to reconsider the certified reinsurer's ability or willingness to meet its contractual obligations.
 - iii. If the rating of a certified reinsurer is upgraded by the commissioner, the certified reinsurer may meet the security requirements applicable to its new rating on a prospective basis, but the commissioner shall require the certified reinsurer to post security under the previously applicable security requirements as to all contracts in force on or before the effective date of the upgraded rating. If the rating of a certified reinsurer is downgraded by the commissioner, the commissioner shall require the certified reinsurer to meet the security requirements applicable to its new rating for all business it has assumed as a certified reinsurer.
 - iv. Upon revocation of the certification of a certified reinsurer by the commissioner, the assuming insurer shall be required to post security in accordance with paragraph 19 in order for the ceding insurer to continue to take credit for reinsurance ceded to the assuming insurer. If funds continue to be held in trust in accordance with paragraph 11, the commissioner may allow additional credit equal to the ceding insurer's *pro rata* share of such funds, discounted to reflect the risk of uncollectibility and anticipated expenses of trust administration. Notwithstanding the change of a certified reinsurer's rating or revocation of its certification, a domestic insurer that has ceded reinsurance to that certified

reinsurer may not be denied credit for reinsurance for a period of three (3) months for all reinsurance ceded to that certified reinsurer, unless the reinsurance is found by the commissioner to be at high risk of uncollectibility.

k. Qualified Jurisdictions

- i. If, upon conducting an evaluation with respect to the reinsurance supervisory system of any non-U.S. assuming insurer, the commissioner of the domestic state of the ceding insurer determines that the jurisdiction qualifies to be recognized as a qualified jurisdiction, the commissioner shall publish notice and evidence of such recognition in an appropriate manner. The commissioner may establish a procedure to withdraw recognition of those jurisdictions that are no longer qualified.
- ii. In order to determine whether the domiciliary jurisdiction of a non-U.S. assuming insurer is eligible to be recognized as a qualified jurisdiction, the commissioner shall evaluate the reinsurance supervisory system of the non-U.S. jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the U.S. The commissioner shall determine the appropriate approach for evaluating the qualifications of such jurisdictions, and create and publish a list of jurisdictions whose reinsurers may be approved by the commissioner as eligible for certification. A qualified jurisdiction must agree to share information and cooperate with the commissioner with respect to all certified reinsurers domiciled within that jurisdiction. Additional factors to be considered in determining whether to recognize a qualified jurisdiction, in the discretion of the commissioner, include but are not limited to the following:
 - (a) The framework under which the assuming insurer is regulated.
 - (b) The structure and authority of the domiciliary regulator with regard to solvency regulation requirements and financial surveillance.
 - (c) The substance of financial and operating standards for assuming insurers in the domiciliary jurisdiction.
 - (d) The form and substance of financial reports required to be filed or made publicly available by reinsurers in the domiciliary jurisdiction and the accounting principles used.
 - (e) The domiciliary regulator's willingness to cooperate with U.S. regulators in general and the commissioner in particular.
 - (f) The history of performance by assuming insurers in the domiciliary jurisdiction.
 - (g) Any documented evidence of substantial problems with the enforcement of final U.S. judgments in the domiciliary jurisdiction. A jurisdiction will not be considered to be a qualified jurisdiction if the commissioner has determined that it does not adequately and promptly enforce final U.S. judgments or arbitration awards.

- (h) Any relevant international standards or guidance with respect to mutual recognition of reinsurance supervision adopted by the International Association of Insurance Supervisors or successor organization.
 - (i) Any other matters deemed relevant by the commissioner.
 - iii. A list of qualified jurisdictions shall be published through the NAIC Committee Process. The commissioner shall consider this list in determining qualified jurisdictions. If the commissioner approves a jurisdiction as qualified that does not appear on the list of qualified jurisdictions, the commissioner shall provide thoroughly documented justification with respect to the criteria provided under paragraphs 12.k.ii.(a) to (i).
 - iv. U.S. jurisdictions that meet the requirements for accreditation under the NAIC financial standards and accreditation program shall be recognized as qualified jurisdictions.
- l. Recognition of Certification Issued by an NAIC Accredited Jurisdiction
- i. If an applicant for certification has been certified as a reinsurer in an NAIC accredited jurisdiction, the commissioner has the discretion to defer to that jurisdiction's certification, and to defer to the rating assigned by that jurisdiction, if the assuming insurer submits a properly executed Form CR-1 and such additional information as the commissioner requires. The assuming insurer shall be considered to be a certified reinsurer in this State.
 - ii. Any change in the certified reinsurer's status or rating in the other jurisdiction shall apply automatically in this State as of the date it takes effect in the other jurisdiction. The certified reinsurer shall notify the commissioner of any change in its status or rating within 10 days after receiving notice of the change.
 - iii. The commissioner may withdraw recognition of the other jurisdiction's rating at any time and assign a new rating in accordance with paragraph 12.j. of this appendix.
 - iv. The commissioner may withdraw recognition of the other jurisdiction's certification at any time, with written notice to the certified reinsurer. Unless the commissioner suspends or revokes the certified reinsurer's certification in accordance with paragraph 12.j. of this appendix, the certified reinsurer's certification shall remain in good standing in the domestic state of the ceding insurer for a period of three (3) months, which shall be extended if additional time is necessary to consider the assuming insurer's application for certification in this State.
- m. **Mandatory Funding Clause.** In addition to the clauses required under *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* and *SSAP No. 62R—Property and Casualty Reinsurance*, reinsurance contracts entered into or renewed under paragraph 12 of this appendix shall include a proper funding clause, which requires the certified reinsurer to provide and maintain security in an amount sufficient to avoid the imposition of any financial statement penalty on the ceding insurer under this section for reinsurance ceded to the certified reinsurer.
- n. The commissioner shall comply with all reporting and notification requirements that may be established by the NAIC with respect to certified reinsurers and qualified jurisdictions.

13. Credit shall be allowed when the reinsurance is ceded to an assuming insurer meeting each of the conditions set forth in paragraphs 13.a. through 13.h. Credit shall be allowed for reinsurance ceded by a domestic insurer to an assuming insurer that is licensed to write reinsurance by, and has its head office or is domiciled in, a Reciprocal Jurisdiction, and which meets the other requirements of paragraph 13.

- a. The assuming insurer must have its head office or be domiciled in, as applicable, and be licensed in a Reciprocal Jurisdiction. A “Reciprocal Jurisdiction” is a jurisdiction that meets one of the following:
 - i. A non-U.S. jurisdiction that is subject to an in-force covered agreement with the United States, each within its legal authority or, in the case of a covered agreement between the United States and European Union, is a member state of the European Union. For purposes of this subsection, a “covered agreement” is an agreement entered into pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act, 31 U.S.C. §§ 313 and 314, that is currently in effect or in a period of provisional application and addresses the elimination, under specified conditions, of collateral requirements as a condition for entering into any reinsurance agreement with a ceding insurer domiciled in this state or for allowing the ceding insurer to recognize credit for reinsurance;
 - ii. A U.S. jurisdiction that meets the requirements for accreditation under the NAIC financial standards and accreditation program; or
 - iii. A qualified jurisdiction, as determined by the commissioner, which is not otherwise described in paragraphs 13.a.i. or 13.a.ii. and which the commissioner determines meets all of the following additional requirements:
 - (a) Provides that an insurer which has its head office or is domiciled in such qualified jurisdiction shall receive credit for reinsurance ceded to a U.S.-domiciled assuming insurer in the same manner as credit for reinsurance is received for reinsurance assumed by insurers domiciled in such qualified jurisdiction;
 - (b) Does not require a U.S.-domiciled assuming insurer to establish or maintain a local presence as a condition for entering into a reinsurance agreement with any ceding insurer subject to regulation by the non-U.S. jurisdiction or as a condition to allow the ceding insurer to recognize credit for such reinsurance;
 - (c) Recognizes the U.S. state regulatory approach to group supervision and group capital, by providing written confirmation by a competent regulatory authority, in such qualified jurisdiction, that insurers and insurance groups that are domiciled or maintain their headquarters in this state or another jurisdiction accredited by the NAIC shall be subject only to worldwide prudential insurance group supervision including worldwide group governance, solvency and capital, and reporting, as applicable, by the commissioner or the commissioner of the domiciliary state and will not be subject to group supervision at the level of the worldwide parent undertaking of the insurance or reinsurance group by the qualified jurisdiction; and
 - (d) Provides written confirmation by a competent regulatory authority in such qualified jurisdiction that information regarding insurers and their parent, subsidiary, or affiliated entities, if applicable, shall be provided to

the commissioner in accordance with a memorandum of understanding or similar document between the commissioner and such qualified jurisdiction, including but not limited to the International Association of Insurance Supervisors Multilateral Memorandum of Understanding or other multilateral memoranda of understanding coordinated by the NAIC.

- b. The assuming insurer must have and maintain on an ongoing basis minimum capital and surplus, or its equivalent, calculated on at least an annual basis as of the preceding December 31 or at the annual date otherwise statutorily reported to the Reciprocal Jurisdiction, and confirmed as set forth in paragraph 13.g. according to the methodology of its domiciliary jurisdiction, in the following amounts:
 - i. No less than \$250,000,000; or
 - ii. If the assuming insurer is an association, including incorporated and individual unincorporated underwriters:
 - (a) Minimum capital and surplus equivalents (net of liabilities) or own funds of the equivalent of at least \$250,000,000; and
 - (b) A central fund containing a balance of the equivalent of at least \$250,000,000.
- c. The assuming insurer must have and maintain on an ongoing basis a minimum solvency or capital ratio, as applicable, as follows:
 - i. If the assuming insurer has its head office or is domiciled in a Reciprocal Jurisdiction as defined in paragraph 13.a.i., the ratio specified in the applicable covered agreement;
 - ii. If the assuming insurer is domiciled in a Reciprocal Jurisdiction as defined in paragraph 13.a.ii., a risk-based capital (RBC) ratio of three hundred percent (300%) of the authorized control level, calculated in accordance with the formula developed by the NAIC; or
 - iii. If the assuming insurer is domiciled in a Reciprocal Jurisdiction as defined in paragraph 13.a.iii., after consultation with the Reciprocal Jurisdiction and considering any recommendations published through the NAIC Committee Process, such solvency or capital ratio as the commissioner determines to be an effective measure of solvency.
- d. The assuming insurer must agree and provide adequate assurance to the commissioner, in a form of a properly executed Form RJ-1, as follows:
 - i. The assuming insurer must provide prompt written notice and explanation to the commissioner if it falls below the minimum requirements set forth in paragraphs 13.b. or 13.c., or if any regulatory action is taken against it for serious noncompliance with applicable law;
 - ii. The assuming insurer must consent in writing to the jurisdiction of the courts of this state and to the appointment of the commissioner as agent for service of process. The commissioner may require that consent for service of process be provided to the commissioner and included in each reinsurance agreement. Nothing in this provision shall limit, or in any way alter, the capacity of parties to

- a reinsurance agreement to agree to alternative dispute resolution mechanisms, except to the extent such agreements are unenforceable under applicable insolvency or delinquency laws;
- iii. The assuming insurer must consent in writing to pay all final judgments, wherever enforcement is sought, obtained by a ceding insurer or its legal successor, that have been declared enforceable in the jurisdiction where the judgment was obtained;
 - iv. Each reinsurance agreement must include a provision requiring the assuming insurer to provide security in an amount equal to one hundred percent (100%) of the assuming insurer's liabilities attributable to reinsurance ceded pursuant to that agreement if the assuming insurer resists enforcement of a final judgment that is enforceable under the law of the jurisdiction in which it was obtained or a properly enforceable arbitration award, whether obtained by the ceding insurer or by its legal successor on behalf of its resolution estate; and
 - v. The assuming insurer must confirm that it is not presently participating in any solvent scheme of arrangement which involves this state's ceding insurers, and agree to notify the ceding insurer and the commissioner and to provide security in an amount equal to one hundred percent (100%) of the assuming insurer's liabilities to the ceding insurer, should the assuming insurer enter into such a solvent scheme of arrangement. Such security shall be in a form consistent with the provisions of paragraph 12 and paragraph 19. The term "solvent scheme of arrangement" means a foreign or alien statutory or regulatory compromise procedure subject to requisite majority creditor approval and judicial sanction in the assuming insurer's home jurisdiction either to finally commute liabilities of duly noticed classed members or creditors of a solvent debtor, or to reorganize or restructure the debts and obligations of a solvent debtor on a final basis, and which may be subject to judicial recognition and enforcement of the arrangement by a governing authority outside the ceding insurer's home jurisdiction.
 - vi. The assuming insurer must agree in writing to meet the applicable information filing requirements as set forth in paragraph 13.e.
- e. The assuming insurer or its legal successor must provide, if requested by the commissioner, on behalf of itself and any legal predecessors, the following documentation to the commissioner:
- i. For the two years preceding entry into the reinsurance agreement and on an annual basis thereafter, the assuming insurer's annual audited financial statements, in accordance with the applicable law of the jurisdiction of its head office or domiciliary jurisdiction, as applicable, including the external audit report;
 - ii. For the two years preceding entry into the reinsurance agreement, the solvency and financial condition report or actuarial opinion, if filed with the assuming insurer's supervisor;
 - iii. Prior to entry into the reinsurance agreement and not more than semi-annually thereafter, an updated list of all disputed and overdue reinsurance claims outstanding for 90 days or more, regarding reinsurance assumed from ceding insurers domiciled in the United States; and

- iv. Prior to entry into the reinsurance agreement and not more than semi-annually thereafter, information regarding the assuming insurer's assumed reinsurance by ceding insurer, ceded reinsurance by the assuming insurer, and reinsurance recoverable on paid and unpaid losses by the assuming insurer to allow for the evaluation of the criteria set forth in paragraph 13.f.
- f. The assuming insurer must maintain a practice of prompt payment of claims under reinsurance agreements. The lack of prompt payment will be evidenced if any of the following criteria is met:
 - i. More than fifteen percent (15%) of the reinsurance recoverables from the assuming insurer are overdue and in dispute as reported to the commissioner;
 - ii. More than fifteen percent (15%) of the assuming insurer's ceding insurers or reinsurers have overdue reinsurance recoverable on paid losses of 90 days or more which are not in dispute and which exceed for each ceding insurer \$100,000, or as otherwise specified in a covered agreement; or
 - iii. The aggregate amount of reinsurance recoverable on paid losses which are not in dispute, but are overdue by 90 days or more, exceeds \$50,000,000, or as otherwise specified in a covered agreement.
- g. The assuming insurer's supervisory authority must confirm to the commissioner on an annual basis, as of the preceding December 31 or at the annual date otherwise statutorily reported to the Reciprocal Jurisdiction, that the assuming insurer complies with the requirements set forth in paragraphs 13.b. and 13.c.
- h. Nothing in this provision precludes an assuming insurer from providing the commissioner with information on a voluntary basis.
- i. The commissioner shall timely create and publish a list of Reciprocal Jurisdictions.
 - i. A list of Reciprocal Jurisdictions is published through the NAIC Committee Process. The commissioner's list shall include any Reciprocal Jurisdiction as defined under paragraphs 13.a.i. and 13.a.ii., and shall consider any other Reciprocal Jurisdiction included on the NAIC list. The commissioner may approve a jurisdiction that does not appear on the NAIC list of Reciprocal Jurisdictions.
 - ii. The commissioner may remove a jurisdiction from the list of Reciprocal Jurisdictions upon a determination that the jurisdiction no longer meets one or more of the requirements of a Reciprocal Jurisdiction, except that the commissioner shall not remove from the list a Reciprocal Jurisdiction as defined under paragraphs 13.a.i. and 13.a.ii. Upon removal of a Reciprocal Jurisdiction from this list credit for reinsurance ceded to an assuming insurer domiciled in that jurisdiction shall be allowed, if otherwise allowed pursuant to this appendix.
- j. The commissioner shall timely create and publish a list of assuming insurers that have satisfied the conditions set forth in paragraph 13 and to which cessions shall be granted credit in accordance with paragraph 13.
 - i. If an NAIC accredited jurisdiction has determined that the conditions set forth in paragraph 13 have been met, the commissioner has the discretion to defer to that jurisdiction's determination, and add such assuming insurer to the list of assuming insurers to which cessions shall be granted credit in accordance with

this subsection. The commissioner may accept financial documentation filed with another NAIC accredited jurisdiction or with the NAIC in satisfaction of the requirements of paragraph 13.b., 13.c. and 13.d.

- ii. When requesting that the commissioner defer to another NAIC accredited jurisdiction's determination, an assuming insurer must submit a properly executed Form RJ-1 and additional information as the commissioner may require. A state that has received such a request will notify other states through the NAIC Committee Process and provide relevant information with respect to the determination of eligibility.
- k. If the commissioner determines that an assuming insurer no longer meets one or more of the requirements under this section, the commissioner may revoke or suspend the eligibility of the assuming insurer for recognition under this section.
 - i. While an assuming insurer's eligibility is suspended, no reinsurance agreement issued, amended or renewed after the effective date of the suspension qualifies for credit except to the extent that the assuming insurer's obligations under the contract are secured in accordance with paragraph 19.
 - ii. If an assuming insurer's eligibility is revoked, no credit for reinsurance may be granted after the effective date of the revocation with respect to any reinsurance agreements entered into by the assuming insurer, including reinsurance agreements entered into prior to the date of revocation, except to the extent that the assuming insurer's obligations under the contract are secured in a form acceptable to the commissioner and consistent with the provisions of paragraph 19.
- l. Before denying statement credit or imposing a requirement to post security with respect to paragraph 13.k. or adopting any similar requirement that will have substantially the same regulatory impact as security, the commissioner shall:
 - i. Communicate with the ceding insurer, the assuming insurer, and the assuming insurer's supervisory authority that the assuming insurer no longer satisfies one of the conditions listed in paragraphs 13.a., 13.b. and 13.c.;
 - ii. Provide the assuming insurer with 30 days from the initial communication to submit a plan to remedy the defect, and 90 days from the initial communication to remedy the defect, except in exceptional circumstances in which a shorter period is necessary for policyholder and other consumer protection;
 - iii. After the expiration of 90 days or less, as set out in paragraph 13.l.ii., if the commissioner determines that no or insufficient action was taken by the assuming insurer, the commissioner may impose any of the requirements as set out in this subsection; and
 - iv. Provide a written explanation to the assuming insurer of any of the requirements set out in paragraph 13.l.
- m. If subject to a legal process of rehabilitation, liquidation or conservation, as applicable, the ceding insurer, or its representative, may seek and, if determined appropriate by the court in which the proceedings are pending, may obtain an order requiring that the assuming insurer post security for all outstanding liabilities.

- n. Nothing in this subsection shall limit or in any way alter the capacity of parties to a reinsurance agreement to agree on requirements for security or other terms in that reinsurance agreement, except as expressly prohibited by this appendix.
 - o. Credit may be taken under this subsection only for reinsurance agreements entered into, amended, or renewed on or after the effective date of the statute adding this subsection, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements pursuant to paragraphs 13.a. through 13.h., and (ii) the effective date of the new reinsurance agreement, amendment, or renewal.
 - i. This paragraph does not alter or impair a ceding insurer's right to take credit for reinsurance, to the extent that credit is not available under this subsection, as long as the reinsurance qualifies for credit under any other applicable provision of this appendix.
 - ii. Nothing in this subsection shall authorize an assuming insurer to withdraw or reduce the security provided under any reinsurance agreement except as permitted by the terms of the agreement.
 - iii. Nothing in this subsection shall limit, or in any way alter, the capacity of parties to any reinsurance agreement to renegotiate the agreement.
14. Credit shall be allowed when the reinsurance is ceded to an assuming insurer not meeting the requirements of paragraphs 8, 9, 10, 11, 12 or 13 of this appendix, but only as to the insurance of risks located in jurisdictions where the reinsurance is required by applicable law or regulation of that jurisdiction.
15. If the assuming insurer is not licensed, accredited or certified to transact insurance or reinsurance in the domiciliary state of the ceding insurer, the credit allowed by paragraphs 10 and 11 of this appendix shall not be allowed unless the assuming insurer agrees in the reinsurance agreements:
- a.
 - i. That in the event of the failure of the assuming insurer to perform its obligations under the terms of the reinsurance agreement, the assuming insurer, at the request of the ceding insurer, shall submit to the jurisdiction of any court of competent jurisdiction in any state of the United States, will comply with all requirements necessary to give the court jurisdiction, and will abide by the final decision of the court or of any appellate court in the event of an appeal.
 - ii. To designate the commissioner or a designated attorney as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the ceding insurer.
 - b. This paragraph 15 is not intended to conflict with or override the obligation of the parties to a reinsurance agreement to arbitrate their disputes, if this obligation is created in the agreement.
16. If the assuming insurer does not meet the requirements of paragraphs 8, 9 or 10, the credit allowed by paragraph 11 or 12 of this appendix shall not be allowed unless the assuming insurer agrees in the trust agreements to the following conditions:
- a. Notwithstanding any other provisions in the trust instrument, if the trust fund is inadequate because it contains an amount less than the amount required by paragraph 11 c. of this appendix, or if the grantor of the trust has been declared insolvent or placed into

receivership, rehabilitation, liquidation or similar proceedings under the laws of its state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight over the trust or with an order of a court of competent jurisdiction directing the trustee to transfer to the commissioner with regulatory oversight all of the assets of the trust fund.

- b. The assets shall be distributed by and claims shall be filed with and valued by the commissioner with regulatory oversight in accordance with the laws of the state in which the trust is domiciled that are applicable to the liquidation of domestic insurance companies.
- c. If the commissioner with regulatory oversight determines that the assets of the trust fund or any part thereof are not necessary to satisfy the claims of the U.S. ceding insurers of the grantor of the trust, the assets or part thereof shall be returned by the commissioner with regulatory oversight to the trustee for distribution in accordance with the trust agreement.
- d. The grantor shall waive any right otherwise available to it under U.S. law that is inconsistent with this provision.

17. If an accredited or certified reinsurer ceases to meet the requirements for accreditation or certification, the domestic state of the ceding insurer may suspend or revoke the reinsurer's accreditation or certification.

- a. The domestic state of the ceding insurer must give the reinsurer notice an opportunity for hearing. The suspension or revocation may not take effect until after the state's order on hearing, unless:
 - i. The reinsurer waives its right to hearing;
 - ii. The state's order is based on regulatory action by the reinsurer's domiciliary jurisdiction or the voluntary surrender or termination of the reinsurer's eligibility to transact insurance or reinsurance business in its domiciliary jurisdiction or in the primary certifying state of the reinsurer under paragraph 12.f. of this appendix; or
 - iii. The domestic state of the ceding insurer finds that an emergency requires immediate action and a court of competent jurisdiction has not stayed the state's action.
- b. While a reinsurer's accreditation or certification is suspended, no reinsurance contract issued or renewed after the effective date of the suspension qualifies for credit except to the extent that the reinsurer's obligations under the contract are secured in accordance with paragraph 19. If a reinsurer's accreditation or certification is revoked, no credit for reinsurance may be granted after the effective date of the revocation except to the extent that the reinsurer's obligations under the contract are secured in accordance with paragraph 12.e. or paragraph 19.

Valuation of and Requirements for Trust Assets

18. Assets deposited in the trust shall be valued according to their current fair market value and shall consist only of cash in U.S. dollars, certificates of deposit issued by a U.S. financial institution as defined in paragraph 53, clean, irrevocable, unconditional and "evergreen" letters of credit issued or confirmed by a qualified U.S. financial institution, as defined in paragraph 53, and investments of the type specified in this paragraph, but investments in or issued by an entity controlling, controlled by or under common

control with either the grantor or beneficiary of the trust shall not exceed five percent (5%) of total investments. No more than twenty percent (20%) of the total of the investments in the trust may be foreign investments authorized under paragraphs 18.a.v., 18.c., 18.f.ii. or 18.g., and no more than ten percent (10%) of the total of the investments in the trust may be securities denominated in foreign currencies. For purposes of applying the preceding sentence, a depository receipt denominated in U.S. dollars and representing rights conferred by a foreign security shall be classified as a foreign investment denominated in a foreign currency. The assets of a trust shall be invested only as follows:

- a. Government obligations that are not in default as to principal or interest, that are valid and legally authorized and that are issued, assumed or guaranteed by:
 - i. The United States or by any agency or instrumentality of the United States;
 - ii. A state of the United States;
 - iii. A territory, possession or other governmental unit of the United States;
 - iv. An agency or instrumentality of a governmental unit referred to in paragraphs 18.a.i. and 18.a.ii. if the obligations shall be by law (statutory or otherwise) payable, as to both principal and interest, from taxes levied or by law required to be levied or from adequate special revenues pledged or otherwise appropriated or by law required to be provided for making these payments, but shall not be obligations eligible for investment under this paragraph if payable solely out of special assessments on properties benefited by local improvements; or
 - v. The government of any other country that is a member of the Organization for Economic Cooperation and Development and whose government obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC;
- b. Obligations that are issued in the United States, or that are dollar denominated and issued in a non-U.S. market, by a solvent U.S. institution (other than an insurance company) or that are assumed or guaranteed by a solvent U.S. institution (other than an insurance company) and that are not in default as to principal or interest if the obligations:
 - i. Are rated A or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC, or if not so rated, are similar in structure and other material respects to other obligations of the same institution that are so rated;
 - ii. Are insured by at least one authorized insurer (other than the investing insurer or a parent, subsidiary or affiliate of the investing insurer) licensed to insure obligations in this state and, after considering the insurance, are rated AAA (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC; or
 - iii. Have been designated as Class One or Class Two by the Securities Valuation Office of the NAIC;
- c. Obligations issued, assumed or guaranteed by a solvent non U.S. institution chartered in a country that is a member of the Organization for Economic Cooperation and Development or obligations of U.S. corporations issued in a non-U.S. currency, provided that in either case the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC;

- d. An investment made pursuant to the provisions of paragraphs 18.a., 18.b. or 18.c. shall be subject to the following additional limitations:
- i. An investment in or loan upon the obligations of an institution other than an institution that issues mortgage-related securities shall not exceed five percent (5%) of the assets of the trust;
 - ii. An investment in any one mortgage-related security shall not exceed five percent (5%) of the assets of the trust;
 - iii. The aggregate total investment in mortgage-related securities shall not exceed twenty-five percent (25%) of the assets of the trust; and
 - iv. Preferred or guaranteed shares issued or guaranteed by a solvent U.S. institution are permissible investments if all of the institution's obligations are eligible as investments under paragraphs 18.b.i. and 18.b.iii., but shall not exceed two percent (2%) of the assets of the trust.
- e. As used in this appendix:
- i. "Mortgage-related security" means an obligation that is rated AA or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC and that either:
 - (a) Represents ownership of one or more promissory notes or certificates of interest or participation in the notes (including any rights designed to assure servicing of, or the receipt or timeliness of receipt by the holders of the notes, certificates, or participation of amounts payable under, the notes, certificates or participation), that:
 - (1) Are directly secured by a first lien on a single parcel of real estate, including stock allocated to a dwelling unit in a residential cooperative housing corporation, upon which is located a dwelling or mixed residential and commercial structure, or on a residential manufactured home as defined in 42 U.S.C.A. Section 5402(6), whether the manufactured home is considered real or personal property under the laws of the state in which it is located; and
 - (2) Were originated by a savings and loan association, savings bank, commercial bank, credit union, insurance company, or similar institution that is supervised and examined by a federal or state housing authority, or by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Sections 1709 and 1715-b, or, where the notes involve a lien on the manufactured home, by an institution or by a financial institution approved for insurance by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Section 1703; or
 - (b) Is secured by one or more promissory notes or certificates of deposit or participations in the notes (with or without recourse to the insurer of the notes) and, by its terms, provides for payments of principal in relation to payments, or reasonable projections of payments, or notes meeting the requirements of paragraphs 18.e.i.(a)(1) and 18.e.i.(a)(2);

- ii. “Promissory note,” when used in connection with a manufactured home, shall also include a loan, advance or credit sale as evidenced by a retail installment sales contract or other instrument.
- f. Equity interests
 - i. Investments in common shares or partnership interests of a solvent U.S. institution are permissible if:
 - (a) Its obligations and preferred shares, if any, are eligible as investments under this paragraph; and
 - (b) The equity interests of the institution (except an insurance company) are registered on a national securities exchange as provided in the Securities Exchange Act of 1934, 15 U.S.C. §§ 78a to 78kk or otherwise registered pursuant to that Act, and if otherwise registered, price quotations for them are furnished through a nationwide automated quotations system approved by the Financial Industry Regulatory Authority, or successor organization. A trust shall not invest in equity interests under this paragraph an amount exceeding one percent (1%) of the assets of the trust even though the equity interests are not so registered and are not issued by an insurance company.
 - ii. Investments in common shares of a solvent institution organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development, if:
 - (a) All its obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC; and
 - (b) The equity interests of the institution are registered on a securities exchange regulated by the government of a country that is a member of the Organization for Economic Cooperation and Development.
 - iii. An investment in or loan upon any one institution’s outstanding equity interests shall not exceed one percent (1%) of the assets of the trust. The cost of an investment in equity interests made pursuant to this paragraph, when added to the aggregate cost of other investments in equity interests then held pursuant to this paragraph, shall not exceed ten percent (10%) of the assets in the trust;
- g. Obligations issued, assumed or guaranteed by a multinational development bank, provided the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC.
- h. Investment companies:
 - i. Securities of an investment company registered pursuant to the Investment Company Act of 1940, 15 U.S.C. § 802, are allowable investments if the investment company:
 - (a) Invests at least ninety percent (90%) of its assets in the types of securities that qualify as an investment under paragraphs 18.a., 18.b., or 18.c., or invests in securities that are determined to be substantively similar to the types of securities set forth in paragraphs 18.a., 18.b., or 18.c.; or

- (b) Invests at least ninety percent (90%) of its assets in the types of equity interests that qualify as an investment under paragraph 18.f.i.;
- ii. Investments made by a trust in investment companies under this paragraph shall not exceed the following limitations:
 - (a) An investment in an investment company qualifying under paragraph 18.h.i.(a) shall not exceed ten percent (10%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall not exceed twenty-five percent (25%) of the assets in the trust; and
 - (b) Investments in an investment company qualifying under paragraph 18.h.i.(b) of this paragraph shall not exceed five percent (5%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall be included when calculating the permissible aggregate value of equity interests pursuant to paragraph 18.f.i.
- i. Letters of Credit
 - i. In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement (as duly approved by the commissioner), to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.
 - ii. The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence and/or willful misconduct.

Asset or Reduction from Liability for Reinsurance Ceded by a Domestic Insurer to an Assuming Insurer not Meeting the Requirements detailed above under “Credit Allowed a Domestic Ceding Insurer” (paragraphs 7-18)

19. An asset or a reduction from liability for the reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements under “Credit Allowed a Domestic Ceding Insurer” (paragraphs 7-18) shall be allowed in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with the assuming insurer as security for the payment of obligations thereunder, if the security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer; or, in the case of a trust, held in a qualified U.S. financial institution, as defined under “Qualified U.S. Financial Institutions” at paragraph 54. This security may be in the form of:

- a. Cash;
- b. Securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners, including those deemed exempt from filing as defined by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, and qualifying as admitted assets;

Drafting Note: The *Purposes and Procedures Manual of the NAIC Securities Valuation Office* has been renamed the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*; however, the Model law refers to the previous name.

- c.
 - i. Clean, irrevocable, unconditional and evergreen letters of credit, issued or confirmed by a qualified U.S. financial institution, as defined in paragraph 53, effective no later than December 31 of the year for which the filing is being made, and in the possession of, or in trust for, the ceding insurer on or before the filing date of its annual statement;
 - ii. Letters of credit meeting applicable standards of issuer acceptability as of the dates of their issuance (or confirmation) shall, notwithstanding the issuing (or confirming) institution's subsequent failure to meet applicable standards of issuer acceptability, continue to be acceptable as security until their expiration, extension, renewal, modification or amendment, whichever first occurs.
- d. An admitted asset or a reduction from liability for reinsurance ceded to an unauthorized assuming insurer pursuant to this appendix shall be allowed only when the requirements of paragraph 15 and the applicable portions under the sections below titled "Trust Agreements Qualified under Paragraph 19", "Letters of Credit Qualified under Paragraph 19", and "Other Security" at paragraph 51.

Trust Agreements Qualified under Paragraph 19

- 20. The trust agreement shall be entered into between the beneficiary, the grantor and a trustee, which shall be a qualified U.S. financial institution as defined in paragraph 54.
- 21. The trust agreement shall create a trust account into which assets shall be deposited.
- 22. All assets in the trust account shall be held by the trustee at the trustee's office in the United States.
- 23. The trust agreement shall provide that:
 - a. The beneficiary shall have the right to withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;
 - b. No other statement or document is required to be presented to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets;
 - c. It is subject to any conditions or qualifications outside of the trust agreement; and
 - d. It shall not contain references to any other agreements or documents except as provided for in paragraph 30.
- 24. The trust agreement shall be established for the sole benefit of the beneficiary.
- 25. The trust agreement shall require the trustee to:
 - a. Receive assets and hold all assets in a safe place;
 - b. Determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any such assets, without consent or signature from the grantor or any other person or entity;
 - c. Furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;

- d. Notify the grantor and the beneficiary within ten (10) days, of any deposits to or withdrawals from the trust account;
 - e. Upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver physical custody of the assets to the beneficiary; and
 - f. Allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.
26. The trust agreement shall provide that at least thirty (30) days, but not more than forty-five (45) days, prior to termination of the trust account, written notification of termination shall be delivered by the trustee to the beneficiary.
27. The trust agreement shall be made subject to and governed by the laws of the state in which the trust is domiciled.
28. The trust agreement shall prohibit invasion of the trust corpus for the purpose of paying compensation to, or reimbursing the expenses of, the trustee. In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement, as duly approved by the commissioner, to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.
29. The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence and/or willful misconduct.
30. Notwithstanding other provisions of this appendix, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:
- a. To pay or reimburse the ceding insurer for the assuming insurer's share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer;
 - b. To make payment to the assuming insurer of any amounts held in the trust account that exceed 102 percent of the actual amount required to fund the assuming insurer's obligations under the specific reinsurance agreement; or
 - c. Where the ceding insurer has received notification of termination of the trust account and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the obligations and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified U.S. financial institution as defined in paragraph 54 apart from its general assets, in trust for such uses and purposes

specified in paragraphs 30.a. and 30.b. as may remain executory after such withdrawal and for any period after the termination date.

31. Notwithstanding other provisions of this appendix, when a trust agreement is established to meet the requirements of paragraph 19 in conjunction with a reinsurance agreement covering life, annuities or accident and health risks, where it is customary to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:

- a. To pay or reimburse the ceding insurer for:
 - i. The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of the policies; and
 - ii. The assuming insurer's share under the specific reinsurance agreement of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurer, under the terms and provisions of the policies reinsured under the reinsurance agreement;
- b. To pay to the assuming insurer amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer; or
- c. Where the ceding insurer has received notification of termination of the trust and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer, and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified U. S. financial institution apart from its general assets, in trust for the uses and purposes specified in paragraphs 31.a. and 31.b. as may remain executory after withdrawal and for any period after the termination date.

32. Either the reinsurance agreement or the trust agreement must stipulate that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States bank and payable in United States dollars, and investments permitted by the Insurance Code or any combination of the above, provided investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed five percent (5%) of total investments. The agreement may further specify the types of investments to be deposited. If the reinsurance agreement covers life, annuities or accident and health risks, then the provisions required by this paragraph must be included in the reinsurance agreement.

33. Notwithstanding any other provisions in the trust instrument, if the grantor of the trust has been declared insolvent or placed into receivership, rehabilitation, liquidation or similar proceedings under the laws of its state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight over the trust or court of competent jurisdiction directing the trustee to transfer to the commissioner with regulatory oversight or other designated receiver all of the assets of the trust fund. The assets shall be applied in accordance with the priority statutes and laws of the state in which the trust is domiciled applicable to the assets of insurance companies in liquidation. If the commissioner with regulatory oversight determines that the assets of the trust fund or any part thereof are not necessary to

satisfy claims of the U.S. beneficiaries of the trust, the assets or any part of them shall be returned to the trustee for distribution in accordance with the trust agreement.

34. The trust agreement may provide that the trustee may resign upon delivery of a written notice of resignation, effective not less than ninety (90) days after the beneficiary and grantor receive the notice and that the trustee may be removed by the grantor by delivery to the trustee and the beneficiary of a written notice of removal, effective not less than ninety (90) days after the trustee and the beneficiary receive the notice, provided that no such resignation or removal shall be effective until a successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.

35. The grantor may have the full and unqualified right to vote any shares of stock in the trust account and to receive from time to time payments of any dividends or interest upon any shares of stock or obligations included in the trust account. Any interest or dividends shall be either forwarded promptly upon receipt to the grantor or deposited in a separate account established in the grantor's name.

36. The trustee may be given authority to invest, and accept substitutions of, any funds in the account, provided that no investment or substitution shall be made without prior approval of the beneficiary, unless the trust agreement specifies categories of investments acceptable to the beneficiary and authorizes the trustee to invest funds and to accept substitutions that the trustee determines are at least equal in market value to the assets withdrawn and that are consistent with the restrictions in paragraph 39.b.

37. The trust agreement may provide that the beneficiary may at any time designate a party to which all or part of the trust assets are to be transferred. Transfer may be conditioned upon the trustee receiving, prior to or simultaneously, other specified assets.

38. The trust agreement may provide that, upon termination of the trust account, all assets not previously withdrawn by the beneficiary shall, with written approval by the beneficiary, be delivered over to the grantor.

39. A reinsurance agreement may contain provisions that:

- a. Require the assuming insurer to enter into a trust agreement and to establish a trust account for the benefit of the ceding insurer, and specifying what the agreement is to cover;
- b. Require the assuming insurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may whenever necessary negotiate these assets without consent or signature from the assuming insurer or any other entity;
- c. Require that all settlements of account between the ceding insurer and the assuming insurer be made in cash or its equivalent; and
- d. Stipulate that the assuming insurer and the ceding insurer agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding insurer at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding insurer or its successors in interest by operation of law, including without limitation any liquidator, rehabilitator, receiver or conservator of such company, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for the following purposes:

- i. To pay or reimburse the ceding insurer for:
 - (a) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement because of cancellations of such policies;
 - (b) The assuming insurer's share of surrenders and benefits or losses paid by the ceding insurer pursuant to the provisions of the policies reinsured under the reinsurance agreement; and
 - (c) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;
- ii. To make payment to the assuming insurer of amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer.

40. The reinsurance agreement also may contain provisions that:

- a. Give the assuming insurer the right to seek approval from the ceding insurer, which shall not be unreasonably or arbitrarily withheld, to withdraw from the trust account all or any part of the trust assets and transfer those assets to the assuming insurer, provided:
 - i. The assuming insurer shall, at the time of withdrawal, replace the withdrawn assets with other qualified assets having a current fair market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount; or
 - ii. After withdrawal and transfer, the current fair market value of the trust account is no less than 102 percent of the required amount.
- b. Provide for the return of any amount withdrawn in excess of the actual amounts required for paragraph 39.d., and for interest payments at a rate not in excess of the prime rate of interest on such amounts;
- c. Allow the award by any arbitration panel or court of competent jurisdiction of:
 - i. Interest at a rate different from that provided in paragraph 40.b.;
 - ii. Court or arbitration costs;
 - iii. Attorney's fees; and
 - iv. Any other reasonable expenses.

41. Financial Reporting - A trust agreement may be used to reduce any liability for reinsurance ceded to an unauthorized assuming insurer in statutory financial statements when established on or before the date of filing of the statutory financial statement of the ceding insurer. Further, the reduction for the existence of an acceptable trust account may be up to the current fair market value of acceptable assets available to be withdrawn from the trust account at that time, but such reduction shall be no greater than the specific obligations under the reinsurance agreement that the trust account was established to secure.

42. The failure of any trust agreement to specifically identify the beneficiary as defined in paragraph 4 shall not be construed to affect any actions or rights that the commissioner may take or possess pursuant to the provisions of the laws of the domiciliary state.

Letters of Credit Qualified under Paragraph 19

43. The letter of credit must be clean, irrevocable, unconditional and issued or confirmed by a qualified U.S. financial institution as defined in paragraph 53. The letter of credit shall contain an issue date and expiration date and shall stipulate that the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented. The letter of credit also shall indicate that it is not subject to any condition or qualifications outside of the letter of credit. In addition, the letter of credit itself shall not contain reference to any other agreements, documents or entities, except as provided in paragraph 50.a. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

44. The heading of the letter of credit may include a boxed section containing the name of the applicant and other appropriate notations to provide a reference for the letter of credit. The boxed section shall be clearly marked to indicate that such information is for internal identification purposes only.

45. The letter of credit shall contain a statement to the effect that the obligation of the qualified U.S. financial institution under the letter of credit is in no way contingent upon reimbursement with respect thereto.

46. The term of the letter of credit shall be for at least one year and shall contain an “evergreen clause” that prevents the expiration of the letter of credit without due notice from the issuer. The “evergreen clause” shall provide for a period of no less than thirty (30) days prior to the expiration date or nonrenewal.

47. The letter of credit shall state whether it is subject to and governed by the laws of the ceding insurers state or the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 600) or International Standby Practices of the International Chamber of Commerce Publication 590 (ISP98), or any successor publication, and all drafts drawn thereunder shall be presentable at an office in the United States of a qualified U.S. financial institution.

48. If the letter of credit is made subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce Publication 600 (UCP 600) or International Standby Practices of the International Chamber of Commerce Publication 590 (ISP98), or any successor publication, then the letter of credit shall specifically address and provide for an extension of time to draw against the letter of credit in the event that one or more of the occurrences specified in Article 36 of Publication 600 or any other successor publication, occur.

49. If the letter of credit is issued by a financial institution authorized to issue letters of credit, other than a qualified U.S. financial institution as described in paragraph 43, then the following additional requirements shall be met:

- a. The issuing financial institution shall formally designate the confirming qualified U.S. financial institution as its agent for the receipt and payment of the drafts; and
- b. The “evergreen clause” shall provide for thirty (30) days notice prior to expiration date for nonrenewal.

50. Reinsurance agreement provisions:

- a. The reinsurance agreement in conjunction with which the letter of credit is obtained may contain provisions that:
 - i. Require the assuming insurer to provide letters of credit to the ceding insurer and specify what they are to cover;
 - ii. Stipulate that the assuming insurer and ceding insurer agree that the letter of credit provided by the assuming insurer pursuant to the provisions of the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the agreement, and shall be utilized by the ceding insurer or its successors in interest only for one or more of the following reasons:
 - (a) To pay or reimburse the ceding insurer for:
 - (1) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurers, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of such policies;
 - (2) The assuming insurer's share, under the specific reinsurance agreement, of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurers, under the terms and provisions of the policies reinsured under the reinsurance agreement; and
 - (3) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;
 - (b) Where the letter of credit will expire without renewal or be reduced or replaced by a letter of credit for a reduced amount and where the assuming insurer's entire obligations under the reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of the liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer and exceed the amount of any reduced or replacement letter of credit, and deposit those amounts in a separate account in the name of the ceding insurer in a qualified U.S. financial institution apart from its general assets, in trust for such uses and purposes specified in paragraph 50.a.ii.(a) as may remain after withdrawal and for any period after the termination date.
 - iii. All of the provisions of paragraph 50.a. shall be applied without diminution because of insolvency on the part of the ceding insurer or assuming insurer.
- b. Nothing contained in paragraph 50.a. shall preclude the ceding insurer and assuming insurer from providing for:
 - i. An interest payment, at a rate not in excess of the prime rate of interest, on the amounts held pursuant to paragraph 50.a.ii.; or

- ii. The return of any amounts drawn down on the letters of credit in excess of the actual amounts required for the above or any amounts that are subsequently determined not to be due.

Other Security

51. A ceding insurer may take credit for unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.

52. Credit will not be granted, nor an asset or reduction from liability allowed, to a ceding insurer for reinsurance effected with assuming insurers meeting the requirements of this appendix or otherwise in compliance with this appendix unless the reinsurance agreement:

- a. Includes a proper insolvency clause, which stipulates that reinsurance is payable directly to the liquidator or successor without diminution regardless of the status of the ceding company;
- b. Includes a provision pursuant to Section [cite state law equivalent to Section 2 of the Credit for Reinsurance Model Law] whereby the assuming insurer, if an unauthorized assuming insurer, has submitted to the jurisdiction of an alternative dispute resolution panel or court of competent jurisdiction within the United States, has agreed to comply with all requirements necessary to give the court or panel jurisdiction, has designated an agent upon whom service of process may be effected, and has agreed to abide by the final decision of the court or panel; and
- c. Includes a proper reinsurance intermediary clause, if applicable, which stipulates that the credit risk for the intermediary is carried by the assuming insurer.

Qualified U.S. Financial Institutions

53. For purposes of paragraphs 18, 19.c., 43 and 49, a “qualified U.S. financial institution” means an institution that:

- a. Is organized or (in the case of a U.S. office of a foreign banking organization) licensed, under the laws of the United States or any state thereof;
- b. Is regulated, supervised and examined by U.S. federal or state authorities having regulatory authority over banks and trust companies; and
- c. Has been determined by either the commissioner or the Securities Valuation Office of the National Association of Insurance Commissioners to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner.

54. A “qualified U.S. financial institution” means, for purposes of those provisions of this appendix specifying those institutions that are eligible to act as a fiduciary of a trust, an institution that:

- a. Is organized, or in the case of a U.S. branch or agency office of a foreign banking organization, licensed, under the laws of the United States or any state thereof and has been granted authority to operate with fiduciary powers; and
- b. Is regulated, supervised and examined by federal or state authorities having regulatory authority over banks and trust companies.

Appendix A-791

Life and Health Reinsurance Agreements

Relevant SSAPs:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

SSAP No. 72—Surplus and Quasi-Reorganizations

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act

Relevant NAIC Model Laws/Regulations:

Credit for Reinsurance Model Law (#785)

Accounting Requirements

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

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

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

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

- a. Renewal expense allowances provided or to be provided to the ceding insurer by the reinsurer in any accounting period are not sufficient to cover anticipated allocable renewal expenses of the ceding insurer on the portion of the business reinsured, unless a liability is established for the present value of the shortfall (using assumptions equal to the applicable statutory reserve basis on the business reinsured). Those expenses include commissions, premium taxes and direct expenses including, but not limited to, billing, valuation, claims and maintenance expected by the company at the time the business is reinsured;

Q – What should be included in the renewal expense allowances with regard to direct expenses? An allocation of salaries? Computer usage? Or just marginal expenses directly related to the business reinsured such as claim payment expenses, postage, etc.?

A – The primary purpose of the accounting requirements is to prohibit credit for reinsurance under financial arrangements where the ceding company enters into an agreement for the principal purpose of producing significant surplus aid for the ceding insurer on a temporary basis, while not transferring all of the significant risks inherent in the business being reinsured.

Paragraph 2.a. implements that purpose by prohibiting credit for reinsurance in certain instances where the ceding insurer is afforded a large ceding commission at the inception of the agreement resulting in a significant increase in surplus only to have such surplus increase be drained away in subsequent periods because renewal expense allowances provided under the agreement are insufficient to cover the direct allocable costs estimated at the time the business is reinsured, which are anticipated to be incurred by the ceding insurer in maintaining the business reinsured.

An exception to complete disallowance of credit for reinsurance is allowed in situations where the ceding insurer reflects a liability for the present value of the shortage between renewal expense allowances provided under the agreement and the direct allocable costs expected in the future by the insurer in maintaining the business reinsured. This liability must be calculated using actuarial assumptions that are consistent with those utilized in the statutory reserve calculation. The expenses to be accounted for in establishing this liability should represent all costs of the ceding insurer in servicing the business that is subject to the agreement.

In determining what the ceding insurer should include in the renewal expenses with regard to direct expenses, there should be an allocation of all renewal expenses anticipated at the time the business is reinsured including salaries, computer usage, postage, etc. This comprehensive calculation should recognize that the anticipated expense levels may be estimated; a comparison with pricing assumptions may be considered in determining the reasonableness of such assumptions.

When an agreement does not comply with paragraph 2.a., this area of non-compliance should be addressed by the posting of a reserve for the present value of the deficiency rather than denial for credit for reinsurance, assuming that no other area of non-compliance is encountered with the agreement and that the assets received corresponding to the ceding commission are in compliance with the Codification, including Appendix A-785. For example, the assets received corresponding to the ceding commission must be admissible and not subject to repayment to the reinsurer.

- b. The ceding insurer can be deprived of surplus or assets at the reinsurer's option or automatically upon the occurrence of some event, such as the insolvency of the ceding insurer, except that termination of the reinsurance agreement by the reinsurer for nonpayment of reinsurance premiums or other amounts due, such as modified coinsurance reserve adjustments, interest and adjustments on funds withheld, and tax reimbursements, shall not be considered to be such a deprivation of surplus or assets;

Q – With regard to existing business, should the coinsurance reserve percentage or the coinsurance reserve amount not be allowed to increase in a combination coinsurance/modified coinsurance treaty? How would the rule be applicable to the difference between the total reserve and the amount of funds withheld in a coinsurance with funds withheld treaty?

A – Under a combination coinsurance/modified coinsurance (co/modco) arrangement the ceding company and the reinsurer both establish reserves for future claim payments. Treaty provisions which adjust the reserves each party holds in lieu of transferring funds owed to the reinsurer are acceptable. However, adjustment of reserves in lieu of payment when funds are due to the ceding company is a violation of the

accounting requirements since it is a depletion of the ceding company's assets. In other words, statutory gains can be used to increase the modified coinsurance reserve but statutory losses cannot be used to reduce the modified coinsurance reserve. This is the case even if the agreement provides for this adjustment at inception and never requires a payment to be owed by the reinsurer.

Under a coinsurance with funds withheld treaty the reinsurer establishes the entire amount of reserve liability on its share of reinsured policies, but the ceding company withholds a portion of the reinsurer's assets typically in an amount less than the reserves, to offset future obligations. Provided the withheld assets are not withheld for any purpose other than the payment of future claims, it is not a violation of the accounting requirements for the reinsurer to require full use of such withheld assets for the payment of claims prior to using any other assets owned by the reinsurer.

Paragraph 2.b. disallows reinsurance credit if the ceding company can be deprived of assets at the reinsurer's option or automatically upon the occurrence of some event. Thus, a provision in a coinsurance with funds withheld or modified coinsurance treaty which unilaterally or automatically allows the reinsurer to convert the treaty to coinsurance at some later date would be of concern. Although the parties could have entered a coinsurance agreement at inception, regulators are concerned that the reinsurer would take invested assets from the ceding company at a time which would be to the detriment of the ceding company's policyholders. Therefore, a conversion provision will not violate paragraph 2.b. only if all of the following are met:

- i) the triggers for conversion are limited to ceding company violations of treaty provisions, including complying representations and warranties; the occurrence of a violation has been determined; and the ceding company has been given an opportunity and refuses to promptly remedy the violation;
 - ii) the conversion is structured so that the surplus of the ceding company will remain unchanged immediately following the conversion;
 - iii) the invested assets to be transferred upon conversion are less than or equal to the modco reserve, in the case of modco or co/modco, or to the Funds Withheld, in the case of coinsurance funds withheld, and have been maintained in a Trust or Escrow Account since inception of the agreement; and
 - iv) the reinsurance complies with Credit for Reinsurance requirements (see Appendix A-785) immediately upon conversion.
- c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a “loss carryforward” provision), under what circumstances would any provisions of the reinsurance agreement be considered “unreasonable provisions which allow the reinsurer to reduce its risk under the agreement” thereby violating subsection 2.c.?

A – Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide. So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

- d. The ceding insurer must, at specific points in time scheduled in the agreement, terminate or automatically recapture all or part of the reinsurance ceded;
- e. The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies. For example, it is improper for a ceding company to pay reinsurance premiums, or other fees or charges to a reinsurer which are greater than the direct premiums collected by the ceding company;

Q – Should a reinsurer have a unilateral right to establish underlying cost of insurance rates or credited interest rates for policies which are wholly or partially reinsured?

A – No, only the ceding company has the right to set the cost of insurance rates charged policyholders and to set the rates of interest credited to them. However, a representation (but not a warranty) that the ceding company shall vary nonguaranteed elements reinsured in a manner consistent with the ceding company's documented procedures, in effect at the time the agreement was entered into, does not violate the accounting requirements.

Q – May a reinsurance contract allow the reinsurer to change the cost of insurance that the ceding company must pay under the treaty?

A – So long as the aggregate amounts payable by the ceding company in any settlement period do not exceed the income of the reinsured policies during that period, the treaty's structure would not be in violation of paragraph 2.e. There is not compliance if any changes could cause payments made by the ceding company to exceed income from the reinsured business, unless the change is necessary to conform to the documented procedures represented to the reinsurer at the time the treaty was entered into and as long as the ceding company has the ability to change the insurance rates it charges policyholders by at least as much as was included in the original representation.

Q – If a reinsured policy allows the ceding company to guarantee rates of interest to be credited to the policyholder which are greater than those guaranteed by the policy, may a reinsurance contract allow the reinsurer to limit its participation in such credited rate as long as it at least provides for the amount based on the rate guaranteed in the contract?

A – So long as the aggregate amounts payable by the ceding company in any settlement period do not exceed the income of the reinsured policies during that period, the treaty's structure would not be in violation of paragraph 2.e. There is not compliance if any changes could cause payments made by the

ceding company to exceed income from the reinsured business, unless the limited participation reflects a change in declared interest rates which is necessary to conform to the documented procedures represented to the reinsurer at the time the treaty was entered into and as long as the ceding company has the ability to change the declared interest rates to be credited to policyholders by at least as much as was included in the original representation.

- f. The treaty does not transfer all of the significant risk inherent in the business being reinsured. The following table identifies for a representative sampling of products or type of business, the risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table.

Risk categories:

- i. Morbidity
- ii. Mortality
- iii. Lapse

This is the risk that a policy will voluntarily terminate prior to the recoupment of a statutory surplus strain experienced at issue of the policy.

- iv. Credit Quality

This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

- v. Reinvestment

This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

- vi. Disintermediation

This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

+ - Significant 0 - Insignificant

RISK CATEGORY

	i.	ii.	iii.	iv.	v.	vi.
Health Insurance - other than LTC/LTD*	+	0	+	0	0	0
Health Insurance - LTC/LTD*	+	0	+	+	+	0

Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest Contracts	0	0	0	+	+	+
Other Annuity Deposit Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+
Traditional Non-Par Term	0	+	+	0	0	0
Traditional Par Permanent	0	+	+	+	+	+
Traditional Par Term	0	+	+	0	0	0
Adjustable Premium Permanent	0	+	+	+	+	+
Indeterminate Premium Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium dump-in premiums allowed	0	+	+	+	+	+

*LTC = Long Term Care Insurance

LTD = Long Term Disability Insurance

Q – If a company cedes health insurance business that is subject to a Medical Loss Ratio (MLR), or similar statutorily required refunds / rebates, must the reinsurer participate in the payment of any refunds / rebates?

A – The reinsurer needs to participate in the payment of its share of any statutorily required MLR or similar refund or rebate based on loss ratio calculations to the extent that the experience of the health business reinsured, during the period that it is reinsured, contributes to the calculation of the refund. Although the payment of such a refund based on the experience of business that is currently reinsured could result in a reduction of surplus on the part of the ceding insurer, if the reduction in surplus of the ceding insurer is entirely attributable to the experience prior to the effective date of the reinsurance, then it is outside of the contract requirements. Accordingly, such a provision should not cause a reinsurance agreement to be out of compliance with Appendix A-791 of the Accounting Practices and Procedure Manual. It is recognized that some refund calculations may involve multiple years.

Furthermore, just as an experience refund is not considered in the determination as to whether a reinsurance agreement is proportional, the requirement for the payment of a refund to policyholders based on a Medical Loss Ratio requirement should also not be considered.

Note: This Q&A only applies to refunds related to a statutory MLR or similar refund or rebate requirement for health insurance and should not be applied to any other situation.

- g. i. The credit quality, reinvestment, or disintermediation risk is significant for the business reinsured and the ceding company does not (other than for the classes of business excepted in paragraph g.ii.) either transfer the underlying assets to the reinsurer or legally segregate such assets in a trust or escrow account or otherwise establish a satisfactory mechanism which legally segregates, by contract or contract provision, the underlying assets.

Q – Is asset segmentation an acceptable mechanism for legal segregation of assets?

A – Generally no. Segmentation involves the allocation of a company's general account investment earnings over several lines of business, or various groups of policies within those lines, such that the performance of one corporate bond, for example, may affect the earnings of several segments within a company. The accounting for the segmentation is largely internal, and the detail of the record keeping varies from company to company.

The fundamental purpose of the requirement for a reinsurance treaty to employ the use of a segregated asset portfolio ("SAP") is that all payments (interest, benefits, allowances, etc.) must be made from the SAP, so as to eliminate any problems that could arise in determining what asset or assets should be sold, and to avoid disputes in the event of insolvency. Any sale of assets that could affect policies not subject to reinsurance, or policies subject to reinsurance with other reinsurers is problematic.

In addition, auditing the performance of a treaty using traditional segmentation methods would be extremely difficult and prone to disagreement, which could provide a reinsurer with broad leverage to contest amounts due that reinsurer, especially in the event of insolvency or rehabilitation of the ceding company.

It is important to determine that the arrangement in place does in fact transfer all of the risks of the underlying assets supporting the reinsured business to the reinsurer.

Q – If a percentage of all policies in a block of business is reinsured, must the company segregate that percentage of the assets supporting the business, or can it segregate all the assets?

A – The company may segregate only assets supporting the reinsured portion or the segregated asset portfolio may represent the entire block of business if the reinsured portion is the same for all policies. In the latter case, the reinsurer would take its proportionate share of the SAP performance.

Q – If the ceding company cedes a portion of each policy in a block of business to one reinsurer and a portion to another, while retaining some itself, does it have to segregate assets separately for each reinsurer, or is it acceptable to have all the assets segregated together with each reinsurer responsible for its portion of the investment risk?

A – The ceding company does not need to segregate assets separately for each reinsurer if the treaties are virtually identical.

Q – At the time assets are legally segregated under a coinsurance with funds withheld treaty, should they be valued at market value, statutory value, or some combination?

A – The assets should be valued at their statutory admitted value.

Q – When the assets are legally segregated, how are the funds withheld payables and receivables reported?

A – The payables and receivables are recorded in the same manner as in a funds withheld treaty where the assets are not legally segregated and will usually mirror the value of the funds withheld account. However, the funds withheld account, which reflects the statutory admitted value of the assets in the SAP, will fluctuate, and thus may differ from the reserves on the reinsured business.

- ii. Notwithstanding the requirements of paragraph g.i., the assets supporting the reserves for the following classes of business and any classes of business which do not have a significant credit quality, reinvestment or disintermediation risk may be held by the ceding company without segregation of such assets:

- (a) Health Insurance - LTC/LTD
- (b) Traditional Non-Par Permanent
- (c) Traditional Par Permanent
- (d) Adjustable Premium Permanent
- (e) Indeterminate Premium Permanent
- (f) Universal Life Fixed Premium

(no dump-in premiums allowed)

The associated formula for determining the reserve interest rate adjustment must use a formula which reflects the ceding company's investment earnings and incorporates all realized and unrealized gains and losses reflected in the statutory statement. The following is an acceptable formula:

$$\text{Rate} = \frac{2(I + CG)}{X + Y - I - CG}$$

Where:

- I is the net investment income
- CG is capital gains less capital losses
- X is the current year cash and invested assets plus investment income due and accrued less borrowed money
- Y is the same as X but for the prior year

- h. Settlements are made less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date.
- i. The ceding insurer is required to make representations or warranties not reasonably related to the business being reinsured.
- j. The ceding insurer is required to make representations or warranties about future performance of the business being reinsured.
- k. The reinsurance agreement is entered into for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business reinsured and, in substance or effect, the expected potential liability to the ceding insurer remains basically unchanged.

3. Any increase in surplus net of federal income tax resulting from reinsurance agreements entered into or amended after the effective date of the Codification which involve the reinsurance of business issued prior to the effective date of the agreements shall be identified separately on the insurer's statutory financial statement as a surplus item and recognition of the surplus increase as income shall be reflected on a net of tax basis as earnings emerge from the business reinsured.

{For example, on the last day of calendar year N, company XYZ pays a \$20 million initial commission and expense allowance to company ABC for reinsuring an existing block of business. Assuming a 34% tax rate, the net increase in surplus at inception is \$13.2 million (\$20 million - \$6.8 million) which is reported on the "Aggregate write-ins for gains and losses in surplus" line in the Capital and Surplus account. \$6.8 million (34% of \$20 million) is reported as income on the "Commissions and expense allowances on reinsurance ceded" line of the Summary of Operations.

At the end of year N+1 the business has earned \$4 million. ABC has paid \$.5 million in profit and risk charges in arrears for the year and has received a \$1 million experience refund. Company ABC's annual statement would report \$1.65 million (66% of (\$4 million - \$1 million - \$.5 million) up to a maximum of \$13.2 million) on the "Commissions and expense allowance on reinsurance ceded" line of the Summary of Operations, and -\$1.65 million on the "Aggregate write-ins for gains and losses in surplus" line of the Capital and Surplus account. The experience refund would be reported separately as a miscellaneous income item in the Summary of Operations.}

Written Agreements

4. No reinsurance agreement or amendment to any agreement may be used to reduce any liability or to establish any asset in any financial statement, unless the agreement, amendment or a binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement.

5. In the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded.

6. The reinsurance agreement shall contain provisions which provide that:

- a. The agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement; and
- b. Any change or modification to the agreement shall be null and void unless made by amendment to the agreement and signed by both parties.

Appendix A-812

Smoker/Nonsmoker Mortality Tables for Use in Determining Minimum Reserve Liabilities

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 56—Separate Accounts

SSAP No. 59—Credit Life and Accident and Health Insurance Contracts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Purpose

1. The purpose of this Appendix is to permit the use of mortality tables that reflect differences in mortality between smokers and nonsmokers in determining minimum reserve liabilities for plans of insurance with separate premium rates for smokers and nonsmokers.

Definitions

2. As used in this Appendix, “1980 CSO Table, with or without Ten-Year Select Mortality Factor” means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the Society of Actuaries Committee to Recommend New Mortality Tables for Valuation of Standard Individual Ordinary Life Insurance, referred to as the Commissioners 1980 Standard Ordinary Mortality Table. The same select factors will be used for both smokers and nonsmokers tables.

3. As used in this Appendix, “1980 CET Table” means that mortality table consisting of separate rates of mortality for male and female lives, developed by the Society of Actuaries Committee to Recommend New Mortality Tables for Valuation of Standard Individual Ordinary Life Insurance, and referred to as the Commissioners 1980 Extended Term Insurance Table.

4. As used in this Appendix, the phrase “smoker and nonsmoker mortality tables” refers to the mortality tables with separate rates of mortality for smokers and nonsmokers derived from the tables defined in paragraphs 2-3 which were developed by the Society of Actuaries Task Force on Smoker/Nonsmoker Mortality and the California Insurance Department staff and recommended by the NAIC Technical Staff Actuarial Group.

5. As used in this Appendix, the phrase “composite mortality tables” refers to the mortality tables defined in paragraphs 2-3 as they were originally published with rates of mortality that do not distinguish between smokers and nonsmokers.

Alternate Tables

6. For any policy of insurance delivered or issued for delivery after the effective date of Codification, at the option of the company and subject to the conditions stated in paragraph 7 of this Appendix;

- a. The 1980 CSO Smoker and Nonsmoker Mortality Tables, with or without Ten-Year Select Mortality Factors, may be substituted for the 1980 CSO Table, with or without Ten-Year Select Mortality Factors, and
- b. The 1980 CET Smoker and Nonsmoker Mortality Tables may be substituted for the 1980 CET Table for use in determining minimum reserve liabilities.

Conditions

7. For each plan of insurance with separate rates for smokers and nonsmokers an insurer may
 - a. Use composite mortality tables to determine minimum reserve liabilities,
 - b. Use smoker and nonsmoker mortality tables to determine the valuation net premiums and additional minimum reserves, if any, required by Appendix A-820 and use composite mortality tables to determine the basic minimum reserves, or
 - c. Use smoker and nonsmoker mortality to determine minimum reserve liabilities.

Not for Distribution

Appendix A-815

Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities

Relevant SSAPs:

SSAP No. 51R—Life Contracts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Valuation of Life Insurance Policies Model Regulation (#830)

Purpose

1. The purpose of this regulation is to recognize, permit and prescribe the use of mortality tables that reflect differences in mortality between preferred and standard lives in determining minimum reserve liabilities in accordance with paragraph 3.a.iii. of Appendix A-820 Standard Valuation Law and paragraphs 16 and 17 of Appendix A-830 Valuation of Life Insurance Model Regulation.

2. Definitions

- a. “2001 CSO Mortality Table” means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)* and supplemented by the 2001 CSO Preferred Class Structure Mortality Table defined below in Subsection B. Unless the context indicates otherwise, the “2001 CSO Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables. Mortality tables in the 2001 CSO Mortality Table include the following:
 - i. “2001 CSO Mortality Table (F)” means that mortality table consisting of the rates of mortality for female lives from the 2001 CSO Mortality Table.
 - ii. “2001 CSO Mortality Table (M)” means that mortality table consisting of the rates of mortality for male lives from the 2001 CSO Mortality Table.
 - iii. “Composite mortality tables” means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.
 - iv. “Smoker and nonsmoker mortality tables” means mortality tables with separate rates of mortality for smokers and nonsmokers.
- b. “2001 CSO Preferred Class Structure Mortality Table” means mortality tables with separate rates of mortality for super preferred nonsmokers, preferred nonsmokers, residual standard nonsmokers, preferred smokers, and residual standard smoker splits of the 2001 CSO Nonsmoker and Smoker Tables, as adopted by the NAIC at the September, 2006 national meeting and published in the *NAIC Proceedings {3rd Quarter 2006}*. Unless the context indicates otherwise, the “2001 CSO Preferred Class Structure Mortality Table” includes both the ultimate form of that table and the select and ultimate

form of that table. It includes both the smoker and nonsmoker mortality tables. It includes both the male and female mortality tables and the gender composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality table.

- c. “Statistical agent” means an entity with proven systems for protecting the confidentiality of individual insured and insurer information; demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers, which are its members or subscribers; and a history of and means for aggregation of data and accurate promulgation of the experience modifications in a timely manner.

2001 CSO Preferred Class Structure Table

3. At the election of the company, for each calendar year of issue, for any one or more specified plans of insurance and subject to satisfying the conditions stated in this regulation, the 2001 CSO Preferred Class Structure Mortality Table may be substituted in place of the 2001 CSO Smoker or Nonsmoker Mortality Table as the minimum valuation standard for policies issued on or after January 1, 2007. For policies issued on or after January 1, 2004 (effective date of adoption of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits), and prior to January 1, 2007, these tables may be substituted with the consent of the commissioner and subject to the conditions of paragraph 4. In determining such consent, the commissioner may rely on the consent of the commissioner of the company’s state of domicile. No such election shall be made until the company demonstrates at least 20% of the business to be valued on this table is in one or more of the preferred classes. A table from the 2001 CSO Preferred Class Structure Mortality Table used in place of a 2001 CSO Mortality Table, pursuant to the requirements of this rule, will be treated as part of the 2001 CSO Mortality Table only for purposes of reserve valuation pursuant to the requirements of the NAIC model regulation, “Recognition of the 2001 CSO Mortality Table For Use In Determining Minimum Reserve Liabilities And Nonforfeiture Benefits Model Regulation.”

4. Conditions

- a. For each plan of insurance with separate rates for preferred and standard nonsmoker lives, an insurer may use the super preferred nonsmoker, preferred nonsmoker, and residual standard nonsmoker tables to substitute for the nonsmoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, except for business valued under the residual standard nonsmoker table, the appointed actuary shall certify that:
 - i. The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.
 - ii. The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

- b. For each plan of insurance with separate rates for preferred and standard smoker lives, an insurer may use the preferred smoker and residual standard smoker tables to substitute for the smoker mortality table found in the 2001 CSO Mortality Table to determine minimum reserves. At the time of election and annually thereafter, for business valued under the preferred smoker table, the appointed actuary shall certify that:
 - i. The present value of death benefits over the next ten years after the valuation date, using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table corresponding to the valuation table being used for that class.
 - ii. The present value of death benefits over the future life of the contracts, using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class, is less than the present value of death benefits using the preferred smoker valuation basic table.
- c. Unless exempted by the commissioner, every authorized insurer using the 2001 CSO Preferred Class Structure Table shall annually file with the commissioner, with the NAIC, or with a statistical agent designated by the NAIC and acceptable to the commissioner, statistical reports showing mortality and such other information as the commissioner may deem necessary or expedient for the administration of the provisions of this regulation. The form of the reports shall be established by the commissioner or the commissioner may require the use of a form established by the NAIC or by a statistical agent designated by the NAIC and acceptable to the commissioner.
- d. The use of the 2001 CSO Preferred Class Structure Table for the valuation of policies issued prior to January 1, 2007 shall not be permitted in any statutory financial statement in which a company reports, with respect to any policy or portion of a policy coinsured, either of the following:
 - i. In cases where the mode of payment of the reinsurance premium is less frequent than the mode of payment of the policy premium, a reserve credit that exceeds, by more than the amount specified in this paragraph as Y, the gross reserve calculated before reinsurance. Y is the amount of the gross reinsurance premium that (a) provides coverage for the period from the next policy premium due date to the earlier of the end of the policy year and the next reinsurance premium due date, and (b) would be refunded to the ceding entity upon the termination of the policy.
 - ii. In cases where the mode of payment of the reinsurance premium is more frequent than the mode of payment of the policy premium, a reserve credit that is less than the gross reserve, calculated before reinsurance, by an amount that is less than the amount specified in this paragraph as Z. Z is the amount of the gross reinsurance premium that the ceding entity would need to pay the assuming company to provide reinsurance coverage from the period of the next reinsurance premium due date to the next policy premium due date minus any liability established for the proportionate amount not remitted to the reinsurer.

For purposes of this condition, both the reserve credit and the gross reserve before reinsurance (i) for the mean reserve method shall be defined as the mean reserve minus the deferred premium asset, and (ii) for the mid-terminal reserve method shall include the unearned premium reserve. A company may estimate and adjust its accounting on an

aggregate basis in order to meet the conditions to use the 2001 CSO Preferred Class Structure Table.

Effective Date

5. The effective date of this regulation is after January 1, 2007.

Not for Distribution

Appendix A-817

Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values

Relevant SSAPs:

SSAP No. 51R—Life Contracts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Scope

1. This rule applies to preneed insurance contracts, as defined in paragraph 5 and to similar policies and certificates.

Purpose

2. The purpose of this appendix is to establish for preneed insurance products minimum mortality standards for reserves and nonforfeiture values, and to require the use of the 1980 Commissioners Standard Ordinary (CSO) Life Valuation Mortality Table for use in determining the minimum standard of valuation of reserves and the minimum standard nonforfeiture values for preneed insurance products.

Definitions

3. The term “**2001 CSO Mortality Table**” means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)*. Unless the context indicates otherwise, the “2001 CSO Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.

4. The term “**Ultimate 1980 CSO**” means the Commissioners’ 1980 Standard Ordinary Life Valuation Mortality Tables (1980 CSO) without ten-year (10-year) selection factors, incorporated into the 1980 amendments to the NAIC Standard Valuation Law approved in December 1983.

5. For the purposes of this guidance, preneed insurance is any life insurance policy or certificate that is issued in combination with, in support of, with an assignment to, or as a guarantee for a prearrangement agreement for goods and services to be provided at the time of and immediately following the death of the insured. Goods and services may include, but are not limited to embalming, cremation, body preparation, viewing or visitation, coffin or urn, memorial stone, and transportation of the deceased. The status of the policy or contract as preneed insurance is determined at the time of issue in accordance with the policy form filing.

Minimum Valuation Mortality Standards

6. For preneed insurance contracts, as defined in paragraph 5, and similar policies and contracts, the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds shall be the Ultimate 1980 CSO.

Minimum Valuation Interest Rate Standards

7. The interest rates used in determining the minimum standard for valuation of preneed insurance shall be the calendar year statutory valuation interest rates as defined in *Appendix A-820—Minimum Life and Annuity Reserve Standards*, paragraphs 5-8.

8. The interest rates used in determining the minimum standard for nonforfeiture values for preneed insurance shall be the calendar year statutory nonforfeiture interest rates.

Minimum Valuation Method Standards

9. The method used in determining the standard for the minimum valuation of reserves of preneed insurance shall be the method defined in *Appendix A-820—Minimum Life and Annuity Reserve Standards*, paragraphs 9-11.

Transition Rules

10. For preneed insurance policies issued on or after the effective date of this appendix and before January 1, 2012, the 2001 CSO may be used as the minimum standard for reserves and minimum standard for nonforfeiture benefits for both male and female insureds.

11. If an insurer elects to use the 2001 CSO as a minimum standard for any policy issued on or after the effective date of this appendix and before January 1, 2012, the insurer shall provide, as a part of the actuarial opinion memorandum submitted in support of the company's asset adequacy testing, an annual written notification to the domiciliary commissioner. The notification shall include:

- a. A complete list of all preneed policy forms that use the 2001 CSO as a minimum standard;
- b. A certification signed by the appointed actuary stating that the reserve methodology employed by the company in determining reserves for the preneed policies issued after the effective date and using the 2001 CSO as a minimum standard, develops adequate reserves (For the purposes of this certification, the preneed insurance policies using the 2001 CSO as a minimum standard cannot be aggregated with any other policies.); and
- c. Supporting information regarding the adequacy of reserves for preneed insurance policies issued after the effective date of this guidance and using the 2001 CSO as a minimum standard for reserves.

12. Prenneed insurance policies issued on or after January 1, 2012, must use the Ultimate 1980 CSO in the calculation of minimum nonforfeiture values and minimum reserves.

Effective Date

13. This rule is applicable to preneed insurance policies and certificates and similar contracts and certificates, as specified in paragraph 5, issued on or after January 1, 2011.

Appendix A-818

Determining Reserve Liabilities for Credit Life Insurance Model Regulation

Relevant SSAPs:

SSAP No. 59—Credit Life and Accident and Health Insurance Contracts

Definitions

1. “2001 CSO Mortality Table” means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)*. Unless the context indicates otherwise, the “2001 CSO Mortality Table” includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.
2. “Composite mortality tables” means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.
3. “Credit life insurance” means insurance on a debtor or debtors, pursuant to or in connection with a specific loan or other credit transaction, to provide for satisfaction of a debt, in whole or in part, upon the death of an insured debtor.
4. Credit life insurance does NOT include:
 - a. Insurance written in connection with a credit transaction that is:
 - i. Secured by a first mortgage or deed of trust; and
 - ii. Made to finance the purchase of real property or the construction of a dwelling thereon, or to refinance a prior credit transaction made for such a purpose;
 - b. Insurance sold as an isolated transaction on the part of the insurer and not related to an agreement or a plan for insuring debtors of the creditor.
 - c. Insurance for which no identifiable charge is made to the debtor.
 - d. Insurance on accounts receivable.
5. This rule applies to credit life insurance policies and certificates, and those similar policies and certificates where there is no identifiable charge made to the debtor.

2001 CSO Male Composite Ultimate Mortality Table

6. The minimum standard for both male and female insureds shall be 2001 CSO Male Composite Ultimate Mortality Table.
7. Where the credit life insurance policy or certificate insures two lives, the minimum standard shall be twice the mortality in the 2001 CSO Male Composite Ultimate Mortality Table based on the age of the older insured.

Minimum Standards

8. Appendix A-830 shall not apply to credit life insurance.
9. The interest rates used in determining the minimum standard for valuation shall be the calendar year statutory valuation interest rates as defined in Appendix A-820, paragraphs 7-10.
10. The method used in determining the minimum standard for valuation shall be the commissioners reserve valuation method as defined in Appendix A-820, paragraphs 11-13.

Not for Distribution

Appendix A-820

Minimum Life and Annuity Reserve Standards

Relevant SSAPs:

SSAP No. 35R—Guaranty Fund and Other Assessments

SSAP No. 51R—Life Contracts

SSAP No. 52—Deposit-Type Contracts

SSAP No. 54R—Individual and Group Accident and Health Contracts

SSAP No. 56—Separate Accounts

SSAP No. 59—Credit Life and Accident and Health Insurance Contracts

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

Relevant NAIC Model Laws/Regulations:

Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values Model Regulation (#817)

NAIC Model Rule for Recognizing a New Annuity Mortality Table for Use in Determining Reserve Liabilities for Annuities (#821)

Definitions

1. For the purposes of this Appendix, the following definitions shall apply on or after the operative date of the *Valuation Manual*:

- a. The term “accident and health insurance” means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the *Valuation Manual*.
- b. The term “appointed actuary” means a qualified actuary who is appointed in accordance with the *Valuation Manual* to prepare the actuarial opinion.
- c. The term “company” means an entity, which (a) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in a U.S. State, district or territory and has at least one such policy in force or on claim or (b) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any U.S. State, district or territory and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in a U.S. State, district or territory.
- d. The term “deposit-type contract” means contracts that do not incorporate mortality or morbidity risks and as may be specified in the *Valuation Manual*.
- e. The term “life insurance” means contracts that incorporate mortality risk, including annuity and pure endowment contracts, and as may be specified in the *Valuation Manual*.
- f. The term “NAIC” means the National Association of Insurance Commissioners.
- g. The term “policyholder behavior” means any action a policyholder, contract holder or any other person with the right to elect options, such as a certificate holder, may take under a policy or contract subject to this Appendix including, but not limited to, lapse, withdrawal, transfer, deposit, premium payment, loan, annuitization, or benefit elections prescribed by the policy or contract but excluding events of mortality or morbidity that result in benefits prescribed in their essential aspects by the terms of the policy or contract.

- h. The term “principle-based valuation” means a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer and is required to comply with paragraphs 25-27 of this Appendix as specified in the *Valuation Manual*.
- i. The term “qualified actuary” means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements and who meets the requirements specified in the *Valuation Manual*.
- j. The term “tail risk” means a risk that occurs either where the frequency of low probability events is higher than expected under a normal probability distribution or where there are observed events of very significant size or magnitude.
- k. The term “*Valuation Manual*” means the manual of valuation instructions adopted by the NAIC as specified in this Appendix or as subsequently amended.

Valuation Requirements

- 2. Reserves reported in the financial statements shall:
 - a. Be computed in accordance with presently accepted actuarial standards;
 - b. Be based on actuarial assumptions that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions. The reported reserves and related actuarial items held in support of the policies and contracts when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company’s obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts;
 - c. Be computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end with any exceptions disclosed in the notes to the financial statements; and
 - d. Include provision for all actuarial reserves and related statement items which ought to be established.

Policies and Contracts Issued On or After the Operative Date of the Valuation Manual

- 3. The provisions set forth in paragraphs 23-27 of this Appendix shall apply to all policies and contracts issued on or after the January 1, 2017, operative date of the *Valuation Manual*.

Policies and Contracts Issued Prior to the Operative Date of the Valuation Manual

- 4. The provisions set forth in paragraphs 5-22 of this Appendix shall apply to all policies and contracts, as appropriate, subject to this Appendix prior to the January 1, 2017, operative date of the *Valuation Manual* and the provisions set forth in paragraphs 23-27 of this Appendix shall not apply to any such policies and contracts.

Computation of Minimum Standard for Life Insurance and Endowment Benefits – Policies and Contracts Issued Prior to the Operative Date of the Valuation Manual

5. The minimum standard for the valuation of all life insurance and endowment policies and contracts shall be the commissioners reserve valuation methods defined in paragraphs 11-13, valuation interest rates provided in paragraphs 7-10, and the following tables:

- a. For ordinary policies of life insurance issued on the standard basis on or after January 1, 2004, excluding preneed policies (which follow Appendix A-817) any disability and accidental death benefits in the policies:
 - i. The Commissioners 2001 Standard Ordinary Mortality Table;
 - ii. At the election of the company for any one or more specified plans of life insurance, the Commissioners 2001 Standard Ordinary Mortality Table with 25-Year Select Mortality Factors; or
 - iii. Any ordinary mortality table adopted subsequently by the NAIC for use in determining the minimum standard for valuation for such policies;
- b. For ordinary policies of life insurance issued on the standard basis, prior to January 1, 2004, excluding any disability and accidental death benefits in the policies and including preneed policies issued on or after January 1, 2012 (see A-817):
 - i. The Commissioners 1980 Standard Ordinary Mortality Table;
 - ii. At the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors;
- c. For industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in the policies, the Commissioners 1961 Standard Industrial Mortality Table or any industrial mortality table adopted after 1980 by the NAIC for use in determining the minimum standard of valuation for the policies;
- d. For total and permanent disability benefits in or supplementary to ordinary policies or contracts, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit or any tables of disablement rates and termination rates adopted after 1980 by the NAIC, for use in determining the minimum standard of valuation for those policies. Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies;
- e. For accidental death benefits in or supplementary to policies, the 1959 Accidental Death Benefits Table or any accidental death benefits table adopted after 1980 by the NAIC for use in determining the minimum standard of valuation for those policies. The table shall be combined with a mortality table for calculating the reserves for life insurance policies; and
- f. For group life insurance, life insurance issued on the substandard basis and other special benefits: tables which provide for an adequate reserve.

Computation of Minimum Standard for Annuities

6. The minimum standard of valuation for individual annuity and pure endowment contracts and for annuities and pure endowments purchased under group annuity and pure endowment contracts, shall be the commissioners annuity reserve valuation methods defined in paragraphs 14 and 15, valuation interest rates provided in paragraphs 7-10, and the tables defined in Appendix A-821.

Computation of Minimum Standard Valuation Interest Rates by Calendar Year of Issue - All Business

7. The interest rates used in determining the minimum standard for the valuation of policies issued on or after the effective date of the Codification shall be the calendar year statutory valuation interest rates as defined below:

a. Calendar Year Statutory Valuation Interest Rates

i. The calendar year statutory valuation interest rates, I , shall be determined as follows and the results rounded to the nearer one-quarter of one percent ($1/4$ of 1%):

(a) For life insurance:

$$I = .03 + W(R_1 - .03) + \frac{W}{2}(R_2 - .09);$$

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options:

$$I = .03 + W(R - .03)$$

Where R_1 is the lesser of R and $.09$,

R_2 is the greater of R and $.09$,

R is the reference interest rate defined in paragraph 9,

and W is the weighting factor defined in paragraph 8;

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in subparagraph (b) above, the formula for life insurance stated in subparagraph (a) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten (10) years and the formula for single premium immediate annuities stated in subparagraph (b) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten (10) years or less;

(d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in subparagraph (b) above shall apply.

(e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis,

the formula for single premium immediate annuities stated in subparagraph (b) above shall apply.

- ii. However, if the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than one-half of one percent (1/2 of 1%), the calendar year statutory valuation interest rate for the life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year.

Weighting Factors

8. The weighting factors referred to in the formulas stated above are given in the following tables:

a. Weighting Factors for Life Insurance:

Guarantee Duration (Years)	Weighting Factors
10 or less	.50
More than 10, but not more than 20	.45
More than 20	.35

For life insurance, the guarantee duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or nonforfeiture values or both which are guaranteed in the original policy;

b. Weighting factor for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options:

.80

c. Weighting factors for other annuities and for guaranteed interest contracts, except as stated in subparagraph (b) above, shall be as specified in items i., ii. and iii. below, according to the rules and definitions in items iv., v. and vi. below:

i. For annuities and guaranteed interest contracts valued on an issue year basis:

Guarantee Duration (Years)	Weighting Factor for Plan Type		
	<u>A</u>	<u>B</u>	<u>C</u>
5 or less:	.80	.60	.50
More than 5, but not more than 10:	.75	.60	.50
More than 10, but not more than 20:	.65	.50	.45
More than 20:	.45	.35	.35

		Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
ii.	For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in item i. above increased by:	.15	.25	.05

		Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
iii.	For annuities and guaranteed interest contracts valued on an issue year basis (other than those with no cash settlement options) that do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than twelve (12) months beyond the valuation date, the factors shown in item i. or derived in item ii. increased by:	.05	.05	.05
iv.	For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guarantee duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty (20) years. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the guaranteed duration is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.			

v. Plan type as used in the above tables is defined as follows:

- (a) Plan Type A: At any time policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without an adjustment but installments over five years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted.
- (b) Plan Type B: Before expiration of the interest rate guarantee, policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without an adjustment but in installments over five years or more, or (3) no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without an adjustment in a single sum or installments over less than five years.

- (c) Plan Type C: Policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than five years either (1) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.
- vi. A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis. Guaranteed interest contracts with no cash settlement options and other annuities with no cash settlement options must be valued on an issue year basis. An issue year basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract, and the change in fund basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

Reference Interest Rate

- 9. The reference interest rate referred to in paragraph 7 of this Appendix shall be defined as follows:
 - a. For life insurance, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year preceding the year of issue, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.;
 - b. For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or year of purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.;
 - c. For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in subparagraph (b) above, with guarantee duration in excess of ten (10) years, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.;
 - d. For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in subparagraph (b) above, with guarantee duration of ten (10) years or less, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.;
 - e. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of twelve (12) months, ending

on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.;

- f. For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except as stated in subparagraph b. above, the average over a period of twelve (12) months, ending on June 30 of the calendar year of the change in the fund, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

10. **Alternative Method for Determining Reference Interest Rates** – In the event that the monthly average of the composite yield on seasoned corporate bonds is no longer published by Moody's Investors Service, Inc. or in the event that the NAIC determines that the monthly average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate adopted by the NAIC may be substituted.

Reserve Valuation Method—Life Insurance and Endowment Benefits

11. Except as otherwise provided in this Appendix, reserves according to the commissioners reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of the future guaranteed benefits provided for by those policies, over the then present value of any future modified net premiums therefore. The modified net premiums for a policy shall be the uniform percentage of the respective contract premiums for the benefits such that the present value, at the date of issue of the policy, of all modified net premiums shall be equal to the sum of the then present value of the benefits provided for by the policy and the excess of a. over b., as follows:

- a. A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of the policy.
- b. A net one-year term premium for the benefits provided for in the first policy year.

12. For a life insurance policy for which the contract premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the reserve according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined herein as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium shall, except as otherwise provided in paragraphs 19 and 20, be the greater of the reserve as of the policy anniversary calculated as described in the preceding paragraph and the reserve as of the policy anniversary calculated as described in those paragraphs, but with (i) the value defined in that paragraph being reduced by fifteen percent (15%) of the amount of such excess first year premium, (ii) all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date, (iii) the policy being assumed to mature on that date as an endowment, and (iv) the cash surrender value provided on that date being considered as an endowment benefit. In making the above comparison the mortality stated in paragraph 5 and interest bases stated in paragraphs 7-10 shall be used.

13. Reserves according to the commissioners reserve valuation method shall be calculated by a method consistent with the principles of paragraphs 11 and 12 for:

- a. Life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums;
- b. Group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended;
- c. Disability and accidental death benefits in all policies and contracts; and
- d. All other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts.

Reserve Valuation Method—Annuity and Pure Endowment Benefits

14. Paragraph 15 shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended.

15. Reserves according to the commissioners annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in the contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in the contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of the contracts to determine nonforfeiture values.

Minimum Reserves

16. In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits be less than the aggregate reserves calculated in accordance with the methods set forth in paragraphs 11-15, paragraphs 19-21, and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for the policies.

Optional Reserve Calculation

17. Reserves for any category of policies, contracts or benefits, may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for the category than those calculated according to the minimum standard provided herein, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be greater than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided in the policies or contracts.

18. A company which adopts at any time a standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided herein may, adopt a lower standard of

valuation, but not lower than the minimum provided herein; provided that the holding of additional reserves previously determined by the appointed actuary shall not be deemed to be the adoption of a higher standard of valuation.

Reserve Calculation—Valuation Net Premium Exceeding the Gross Premium Charged

19. If in any contract year the gross premium charged by a company on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. The minimum valuation standards of mortality and rate of interest to be used are those standards stated in paragraph 5 and paragraphs 7-10 of this Appendix.

20. For a life insurance policy for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the provisions of paragraphs 19 and 20 shall be applied as if the method actually used in calculating the reserve for the policy were the method described in paragraph 11. The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with paragraphs 11 and 12 and the minimum reserve calculated in accordance with paragraphs 19 and 20.

Reserve Calculation—Indeterminate Premium Plans

21. In the case of a plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of a plan of life insurance or annuity that is of such a nature that the minimum reserves cannot be determined by the methods described above, the reserves that are held under the plan shall:

- a. Be appropriate in relation to the benefits and the pattern of premiums for that plan; and
- b. Be computed by a method that is consistent with the principles of this Appendix.

Minimum Standard for Accident and Health Insurance Contracts On or After the Operative Date of the Valuation Manual

22. For accident and health insurance contracts issued on or after the operative date of the *Valuation Manual*, the standard prescribed in the *Valuation Manual* is the minimum standard of valuation required under paragraph 3. For [disability, accident and sickness, accident and health] insurance contracts issued on or after January 1, 2017, and prior to the operative date of the *Valuation Manual* the minimum standard of valuation is the standard adopted by the commissioner by regulation.

Valuation Manual for Policies Issued On or After the Operative Date of the Valuation Manual

23. For policies issued on or after the operative date of the *Valuation Manual*, the standard prescribed in the *Valuation Manual* is the minimum standard of valuation required under paragraph 3.

24. The *Valuation Manual* must specify all of the following:
- a. Minimum valuation standards for and definitions of the policies or contracts subject to paragraph 3. Such minimum valuation standards shall be:
 - i. The commissioners reserve valuation method for life insurance contracts, or other than annuity contracts, subject to paragraph 3;
 - ii. The commissioners annuity reserve valuation method for annuity contracts subject to paragraph 3; and
 - iii. Minimum reserves for all other policies or contracts subject to paragraph 3.
 - b. Which policies or contracts or types of policies or contracts that are subject to the requirements of a principle-based valuation in paragraph 25 and the minimum valuation standards consistent with those requirements;
 - c. For policies and contracts subject to a principle-based valuation under paragraphs 25-27:
 - i. Requirements for the format of reports to the commissioner under paragraph 26.c. and which shall include information necessary to determine if the valuation is appropriate and in compliance with this Appendix;
 - ii. Assumptions shall be prescribed for risks over which the company does not have significant control or influence; and
 - iii. Procedures for corporate governance and oversight of the actuarial function, and a process for appropriate waiver or modification of such procedures.
 - d. For policies not subject to a principle-based valuation under paragraph 25-27, the minimum valuation standard shall either:
 - i. Be consistent with the minimum standard of valuation prior to the operative date of the *Valuation Manual*; or
 - ii. Develop reserves that quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring.
 - e. Other requirements, including, but not limited to, those relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosure, certifications, reports, actuarial opinions and memorandums, transition rules and internal controls; and
 - f. The data and form of the data required under paragraph 28, with whom the data must be submitted, and may specify other requirements including data analyses and reporting of analyses.

Requirements of a Principle-Based Valuation

25. A company must establish reserves using a principle-based valuation that meets the following conditions for policies or contracts as specified in the *Valuation Manual*:

- a. Quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the contracts. For policies or contracts with significant tail risk, reflects conditions appropriately adverse to quantify the tail risk.
 - b. Incorporate assumptions, risk analysis methods and financial models and management techniques that are consistent with, but not necessarily identical to, those utilized within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.
 - c. Incorporate assumptions that are derived in one of the following manners:
 - i. The assumption is prescribed in the *Valuation Manual*.
 - ii. For assumptions that are not prescribed, the assumptions shall:
 - (a) Be established utilizing the company's available experience, to the extent it is relevant and statistically credible; or
 - (b) To the extent that company data is not available, relevant, or statistically credible, be established utilizing other relevant, statistically credible experience.
 - d. Provide margins for uncertainty including adverse deviation and estimation error, such that the greater the uncertainty, the larger the margin and resulting reserve.
26. A company using a principle-based valuation for one or more policies or contracts subject to paragraphs 25-27 as specified in the *Valuation Manual* shall:
- a. Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the *Valuation Manual*.
 - b. Provide to the commissioner and the board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. Such controls shall be designed to assure that all material risks inherent in the liabilities and associated assets subject to such valuation are included in the valuation, and that valuations are made in accordance with the *Valuation Manual*. The certification shall be based on the controls in place as of the end of the preceding calendar year.
 - c. Develop, and file with the commissioner upon request, a principle-based valuation report that complies with standards prescribed in the *Valuation Manual*.
27. A principle-based valuation may include a prescribed formulaic reserve component.

Experience Reporting for Policies In Force On or After the Operative Date of the Valuation Manual

28. A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the *Valuation Manual*.

Appendix A-821

Annuity Mortality Table for Use in Determining Reserve Liabilities for Annuities

Relevant SSAPs:

SSAP No. 51R—*Life Contracts*

SSAP No. 56—*Separate Accounts*

Purpose

1. The purpose of this Appendix is to recognize the following mortality tables for use in determining the minimum standard of valuation for annuity and pure endowment contracts: the 1983 Table “a,” the Annuity 2000 Mortality Table, the 2012 Individual Annuity Reserving (2012 IAR) Table and the 1994 Group Annuity Reserving (1994 GAR) Table.

Definitions

2. As used in this Appendix “1983 Table ‘a’” means that mortality table developed by the Society of Actuaries Committee to Recommend a New Mortality Basis for Individual Annuity Valuation and adopted as a recognized mortality table for annuities in June 1982 by the National Association of Insurance Commissioners.

3. As used in this Appendix “1994 GAR Table” means that mortality table developed by the Society of Actuaries Group Annuity Valuation Table Task Force and shown in the *Proceedings of the NAIC*.

4. As used in this Appendix “Annuity 2000 Mortality Table” means that mortality table developed by the Society of Actuaries Committee on Life Insurance Research and shown in the *Proceedings of the NAIC*.

5. As used in this Appendix, “Period table” means a table of mortality rates applicable to a given calendar year (the Period).

6. As used in this Appendix, “Generational mortality table” means a mortality table containing a set of mortality rates that decrease for a given age from one year to the next based on a combination of a Period table and a projection scale containing rates of mortality improvement.

7. As used in this Appendix, “2012 IAR Table” means that Generational mortality table developed by the Society of Actuaries Committee on Life Insurance Research and containing rates, qx_{2012+n} , derived from a combination of the 2012 IAM Period Table and Projection Scale G2, using the methodology stated in paragraphs 13 and 14.

8. As used in this Appendix, “2012 Individual Annuity Mortality Period Life (2012 IAM Period) Table” means the Period table containing loaded mortality rates for calendar year 2012. This table contains rates, qx_{2012} , developed by the Society of Actuaries Committee on Life Insurance Research and is shown in Appendices I and II.

9. As used in this Appendix, “Projection Scale G2 (Scale G2)” is a table of annual rates, $G2_x$, of mortality improvement by age for projecting future mortality rates beyond calendar year 2012. This table was developed by the Society of Actuaries Committee on Life Insurance Research and is shown in Appendices III and IV.

Individual Annuity or Pure Endowment Contracts

10. Except as provided in paragraph 12 of this Appendix, the Annuity 2000 Mortality Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2001, through December 31, 2014.

11. Except as provided in paragraph 12, the 2012 IAR Mortality Table shall be used for determining the minimum standard of valuation for any individual annuity or pure endowment contract issued on or after January 1, 2015.

12. The 1983 Table “a” without projection is to be used for determining the minimum standards of valuation for an individual annuity or pure endowment contract solely when the contract is based on life contingencies and is issued to fund periodic benefits arising from:

- a. Settlements of various forms of claims pertaining to court settlements or out of court settlements from tort actions;
- b. Settlements involving similar actions such as workers’ compensation claims; or
- c. Settlements of long term disability claims where a temporary or life annuity has been used in lieu of continuing disability payments.

Application of the 2012 IAR Mortality Table

13. In using the 2012 IAR Mortality Table, the mortality rate for a person age x in year $(2012 + n)$ is calculated as follows:

$$q_x^{2012+n} = q_x^{2012} (1 - G2_x)^n$$

14. The resulting q_x^{2012+n} shall be rounded to three decimal places per 1,000, e.g., 0.741 deaths per 1,000. Also, the rounding shall occur according to the formula above, starting at the 2012 period table rate. For example, for a male age 30, $q_x^{2012} = 0.741$.

$$q_x^{2013} = 0.741 * (1 - 0.010)^1 = 0.73359, \text{ which is rounded to } 0.734$$

$$q_x^{2014} = 0.741 * (1 - 0.010)^2 = 0.7262541, \text{ which is rounded to } 0.726$$

A method leading to incorrect rounding would be to calculate q_x^{2014} as $q_x^{2013} * (1 - 0.010)$, or $0.734 * 0.99 = 0.727$. It is incorrect to use the already rounded q_x^{2013} to calculate q_x^{2014} .

Group Annuity or Pure Endowment Contracts

15. The 1994 GAR Table shall be used for determining the minimum standard of valuation for any annuity or pure endowment purchased under a group annuity or pure endowment contract.

Application of the 1994 GAR Table

16. In using the 1994 GAR Table, the mortality rate for a person age x in year $(1994 + n)$ is calculated as follows:

$$q_x^{1994+n} = q_x^{1994} (1 - AA_x)^n$$

where the q_x^{1994} and AA_x s are as specified in the 1994 GAR Table.

APPENDIX I

2012 IAM Period Table
Female, Age Nearest Birthday

AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$
0	1.621	30	0.300	60	3.460	90	88.377
1	0.405	31	0.321	61	3.916	91	97.491
2	0.259	32	0.338	62	4.409	92	107.269
3	0.179	33	0.351	63	4.933	93	118.201
4	0.137	34	0.365	64	5.507	94	130.969
5	0.125	35	0.381	65	6.146	95	146.449
6	0.117	36	0.402	66	6.551	96	163.908
7	0.110	37	0.429	67	7.039	97	179.695
8	0.095	38	0.463	68	7.628	98	196.151
9	0.088	39	0.504	69	8.311	99	213.150
10	0.085	40	0.552	70	9.074	100	230.722
11	0.086	41	0.600	71	9.910	101	251.505
12	0.094	42	0.650	72	10.827	102	273.007
13	0.108	43	0.697	73	11.839	103	295.086
14	0.131	44	0.740	74	12.974	104	317.591
15	0.156	45	0.780	75	14.282	105	340.362
16	0.179	46	0.825	76	15.799	106	362.371
17	0.198	47	0.885	77	17.550	107	384.113
18	0.211	48	0.964	78	19.582	108	400.000
19	0.221	49	1.051	79	21.970	109	400.000
20	0.228	50	1.161	80	24.821	110	400.000
21	0.234	51	1.308	81	28.351	111	400.000
22	0.240	52	1.460	82	32.509	112	400.000
23	0.245	53	1.613	83	37.329	113	400.000
24	0.247	54	1.774	84	42.830	114	400.000
25	0.250	55	1.950	85	48.997	115	400.000
26	0.256	56	2.154	86	55.774	116	400.000
27	0.261	57	2.399	87	63.140	117	400.000
28	0.270	58	2.700	88	71.066	118	400.000
29	0.281	59	3.054	89	79.502	119	400.000
						120	1000.000

APPENDIX II

2012 IAM Period Table
Male, Age Nearest Birthday

AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$	AGE	$1000 \cdot q_x^{2012}$
0	1.605	30	0.741	60	5.096	90	109.993
1	0.401	31	0.751	61	5.614	91	123.119
2	0.275	32	0.754	62	6.169	92	137.168
3	0.229	33	0.756	63	6.759	93	152.171
4	0.174	34	0.756	64	7.398	94	168.194
5	0.168	35	0.756	65	8.106	95	185.260
6	0.165	36	0.756	66	8.548	96	197.322
7	0.159	37	0.756	67	9.076	97	214.751
8	0.143	38	0.756	68	9.708	98	232.507
9	0.129	39	0.800	69	10.463	99	250.397
10	0.113	40	0.859	70	11.357	100	268.607
11	0.111	41	0.926	71	12.418	101	290.016
12	0.132	42	0.999	72	13.675	102	311.849
13	0.169	43	1.069	73	15.150	103	333.962
14	0.213	44	1.142	74	16.860	104	356.207
15	0.254	45	1.219	75	18.815	105	380.000
16	0.293	46	1.318	76	21.031	106	400.000
17	0.328	47	1.454	77	23.540	107	400.000
18	0.359	48	1.627	78	26.375	108	400.000
19	0.387	49	1.829	79	29.572	109	400.000
20	0.414	50	2.057	80	33.234	110	400.000
21	0.443	51	2.302	81	37.533	111	400.000
22	0.473	52	2.545	82	42.261	112	400.000
23	0.513	53	2.779	83	47.441	113	400.000
24	0.554	54	3.011	84	53.233	114	400.000
25	0.602	55	3.254	85	59.855	115	400.000
26	0.655	56	3.529	86	67.514	116	400.000
27	0.688	57	3.845	87	76.340	117	400.000
28	0.710	58	4.213	88	86.388	118	400.000
29	0.727	59	4.631	89	97.634	119	400.000
						120	1000.000

APPENDIX III

Projection Scale G2
Female, Age Nearest Birthday

AGE	$G2_x$	AGE	$G2_x$	AGE	$G2_x$	AGE	$G2_x$
0	0.010	30	0.010	60	0.013	90	0.006
1	0.010	31	0.010	61	0.013	91	0.006
2	0.010	32	0.010	62	0.013	92	0.005
3	0.010	33	0.010	63	0.013	93	0.005
4	0.010	34	0.010	64	0.013	94	0.004
5	0.010	35	0.010	65	0.013	95	0.004
6	0.010	36	0.010	66	0.013	96	0.004
7	0.010	37	0.010	67	0.013	97	0.003
8	0.010	38	0.010	68	0.013	98	0.003
9	0.010	39	0.010	69	0.013	99	0.002
10	0.010	40	0.010	70	0.013	100	0.002
11	0.010	41	0.010	71	0.013	101	0.002
12	0.010	42	0.010	72	0.013	102	0.001
13	0.010	43	0.010	73	0.013	103	0.001
14	0.010	44	0.010	74	0.013	104	0.000
15	0.010	45	0.010	75	0.013	105	0.000
16	0.010	46	0.010	76	0.013	106	0.000
17	0.010	47	0.010	77	0.013	107	0.000
18	0.010	48	0.010	78	0.013	108	0.000
19	0.010	49	0.010	79	0.013	109	0.000
20	0.010	50	0.010	80	0.013	110	0.000
21	0.010	51	0.010	81	0.012	111	0.000
22	0.010	52	0.011	82	0.012	112	0.000
23	0.010	53	0.011	83	0.011	113	0.000
24	0.010	54	0.011	84	0.010	114	0.000
25	0.010	55	0.012	85	0.010	115	0.000
26	0.010	56	0.012	86	0.009	116	0.000
27	0.010	57	0.012	87	0.008	117	0.000
28	0.010	58	0.012	88	0.007	118	0.000
29	0.010	59	0.013	89	0.007	119	0.000
						120	0.000

APPENDIX IV

Projection Scale G2
Male, Age Nearest Birthday

AGE	$G2_x$	AGE	$G2_x$	AGE	$G2_x$	AGE	$G2_x$
0	0.010	30	0.010	60	0.015	90	0.007
1	0.010	31	0.010	61	0.015	91	0.007
2	0.010	32	0.010	62	0.015	92	0.006
3	0.010	33	0.010	63	0.015	93	0.005
4	0.010	34	0.010	64	0.015	94	0.005
5	0.010	35	0.010	65	0.015	95	0.004
6	0.010	36	0.010	66	0.015	96	0.004
7	0.010	37	0.010	67	0.015	97	0.003
8	0.010	38	0.010	68	0.015	98	0.003
9	0.010	39	0.010	69	0.015	99	0.002
10	0.010	40	0.010	70	0.015	100	0.002
11	0.010	41	0.010	71	0.015	101	0.002
12	0.010	42	0.010	72	0.015	102	0.001
13	0.010	43	0.010	73	0.015	103	0.001
14	0.010	44	0.010	74	0.015	104	0.000
15	0.010	45	0.010	75	0.015	105	0.000
16	0.010	46	0.010	76	0.015	106	0.000
17	0.010	47	0.010	77	0.015	107	0.000
18	0.010	48	0.010	78	0.015	108	0.000
19	0.010	49	0.010	79	0.015	109	0.000
20	0.010	50	0.010	80	0.015	110	0.000
21	0.010	51	0.011	81	0.014	111	0.000
22	0.010	52	0.011	82	0.013	112	0.000
23	0.010	53	0.012	83	0.013	113	0.000
24	0.010	54	0.012	84	0.012	114	0.000
25	0.010	55	0.013	85	0.011	115	0.000
26	0.010	56	0.013	86	0.010	116	0.000
27	0.010	57	0.014	87	0.009	117	0.000
28	0.010	58	0.014	88	0.009	118	0.000
29	0.010	59	0.015	89	0.008	119	0.000
						120	0.000

Appendix A-822

Asset Adequacy Analysis Requirements

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 52—Deposit-Type Contracts

SSAP No. 54R—Individual and Group Accident and Health Contracts

SSAP No. 56—Separate Accounts

SSAP No. 59—Credit Life and Accident and Health Insurance Contracts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Definitions

1. “Asset adequacy analysis” means an analysis of the adequacy of reserves and related actuarial items, in light of the assets supporting such reserves and related items, to meet the obligations of an insurer.

Asset Adequacy Analysis

2. The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on the assets, and the considerations anticipated to be received and retained under the policies and contracts, shall make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

3. If the company determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held and calculated in accordance with methods set forth in Appendix A-820, the company shall establish the additional reserve.

4. Additional reserves established above and deemed not necessary in subsequent years may be released. The release of such reserves would not be deemed an adoption of a lower standard of valuation.

Appendix A-830

Valuation of Life Insurance Policies (Including the Introduction and Use of New Select Mortality Factors)

Relevant SSAPs:

SSAP No. 51R—Life Contracts

SSAP No. 52—Deposit-Type Contracts

SSAP No. 56—Separate Accounts

Relevant NAIC Model Laws/Regulations:

Standard Valuation Law (#820)

Actuarial Opinion and Memorandum Regulation (#822)

Purpose

1. The purpose of this appendix is to provide:
 - a. Tables of select mortality factors and rules for their use;
 - b. Rules concerning a minimum standard for the valuation of plans with nonlevel premiums or benefits; and
 - c. Rules concerning a minimum standard for the valuation of plans with secondary guarantees.
2. The method for calculating basic reserves defined in this appendix will constitute the Commissioners' Reserve Valuation Method for policies to which this appendix is applicable.

Applicability

3. This appendix shall apply to all life insurance policies, with or without nonforfeiture values, issued on or after the effective date of this appendix, subject to the following exceptions and conditions. Nothing in this section shall be construed to expand the applicability of the Valuation of Life Insurance Policies Model Regulation to include life insurance policies exempted under this section.

- a. Exceptions
 - i. This appendix shall not apply to any individual life insurance policy issued on or after the effective date of this appendix if the policy is issued in accordance with and as a result of the exercise of a reentry provision contained in the original life insurance policy of the same or greater face amount, issued before the effective date of this appendix, that guarantees the premium rates of the new policy. This appendix also shall not apply to subsequent policies issued as a result of the exercise of such a provision, or a derivation of the provision, in the new policy.
 - ii. This appendix shall not apply to any universal life policy that meets all the following requirements:
 - (a) Secondary guarantee period, if any, is five (5) years or less;
 - (b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables as defined in paragraph 9 and the applicable

valuation interest rate. For contracts issued beginning January 1, 2004, the net level reserve premium is based on the ultimate mortality rates in the 2001 CSO Mortality Table; and

- (c) The initial surrender charge is not less than 100 percent of the first year annualized specified premium for the secondary guarantee period.

Drafting Note: Policies with a secondary guarantee are described in paragraph 29.

- iii. This appendix shall not apply to any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.
 - iv. This appendix shall not apply to any variable universal life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.
 - v. This appendix shall not apply to a group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year.
 - vi. This appendix shall not apply to preneed policies, which follow the requirements of A-817.
- b. Conditions
- i. Calculation of the minimum valuation standard for policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits (other than universal life policies), or both, shall be in accordance with the provisions of paragraphs 21-28.
 - ii. Calculation of the minimum valuation standard for flexible premium and fixed premium universal life insurance policies, that contain provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period shall be in accordance with the provisions of paragraphs 29-32.

Definitions

- 4. “Basic reserves” means reserves calculated in accordance with Appendix A-820, paragraphs 11-13.
- 5. “Contract segmentation method” means the method of dividing the period from issue to mandatory expiration of a policy into successive segments, with the length of each segment being defined as the period from the end of the prior segment (from policy inception, for the first segment) to the end of the latest policy year as determined below. For contracts beginning January 1, 2004, all calculations are made using the 2001 CSO Mortality Rate, and, if elected, the optional minimum mortality standard for deficiency reserves stipulated in paragraph 17. (or any other valuation mortality table adopted by the National Association of Insurance Commissioners (NAIC) after the effective date of this appendix for this purpose), and, if elected, the optional minimum mortality standard for deficiency reserves stipulated in paragraph 17 of this appendix. The length of a particular contract segment shall be set equal to the minimum of the value t for which G_t is greater than R_t (if G_t never exceeds R_t the segment length is deemed to be the number of years from the beginning of the segment to the mandatory expiration date of the policy), where G_t and R_t are defined as follows:

Attachment 1

$$G_t = \frac{GP_{x+k+t}}{GP_{x+k+t-1}}$$

where: x = original issue age;

k = the number of years from the date of issue to the beginning of the segment;

t = 1, 2, ...; t is reset to 1 at the beginning of each segment;

$GP_{x+k+t-1}$ = Guaranteed gross premium per thousand of face amount for year t of the segment, ignoring policy fees only if level for the premium paying period of the policy.

$$R_t = \frac{q_{x+k+t}}{q_{x+k+t-1}}$$

However, R_t may be increased or decreased by one percent in any policy year, at the company's option, but R_t shall not be less than one;

where: x , k and t are as defined above, and

The value of " $q_{x+k+t-1}$ " is the valuation mortality rate for deficiency reserves in policy year $k+t$, but using the unmodified select mortality rates if modified select mortality rates are used in the computation of deficiency reserves.

However, if GP_{x+k+t} is greater than 0 and $GP_{x+k+t-1}$ is equal to 0, G_t shall be deemed to be 1000. If GP_{x+k+t} and $GP_{x+k+t-1}$ are both equal to 0, G_t shall be deemed to be 0.

Drafting Note: The purpose of the one percent tolerance in the R factor is to prevent irrational segment lengths due to such things as premium rounding. For example, consider a plan in which gross premiums are designed at some point to be a ratio times the underlying ultimate mortality rates, where the ratio varies by issue age. The resulting segments may be greater than one year, because the guaranteed gross premiums are not expressed in fractional cents. The tolerance factor allows the creation of one year segments for a plan in which premiums parallel the underlying valuation mortality table.

6. "Deficiency reserves" means the excess, if greater than zero, of
 - a. Minimum reserves calculated in accordance with Appendix A-820, paragraphs 19 and 20, over
 - b. Basic reserves.
7. "Guaranteed gross premiums" means the premiums under a policy of life insurance that are guaranteed and determined at issue.
8. "Maximum valuation interest rates" means the interest rates defined in Appendix A-820, paragraphs 7-10 (Computation of Minimum Standard by Calendar Year of Issue – All Business) that are to be used in determining the minimum standard for the valuation of life insurance policies.
9. "1980 CSO valuation tables" means the Commissioners' 1980 Standard Ordinary Mortality Table (1980 CSO Table) without ten-year selection factors, referenced in Appendix A-820, and variations of the 1980 CSO Table approved by the NAIC, such as the smoker and nonsmoker versions approved in

December 1983.

Drafting Note: This appendix defines the 1980 CSO Tables without the existing ten -year select mortality factors to assure that, if select mortality factors are elected, only one set of factors may be applied to the base valuation mortality table.

10. “Scheduled gross premium” means the smallest illustrated gross premium at issue for other than universal life insurance policies. For universal life insurance policies, scheduled gross premium means the smallest specified premium described in paragraph 29.c., if any, or else the minimum premium described in paragraph 29.d.

11. a. “Segmented reserves” means reserves, calculated using segments produced by the contract segmentation method, equal to the present value of all future guaranteed benefits less the present value of all future net premiums to the mandatory expiration of a policy, where the net premiums within each segment are a uniform percentage of the respective guaranteed gross premiums within the segment. The uniform percentage for each segment is such that, at the beginning of the segment, the present value of the net premiums within the segment equals:
- i. The present value of the death benefits within the segment, plus
 - ii. The present value of any unusual guaranteed cash value (see paragraph 24) occurring at the end of the segment, less
 - iii. Any unusual guaranteed cash value occurring at the start of the segment, plus
 - iv. For the first segment only, the excess of the Item (a) over Item (b), as follows:
 - (a) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for in the first segment after the first policy year, divided by the present value, at the date of issue, of an annuity of one per year payable on the first and each subsequent anniversary within the first segment on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan of insurance of the same renewal year equivalent level amount at an age one year higher than the age at issue of the policy.
 - (b) A net one-year term premium for the benefits provided for in the first policy year.
- b. The length of each segment is determined by the “contract segmentation method,” as defined in paragraph 5.
- c. The interest rates used in the present value calculations for any policy may not exceed the maximum valuation interest rate, determined with a guarantee duration equal to the sum of the lengths of all segments of the policy.
- d. For both basic reserves and deficiency reserves computed by the segmented method, present values shall include future benefits and net premiums in the current segment and in all subsequent segments.

Drafting Note: The segmentation requirement should not be limited to plans with no cash surrender values; otherwise companies could avoid segmentation entirely by designing policies with minimal (positive) cash values. Segmentation for plans with cash surrender values should be based solely upon

Attachment 1

gross premium levels. Basing segmentation upon the level of cash surrender values introduces complications because of the inter-relationship between minimum cash surrender values and gross premium patterns. The requirements of this appendix relating to reserves for plans with unusual cash values and to reserves if cash values exceed calculated reserves serve to link required reserves and cash surrender values. The calculation of segmented reserves shall not be linked to the occurrence of a positive unitary terminal reserve at the end of a segment. The requirement of this appendix to hold the greater of the segmented reserve or the unitary reserve eliminates the need for any linkage.

12. “Tabular cost of insurance” means the net single premium at the beginning of a policy year for one-year term insurance in the amount of the guaranteed death benefit in that policy year.

13. “Ten-year select factors” means the select factors referenced in Appendix A-820.

14. a. “Unitary reserves” means the present value of all future guaranteed benefits less the present value of all future modified net premiums, where:

- i. Guaranteed benefits and modified net premiums are considered to the mandatory expiration of the policy; and
- ii. Modified net premiums are a uniform percentage of the respective guaranteed gross premiums, where the uniform percentage is such that, at issue, the present value of the net premiums equals the present value of all death benefits and pure endowments, plus the excess of Item (a) over Item (b), as follows:

(a) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per year payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan of insurance of the same renewal year equivalent level amount at an age one year higher than the age at issue of the policy.

(b) A net one year term premium for the benefits provided for in the first policy year.

- b. The interest rates used in the present value calculations for any policy may not exceed the maximum valuation interest rate, determined with a guarantee duration equal to the length from issue to the mandatory expiration of the policy.

Drafting Note: The purpose of this paragraph is to define as specifically as possible what has become commonly called the unitary method. Appendix A-820 does not define the term “unitary” for policies with nonlevel premiums or benefits; its requirement for reserves “computed by a method that is consistent with the principles of Appendix A-820” has not been uniformly interpreted.

15. “Universal life insurance policy” means any individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality or expense charges are made to the policy.

General Calculation Requirements for Basic Reserves and Premium Deficiency Reserves

16. Prior to January 1, 2004, at the election of the company for any one or more specified plans of life insurance, the minimum mortality standard for basic reserves may be calculated using the 1980 CSO valuation tables with select mortality factors. Effective January 1, 2004, the 2001 CSO Mortality Table is the minimum standard for basic reserves (or any other valuation mortality table adopted by the NAIC after the effective date of the 2001 CSO table for this purpose). Prior to January 1, 2004 if select mortality factors are elected, they may be:

- a. The ten-year select mortality factors referenced in Appendix A-820;
- b. The select mortality factors in Attachment 1 of this appendix; or

Drafting Note: The select mortality factors for duration 1 through 15 in Attachment 1 of this appendix reflect the Society of Actuaries' data for the years 1983 through 1986, split by sex and smoking status, with fifteen years of mortality improvement, based on Society of Actuaries' Projection Scale A applied. A 50% margin was added. The factors were then graded to the 1980 CSO Tables over the next five durations. A 50% margin was deemed appropriate to provide a reasonable margin, with little likelihood that actual experience for significant blocks of business would exceed it.

- c. Any other table of select mortality factors adopted by the NAIC after the effective date of this appendix for the purpose of calculating basic reserves.

17. Deficiency reserves, if any, are calculated for each policy as the excess, if greater than zero, of the quantity A over the basic reserve. The quantity A is obtained by recalculating the basic reserve for the policy using guaranteed gross premiums instead of net premiums when the guaranteed gross premiums are less than the corresponding net premiums. At the election of the company for any one or more specified plans of insurance, the quantity A and prior to January 1, 2004 the corresponding net premiums used in the determination of quantity A may be based upon the 1980 CSO valuation tables with select mortality factors (or any other valuation mortality table adopted by the NAIC after the effective date of this appendix). If select mortality factors are elected, they may be:

- a. The ten-year select mortality factors referenced in Appendix A-820;
- b. The select mortality factors in Attachment 1 of this appendix;

Effective January 1, 2004, the 2001 CSO Mortality Table is the minimum standard for deficiency reserves. If select mortality rates are used, they may be multiplied by X percent for durations in the first segment, subject to the conditions specified in Sections 17c. to iv. (a). In demonstrating compliance with those conditions, the demonstrations may not combine the results of tests that utilize the 1980 CSO Mortality Table with those tests that utilize the 2001 CSO Mortality Table, unless the combination is explicitly required by regulation or necessary to be in compliance with relevant Actuarial Standards of Practice.

Drafting Note: The select mortality factors in Attachment 1 of this appendix do not reflect the underwriting risk classes that have evolved since the period of the underlying experience. In light of this consideration and the recent recognition of the regulatory value of actuarial opinions, this appendix allows actuarial judgment to be used for deficiency reserves.

- c. For durations in the first segment, X percent of the select mortality factors in Attachment 1 of this appendix, subject to the following:
 - i. X may vary by policy year, policy form, underwriting classification, issue age, or any other policy factor expected to affect mortality experience;

Attachment 1

- ii. X is such that, when using the valuation interest rate used for basic reserves, Item (a) is greater than or equal to Item (b);
 - (a) The actuarial present value of future death benefits, calculated using the mortality rates resulting from the application of X;
 - (b) The actuarial present value of future death benefits calculated using anticipated mortality experience without recognition of mortality improvement beyond the valuation date;
- iii. X is such that the mortality rates resulting from the application of X are at least as great as the anticipated mortality experience, without recognition of mortality improvement beyond the valuation date, in each of the first five (5) years after the valuation date;
- iv. The appointed actuary shall increase X at any valuation date where it is necessary to continue to meet all the requirements of paragraph 17.c.;
- v. The appointed actuary may decrease X at any valuation date as long as X continues to meet all the requirements of paragraph 17.c.; and
- vi. The appointed actuary shall specifically take into account the adverse effect on expected mortality and lapsation of any anticipated or actual increase in gross premiums.
 - (a) If X is less than 100 percent at any duration for any policy, the following requirements shall be met:
 - (i) The appointed actuary shall annually prepare an actuarial opinion and memorandum for the company in conformance with the asset adequacy analysis requirements as outlined in Appendix A-822;
 - (ii) The appointed actuary shall disclose, in the Regulatory Asset Adequacy Issues Summary, the impact of the insufficiency of assets to support the payment of benefits and expenses and the establishment of statutory reserves during one or more interim periods; and
 - (iii) The appointed actuary shall annually opine for all policies subject to this appendix as to whether the mortality rates resulting from the application of X meet the requirements of paragraph 17.c. This opinion shall be supported by an actuarial report, subject to appropriate Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. The X factors shall reflect anticipated future mortality, without recognition of mortality improvement beyond the valuation date, taking into account relevant emerging experience.
- d. Any other table of select mortality factors adopted by the NAIC after the effective date of this appendix for the purpose of calculating deficiency reserves.

18. This paragraph applies to both basic reserves and deficiency reserves. Any set of select mortality factors may be used only for the first segment. However, if the first segment is less than ten (10) years, the appropriate ten-year select mortality factors referenced in Appendix A-820 may be used thereafter through the tenth policy year from the date of issue.

Drafting Note: This appendix does not allow the use of select mortality factors beyond the first segment. The rationale is that the result of a premium increase that is sufficient to require a new segment will be increased lapsation, leading to mortality deterioration after the increase. Also, for policies that have reentry provisions, select mortality factors shall not be used in segments beginning after reentry unless a new policy is actually issued. However, this appendix allows the use of the ten-year select mortality factors referenced in Appendix A-820 beyond the first segment (but in no case beyond the tenth policy year) in recognition that the mortality deterioration is unlikely to occur to a significant degree within the first ten (10) years.

19. In determining basic reserves or deficiency reserves, guaranteed gross premiums without policy fees may be used where the calculation involves the guaranteed gross premium but only if the policy fee is a level dollar amount after the first policy year. In determining deficiency reserves, policy fees may be included in guaranteed gross premiums, even if not included in the actual calculation of basic reserves.

20. Reserves for policies that have changes to guaranteed gross premiums, guaranteed benefits, guaranteed charges, or guaranteed credits that are unilaterally made by the insurer after issue and that are effective for more than one year after the date of the change shall be the greatest of the following: (1) reserves calculated ignoring the guarantee, (2) reserves assuming the guarantee was made at issue, and (3) reserves assuming that the policy was issued on the date of the guarantee.

Calculation of Minimum Valuation Standard for Policies with Guaranteed Nonlevel Gross Premiums or Guaranteed Nonlevel Benefits (Other than Universal Life Policies)

21. Basic Reserves

- a. Basic reserves shall be calculated as the greater of the segmented reserves and the unitary reserves. Both the segmented reserves and the unitary reserves for any policy shall use the same valuation mortality table and selection factors. At the option of the insurer, in calculating segmented reserves and net premiums, either of the adjustments described in subparagraph i. or ii. below may be made:
 - i. Treat the unitary reserve, if greater than zero, applicable at the end of each segment as a pure endowment and subtract the unitary reserve, if greater than zero, applicable at the beginning of each segment from the present value of guaranteed life insurance and endowment benefits for each segment.
 - ii. Treat the guaranteed cash surrender value, if greater than zero, applicable at the end of each segment as a pure endowment; and subtract the guaranteed cash surrender value, if greater than zero, applicable at the beginning of each segment from the present value of guaranteed life insurance and endowment benefits for each segment.

22. Deficiency Reserves

- a. The deficiency reserve at any duration shall be calculated:
 - i. On a unitary basis if the corresponding basic reserve determined by paragraph 21 is unitary;

Attachment 1

- ii. On a segmented basis if the corresponding basic reserve determined by paragraph 21 is segmented; or
 - iii. On the segmented basis if the corresponding basic reserve determined by paragraph 21 is equal to both the segmented reserve and the unitary reserve.
 - b. Paragraph 22 shall apply to any policy for which the guaranteed gross premium at any duration is less than the corresponding modified net premium calculated by the method used in determining the basic reserves, but using the minimum valuation standards of mortality (specified in paragraph 17) and rate of interest.
 - c. Deficiency reserves, if any, shall be calculated for each policy as the excess if greater than zero, for the current and all remaining periods, of the quantity A over the basic reserve, where A is obtained as indicated in paragraph 17.
 - d. For deficiency reserves determined on a segmented basis, the quantity A is determined using segment lengths equal to those determined for segmented basic reserves.
23. Minimum Value
- a. Basic reserves may not be less than the tabular cost of insurance for the balance of the policy year, if mean reserves are used. Basic reserves may not be less than the tabular cost of insurance for the balance of the current modal period or to the paid-to-date, if later, but not beyond the next policy anniversary, if mid-terminal reserves are used. The tabular cost of insurance shall use the same valuation mortality table and interest rates as that used for the calculation of the segmented reserves. However, if select mortality factors are used, they shall be the ten-year select factors referenced in Appendix A-820. In no case may total reserves (including basic reserves, deficiency reserves and any reserves held for supplemental benefits that would expire upon contract termination) be less than the amount that the policyowner would receive (including the cash surrender value of the supplemental benefits, if any, referred to above), exclusive of any deduction for policy loans, upon termination of the policy. Effective January 1, 2004, the valuation mortality table used in determining the tabular cost of insurance shall be the ultimate mortality rates in the 2001 CSO Mortality Table.
24. Unusual Pattern of Guaranteed Cash Surrender Values

Drafting Note: This requirement is independent of both the segmentation process and the unitary process. After the greater of the segmented or the unitary reserve has been determined, then this paragraph imposes an additional floor on the ultimate reserve. The purpose of this paragraph is to assure adequate funding of significant increases in guaranteed cash surrender values.

- a. For any policy with an unusual pattern of guaranteed cash surrender values, the reserves actually held prior to the first unusual guaranteed cash surrender value shall not be less than the reserves calculated by treating the first unusual guaranteed cash surrender value as a pure endowment and treating the policy as an n year policy providing term insurance plus a pure endowment equal to the unusual cash surrender value, where n is the number of years from the date of issue to the date the unusual cash surrender value is scheduled.
- b. The reserves actually held subsequent to any unusual guaranteed cash surrender value shall not be less than the reserves calculated by treating the policy as an n year policy providing term insurance plus a pure endowment equal to the next unusual guaranteed

cash surrender value, and treating any unusual guaranteed cash surrender value at the end of the prior segment as a net single premium, where

- i. n is the number of years from the date of the last unusual guaranteed cash surrender value prior to the valuation date to the earlier of:
 - (a) The date of the next unusual guaranteed cash surrender value, if any, that is scheduled after the valuation date; or
 - (b) The mandatory expiration date of the policy; and
- ii. The net premium for a given year during the n year period is equal to the product of the net to gross ratio and the respective gross premium; and
- iii. The net to gross ratio is equal to Item (a) divided by Item (b) as follows:
 - (a) The present value, at the beginning of the n year period, of death benefits payable during the n year period plus the present value, at the beginning of the n year period, of the next unusual guaranteed cash surrender value, if any, minus the amount of the last unusual guaranteed cash surrender value, if any, scheduled at the beginning of the n year period.
 - (b) The present value, at the beginning of the n year period, of the scheduled gross premiums payable during the n year period.
- c. For purposes of this paragraph, a policy is considered to have an unusual pattern of guaranteed cash surrender values if any future guaranteed cash surrender value exceeds the prior year's guaranteed cash surrender value by more than the sum of:
 - i. One hundred ten percent (110%) of the scheduled gross premium for that year;
 - ii. One hundred ten percent (110%) of one year's accrued interest on the sum of the prior year's guaranteed cash surrender value and the scheduled gross premium using the nonforfeiture interest rate used for calculating policy guaranteed cash surrender values; and
 - iii. Five percent (5%) of the first policy year surrender charge, if any.

25. Optional Exemption for Yearly Renewable Term Reinsurance. At the option of the company, the following approach for reserves on YRT reinsurance may be used:

Drafting Note: Traditional reserves for yearly renewable term (YRT) reinsurance, the calculations of which this section describes, are already adequate and sufficient. However, without this option in the appendix, YRT reinsurance would be subject to the more complex segmentation calculations.

- a. Calculate the valuation net premium for each future policy year as the tabular cost of insurance for that future year.
- b. Basic reserves shall never be less than the tabular cost of insurance for the appropriate period, as defined in paragraph 23.
- c. Deficiency reserves.
 - i. For each policy year, calculate the excess, if greater than zero, of the valuation net premium over the respective maximum guaranteed gross premium.

Attachment 1

- ii. Deficiency reserves shall never be less than the sum of the present values, at the date of valuation, of the excesses determined in accordance with subparagraph i. above.
- d. Prior to January 1, 2004, for purposes of this paragraph, the calculations use the maximum valuation interest rate and the 1980 CSO mortality tables with or without ten-year select mortality factors, or any other table adopted after the effective date of this appendix by the NAIC for this purpose. Effective January 1, 2004, the calculations specified in this paragraph (25) shall use the ultimate mortality rates in the 2001 CSO Mortality Table.
- e. A reinsurance agreement shall be considered YRT reinsurance for purposes of this paragraph if only the mortality risk is reinsured.
- f. If the assuming company chooses this optional exemption, the ceding company's reinsurance reserve credit shall be limited to the amount of reserve held by the assuming company for the affected policies.

26. Optional Exemption for Attained-Age-Based Yearly Renewable Term Life Insurance Policies. At the option of the company, the following approach for reserves for attained-age-based YRT life insurance policies may be used:

Drafting Note: Traditional reserves for attained-age-based YRT policies, the calculations of which this subsection describes, are already adequate and sufficient. However, without this option in the appendix, these policies would be subject to the more complex segmentation calculations.

- a. Calculate the valuation net premium for each future policy year as the tabular cost of insurance for that future year.
- b. Basic reserves shall never be less than the tabular cost of insurance for the appropriate period, as defined in paragraph 23.
- c. Deficiency reserves.
 - i. For each policy year, calculate the excess, if greater than zero, of the valuation net premium over the respective maximum guaranteed gross premium.
 - ii. Deficiency reserves shall never be less than the sum of the present values, at the date of valuation, of the excesses determined in accordance with subparagraph i. above.
- d. Prior to January 1, 2004, for purposes of this paragraph, the calculations use the maximum valuation interest rate and the 1980 CSO valuation tables with or without ten-year select mortality factors, or any other table adopted after the effective date of this appendix by the NAIC for this purpose. Effective January 1, 2004, the calculations specified in this paragraph shall use the ultimate mortality rates in the 2001 CSO Mortality Table.
- e. A policy shall be considered an attained-age-based YRT life insurance policy for purposes of this subsection if:
 - i. The premium rates (on both the initial current premium scale and the guaranteed maximum premium scale) are based upon the attained age of the insured such

that the rate for any given policy at a given attained age of the insured is independent of the year the policy was issued; and

- ii. The premium rates (on both the initial current premium scale and the guaranteed maximum premium scale) are the same as the premium rates for policies covering all insureds of the same sex, risk class, plan of insurance and attained age.
- f. For policies that become attained-age-based YRT policies after an initial period of coverage, the approach of this subsection may be used after the initial period if:
 - i. The initial period is constant for all insureds of the same sex, risk class and plan of insurance; or
 - ii. The initial period runs to a common attained age for all insureds of the same sex, risk class and plan of insurance; and
 - iii. After the initial period of coverage, the policy meets the conditions of paragraph 26.e. above.
- g. If this election is made, this approach shall be applied in determining reserves for all attained-age-based YRT life insurance policies issued on or after the effective date of this appendix.

27. Exemption from Unitary Reserves for Certain n -Year Renewable Term Life Insurance Policies. Unitary basic reserves and unitary deficiency reserves need not be calculated for a policy if the following conditions are met:

Drafting Note: Without this exemption, companies issuing certain n -year renewable term policies could be forced to hold reserves higher than n -year term reserves, even though in many cases gross premiums are well above valuation mortality rates.

- a. The policy consists of a series of n -year periods, including the first period and all renewal periods, where n is the same for each period, except that for the final renewal period, n may be truncated or extended to reach the expiry age, provided that this final renewal period is less than 10 years and less than twice the size of the earlier n -year periods, and for each period, the premium rates on both the initial current premium scale and the guaranteed maximum premium scale are level;
- b. Prior to January 1, 2004, the guaranteed gross premiums in all n -year periods are not less than the corresponding net premiums based upon the 1980 CSO Table with or without the ten-year select mortality factors. Effective January 1, 2004, the calculations specified in this paragraph shall use the ultimate mortality rates in the 2001 CSO Mortality Table; and
- c. There are no cash surrender values in any policy year.

28. Exemption from Unitary Reserves for Certain Juvenile Policies. Unitary basic reserves and unitary deficiency reserves need not be calculated for a policy if the following conditions are met, based upon the initial current premium scale at issue:

- a. At issue, the insured is age twenty-four (24) or younger;
- b. Until the insured reaches the end of the juvenile period, which shall occur at or before age twenty-five (25), the gross premiums and death benefits are level, and there are no cash surrender values; and

Attachment 1

- c. After the end of the juvenile period, gross premiums are level for the remainder of the premium paying period, and death benefits are level for the remainder of the life of the policy.

Drafting Note: The jumping juvenile policy described has traditionally been valued in two segments. This exemption will allow that practice to continue without requiring the calculation of reserves on a unitary basis. However, within each segment, both basic and deficiency reserves shall comply with the segmented reserve requirements.

Calculation of Minimum Valuation Standard for Flexible Premium and Fixed Premium Universal Life Insurance Policies That Contain Provisions Resulting in the Ability of a Policyowner to Keep a Policy in Force Over a Secondary Guarantee Period

29. General

- a. Policies with a secondary guarantee include:
 - i. A policy with a guarantee that the policy will remain in force at the original schedule of benefits, subject only to the payment of specified premiums;
 - ii. Prior to January 1, 2004 a policy in which the minimum premium at any duration is less than the corresponding one year valuation premium, calculated using the maximum valuation interest rate and the 1980 CSO valuation tables with or without ten-year select mortality factors, or any other table adopted after the effective date of this appendix by the NAIC for this purpose. Effective January 1, 2004, the one-year valuation premium shall be calculated using the ultimate mortality rates in the 2001 CSO Mortality Table; or
 - iii. A policy with any combination of subparagraph i. and ii.

Drafting Note: Universal life and variable universal life policies with secondary guarantees that meet the requirements of paragraph 3.a.ii. are not subject to this appendix.

- b. A secondary guarantee period is the period for which the policy is guaranteed to remain in force subject only to a secondary guarantee. When a policy contains more than one secondary guarantee, the minimum reserve shall be the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees. Secondary guarantees that are unilaterally changed by the insurer after issue shall be considered to have been made at issue. Reserves described in paragraphs 30 and 31 below shall be recalculated from issue to reflect these changes.
- c. Specified premiums mean the premiums specified in the policy, the payment of which guarantees that the policy will remain in force at the original schedule of benefits, but which otherwise would be insufficient to keep the policy in force in the absence of the guarantee if maximum mortality and expense charges and minimum interest credits were made and any applicable surrender charges were assessed.
- d. For purposes of this paragraph, the minimum premium for any policy year is the premium that, when paid into a policy with a zero account value at the beginning of the policy year, produces a zero account value at the end of the policy year. The minimum premium calculation shall use the policy cost factors (including mortality charges, loads and expense charges) and the interest crediting rate, which are all guaranteed at issue.

- e. The one-year valuation premium means the net one-year premium based upon the original schedule of benefits for a given policy year. The one-year valuation premiums for all policy years are calculated at issue. The select mortality factors defined in paragraphs 17.b., 17.c. and 17.d. may not be used to calculate the one-year valuation premiums.
- f. The one-year valuation premium should reflect the frequency of fund processing, as well as the distribution of deaths assumption employed in the calculation of the monthly mortality charges to the fund.

30. Basic Reserves for the Secondary Guarantees. Basic reserves for the secondary guarantees shall be the segmented reserves for the secondary guarantee period. In calculating the segments and the segmented reserves, the gross premiums shall be set equal to the specified premiums, if any, or otherwise to the minimum premiums, that keep the policy in force and the segments will be determined according to the contract segmentation method as defined in paragraph 5.

31. Deficiency Reserves for the Secondary Guarantees. Deficiency reserves, if any, for the secondary guarantees shall be calculated for the secondary guarantee period in the same manner as described in paragraph 22 with gross premiums set equal to the specified premiums, if any, or otherwise to the minimum premiums that keep the policy in force.

32. Minimum Reserves. The minimum reserves during the secondary guarantee period are the greater of:

- a. The basic reserves for the secondary guarantee plus the deficiency reserve, if any, for the secondary guarantees; or
- b. The minimum reserves required by other appendices governing universal life plans.

Attachment 1**Attachment 1****SELECT MORTALITY FACTORS**

This Attachment contains tables of select mortality factors that are the bases to which the respective percentage of paragraphs 16.b., 17.b. and 17.c. are applied.

The six tables of select mortality factors contained herein include: (1) male aggregate, (2) male nonsmoker, (3) male smoker, (4) female aggregate, (5) female nonsmoker, and (6) female smoker.

These tables apply to both age last birthday and age nearest birthday mortality tables.

For sex-blended mortality tables, compute select mortality factors in the same proportion as the underlying mortality. For example, for the 1980 CSO-B Table, the calculated select mortality factors are eighty percent (80%) of the appropriate male table in this Attachment, plus twenty percent (20%) of the appropriate female table in this Attachment.

Not for Distribution

Attachment 1

SELECT MORTALITY FACTORS

Issue Age	Male, Aggregate Duration																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
0-15	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
16	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
17	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
18	96	98	98	99	99	100	100	90	92	92	92	92	93	93	96	97	98	98	99	100
19	83	84	84	87	87	87	79	79	79	81	81	82	82	82	85	88	91	94	97	100
20	69	71	71	74	74	69	69	67	69	70	71	71	71	71	74	79	84	90	95	100
21	66	68	69	71	66	66	67	66	67	70	70	70	70	71	71	77	83	88	94	100
22	65	66	66	63	63	64	64	64	65	68	68	68	68	69	71	77	83	88	94	100
23	62	63	59	60	62	62	63	63	64	65	65	67	67	69	70	76	82	88	94	100
24	60	56	56	59	59	60	61	61	61	64	64	64	66	67	70	76	82	88	94	100
25	52	53	55	56	58	58	60	60	60	63	62	63	64	67	69	75	81	88	94	100
26	51	52	55	56	58	58	57	61	61	62	63	64	66	69	66	73	80	86	93	100
27	51	52	55	57	58	60	61	61	60	63	63	64	67	66	67	74	80	87	93	100
28	49	51	56	58	60	60	61	62	62	63	64	66	65	66	68	74	81	87	94	100
29	49	51	56	58	60	61	62	62	62	64	64	62	66	67	70	76	82	88	94	100
30	49	50	56	58	60	60	62	63	63	64	62	63	67	68	71	77	83	88	94	100
31	47	50	56	58	60	62	63	64	64	62	63	66	68	70	72	78	83	89	94	100
32	46	49	56	59	60	62	63	66	62	63	66	67	70	72	73	78	84	89	95	100
33	43	49	56	59	62	63	64	62	65	66	67	70	72	73	75	80	85	90	95	100
34	42	47	56	60	62	63	61	63	66	67	70	71	73	75	76	81	86	90	95	100
35	40	47	56	60	63	61	62	65	67	68	71	73	74	76	76	81	86	90	95	100
36	38	42	56	60	59	61	63	65	67	68	70	72	74	76	77	82	86	91	95	100
37	38	45	56	57	61	62	63	65	67	68	70	72	74	76	76	81	86	90	95	100
38	37	44	53	58	61	62	65	66	67	69	69	73	75	76	77	82	86	91	95	100
39	37	41	53	58	62	63	65	65	66	68	69	72	74	76	76	81	86	90	95	100
40	34	40	53	58	62	63	65	65	66	68	68	71	75	76	77	82	86	91	95	100
41	34	41	53	58	62	63	65	64	64	66	68	70	74	76	77	82	86	91	95	100
42	34	43	53	58	61	62	63	63	63	64	66	69	72	75	77	82	86	91	95	100
43	34	43	54	59	60	61	63	62	62	64	66	67	72	74	77	82	86	91	95	100
44	34	44	54	58	59	60	61	60	61	62	64	67	71	74	77	82	86	91	95	100
45	34	45	53	58	59	60	60	60	59	60	63	66	71	74	77	82	86	91	95	100
46	31	43	52	56	57	58	59	59	59	60	63	67	71	74	75	80	85	90	95	100
47	32	42	50	53	55	56	57	58	59	60	65	68	71	74	75	80	85	90	95	100
48	32	41	47	52	54	56	57	57	57	61	65	68	72	73	74	79	84	90	95	100
49	30	40	46	49	52	54	55	56	57	61	66	69	72	73	74	79	84	90	95	100
50	30	38	44	47	51	53	54	56	57	61	66	71	72	73	75	80	85	90	95	100
51	28	37	42	46	49	53	54	56	57	61	66	71	72	73	75	80	85	90	95	100
52	28	35	41	45	49	51	54	56	57	61	66	71	72	74	75	80	85	90	100	100
53	27	35	39	44	48	51	53	55	57	61	67	71	74	75	76	81	86	100	100	100
54	27	33	38	44	48	50	53	55	57	61	67	72	74	75	76	81	100	100	100	100
55	25	32	37	43	47	50	53	55	57	61	68	72	74	75	78	100	100	100	100	100

Attachment 1

Issue		Male, Aggregate Duration																			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
Age																					
56		25	32	37	43	47	49	51	54	56	61	67	70	73	74	100	100	100	100	100	
57		24	31	38	43	47	49	51	54	56	59	66	69	72	100	100	100	100	100	100	
58		24	31	38	43	48	48	50	53	56	59	64	67	100	100	100	100	100	100	100	
59		23	30	39	43	48	48	51	53	55	58	63	100	100	100	100	100	100	100	100	
60		23	30	39	43	48	47	50	52	53	57	100	100	100	100	100	100	100	100	100	
61		23	30	39	43	49	49	50	52	53	75	100	100	100	100	100	100	100	100	100	
62		23	30	39	44	49	49	51	52	75	75	100	100	100	100	100	100	100	100	100	
63		22	30	39	45	50	50	52	75	75	75	100	100	100	100	100	100	100	100	100	
64		22	30	39	45	50	51	75	75	75	75	100	100	100	100	100	100	100	100	100	
65		22	30	39	45	50	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
66		22	30	39	45	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
67		22	30	39	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
68		23	32	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
69		23	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
70		48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
71		48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
72		48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
73		48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
74		48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
75		48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	
76		48	52	55	60	60	65	70	70	70	100	100	100	100	100	100	100	100	100	100	
77		48	52	55	60	60	65	70	70	100	100	100	100	100	100	100	100	100	100	100	
78		48	52	55	60	60	65	70	100	100	100	100	100	100	100	100	100	100	100	100	
79		48	52	55	60	60	65	100	100	100	100	100	100	100	100	100	100	100	100	100	
80		48	52	55	60	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
81		48	52	55	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
82		48	52	55	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
83		48	52	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
84		48	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
85+		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	

Attachment 1

Issue	Male, Non-Smoker																			
	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
0-15	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
16	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
17	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
18	93	95	96	98	99	100	100	90	92	92	92	92	95	95	96	97	98	98	99	100
19	80	81	83	86	87	87	79	79	79	81	81	82	83	83	86	89	92	94	97	100
20	65	68	69	72	74	69	69	67	69	70	71	71	72	72	75	80	85	90	95	100
21	63	66	68	71	66	66	67	66	67	70	70	70	71	71	73	78	84	89	95	100
22	62	65	66	62	63	64	64	64	67	68	68	68	70	70	73	78	84	89	95	100
23	60	62	58	60	62	62	63	63	64	67	68	68	67	69	71	77	83	88	94	100
24	59	55	56	58	59	60	61	61	63	65	67	66	66	69	71	77	83	88	94	100
25	52	53	55	56	58	58	60	60	61	64	64	64	64	67	70	76	82	88	94	100
26	51	53	55	56	58	60	61	61	61	63	64	64	66	69	67	74	80	87	93	100
27	51	52	55	58	60	60	61	61	62	63	64	66	67	66	67	74	80	87	93	100
28	49	52	57	58	60	61	63	62	62	64	66	66	63	66	68	74	81	87	94	100
29	49	51	57	60	61	61	62	62	63	64	66	63	65	67	68	74	81	87	94	100
30	49	51	57	60	61	62	63	63	63	64	62	63	66	68	70	76	82	88	94	100
31	47	50	57	60	60	62	63	64	64	62	63	65	67	70	71	77	83	88	94	100
32	46	50	57	60	62	63	64	64	62	63	65	66	68	71	72	78	83	89	94	100
33	45	49	56	60	62	63	64	62	63	65	66	68	71	73	74	79	84	90	95	100
34	43	48	56	62	63	64	62	62	65	66	67	70	72	74	74	79	84	90	95	100
35	41	47	56	62	63	61	62	63	66	67	68	70	72	74	75	80	85	90	95	100
36	40	47	56	62	59	61	62	63	66	67	68	70	72	74	75	80	85	90	95	100
37	38	45	56	58	59	61	62	63	66	67	67	69	71	73	74	79	84	90	95	100
38	38	45	53	58	61	62	63	65	65	67	68	70	72	74	73	78	84	89	95	100
39	37	41	53	58	61	62	63	64	65	67	68	70	71	73	73	78	84	89	95	100
40	34	41	53	58	61	62	63	64	64	66	67	69	71	73	72	78	83	89	94	100
41	34	41	53	58	61	61	62	62	63	65	65	67	69	71	71	77	83	88	94	100
42	34	43	53	58	60	61	62	61	61	63	64	66	67	69	71	77	83	88	94	100
43	32	43	53	58	60	61	60	60	60	60	62	64	66	68	69	75	81	88	94	100
44	32	44	52	57	59	60	60	59	59	58	60	62	65	67	69	75	81	88	94	100
45	32	44	52	57	59	60	59	57	57	57	59	61	63	66	68	74	81	87	94	100
46	32	42	50	54	56	57	57	56	55	56	59	61	63	65	67	74	80	87	93	100
47	30	40	48	52	54	55	55	54	54	55	59	61	62	63	66	73	80	86	93	100
48	30	40	46	49	51	52	53	53	54	55	57	61	62	63	63	70	78	85	93	100
49	29	39	43	48	50	51	50	51	53	54	57	61	61	62	62	70	77	85	92	100
50	29	37	42	45	47	48	49	50	51	54	57	61	61	61	61	69	77	84	92	100
51	27	35	40	43	45	47	48	50	51	53	57	60	61	61	62	70	77	85	92	100
52	27	34	39	42	44	45	48	49	50	53	56	60	60	62	62	70	77	85	100	100
53	25	31	37	41	44	45	47	49	50	51	56	59	61	61	62	70	77	100	100	100
54	25	30	36	39	43	44	47	48	49	51	55	59	59	61	62	70	100	100	100	100
55	24	29	35	38	42	43	45	48	49	50	56	58	59	61	62	100	100	100	100	100

Attachment 1

Issue	Male, Non-Smoker																			
	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
56	23	29	35	38	42	42	44	47	48	50	55	57	58	59	100	100	100	100	100	100
57	23	28	35	38	42	42	43	45	47	49	53	55	56	100	100	100	100	100	100	100
58	22	28	33	37	41	41	43	45	45	47	51	53	100	100	100	100	100	100	100	100
59	22	26	33	37	41	41	42	44	44	46	50	100	100	100	100	100	100	100	100	100
60	20	26	33	37	41	40	41	42	42	45	100	100	100	100	100	100	100	100	100	100
61	20	26	33	37	41	40	41	42	42	75	100	100	100	100	100	100	100	100	100	100
62	19	25	32	38	40	40	41	42	75	75	100	100	100	100	100	100	100	100	100	100
63	19	25	33	36	40	40	41	75	75	75	100	100	100	100	100	100	100	100	100	100
64	18	24	32	36	39	40	75	75	75	75	100	100	100	100	100	100	100	100	100	100
65	18	24	32	36	39	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
66	18	24	32	36	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
67	18	24	32	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
68	18	24	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
69	18	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
70	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
71	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
72	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
73	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
74	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
75	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
76	48	52	55	60	60	65	70	70	70	100	100	100	100	100	100	100	100	100	100	100
77	48	52	55	60	60	65	70	70	100	100	100	100	100	100	100	100	100	100	100	100
78	48	52	55	60	60	65	70	100	100	100	100	100	100	100	100	100	100	100	100	100
79	48	52	55	60	60	65	100	100	100	100	100	100	100	100	100	100	100	100	100	100
80	48	52	55	60	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
81	48	52	55	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
82	48	52	55	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
83	48	52	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
84	48	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
85+	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Attachment 1

Issue	Male, Smoker																			
	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
0-15	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
16	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
17	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
18	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
19	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
20	98	100	100	100	100	100	100	99	99	99	100	99	99	99	100	100	100	100	100	100
21	95	98	99	100	95	96	96	95	96	97	97	96	96	96	96	97	98	98	99	100
22	92	95	96	90	90	93	93	92	93	95	95	93	93	92	93	94	96	97	99	100
23	90	92	85	88	88	89	89	89	90	90	90	90	89	90	92	94	95	97	98	100
24	87	81	82	85	84	86	88	86	86	88	88	86	86	88	89	91	93	96	98	100
25	77	78	79	82	81	83	83	82	83	85	84	84	84	85	86	89	92	94	97	100
26	75	77	79	82	82	83	83	82	83	84	84	84	84	85	81	85	89	92	96	100
27	73	75	78	82	82	83	83	82	82	82	82	84	84	80	81	85	89	92	96	100
28	71	73	79	82	81	82	83	81	81	82	82	82	80	80	81	85	89	92	96	100
29	69	72	78	81	81	82	82	81	81	81	81	77	80	80	81	85	89	92	96	100
30	68	71	78	81	81	81	82	81	81	81	76	77	80	80	81	85	89	92	96	100
31	65	70	77	81	79	81	82	81	81	76	77	79	81	81	83	86	90	93	97	100
32	63	67	77	78	79	81	81	81	76	77	77	80	83	83	85	88	91	94	97	100
33	60	65	74	78	79	79	81	76	77	77	79	80	83	85	85	88	91	94	97	100
34	57	62	74	77	79	79	75	76	77	79	79	81	83	85	87	90	92	95	97	100
35	53	60	73	77	79	75	75	76	77	79	80	82	84	86	88	90	93	95	98	100
36	52	59	71	75	74	75	75	76	77	79	79	81	83	85	87	90	92	95	97	100
37	49	58	70	71	74	74	75	76	77	78	79	81	84	86	86	89	92	94	97	100
38	48	55	66	70	72	74	74	75	76	78	79	81	83	85	87	90	92	95	97	100
39	45	50	65	70	72	72	74	74	75	77	79	81	84	86	86	89	92	94	97	100
40	41	49	63	68	71	72	73	74	74	76	78	80	83	85	86	89	92	94	97	100
41	40	49	63	68	71	72	72	72	73	75	76	78	81	84	85	88	91	94	97	100
42	40	49	62	68	70	71	71	71	71	73	75	76	81	83	85	88	91	94	97	100
43	39	50	62	67	69	69	70	70	70	71	73	76	79	83	85	88	91	94	97	100
44	39	50	60	66	68	69	68	69	69	69	71	74	79	81	85	88	91	94	97	100
45	37	50	60	66	68	68	68	67	67	67	69	73	78	81	85	88	91	94	97	100
46	37	48	58	63	65	67	66	66	66	67	71	74	78	81	84	87	90	94	97	100
47	36	47	55	61	63	64	64	64	65	67	71	75	79	81	84	87	90	94	97	100
48	35	46	53	58	60	62	63	63	65	67	72	75	79	81	83	86	90	93	97	100
49	34	45	51	56	58	59	61	62	63	67	72	77	80	81	83	86	90	93	97	100
50	34	43	49	53	55	57	60	61	63	67	73	78	80	81	81	85	89	92	96	100
51	32	42	47	52	55	57	60	61	63	67	73	78	80	83	84	87	90	94	97	100
52	32	40	46	50	54	56	60	61	63	67	73	78	81	84	85	88	91	94	100	100
53	30	37	44	49	54	56	59	61	65	67	74	79	83	85	87	90	92	100	100	100
54	30	36	43	48	53	55	59	61	65	67	74	80	84	85	89	91	100	100	100	100
55	29	35	42	47	53	55	59	61	65	67	75	80	84	86	90	100	100	100	100	100

Attachment 1

Issue	Male, Smoker																			
	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
56	28	35	42	47	53	55	57	60	63	68	74	79	83	85	100	100	100	100	100	100
57	28	35	42	47	53	54	57	60	64	67	74	78	81	100	100	100	100	100	100	100
58	26	33	43	48	54	54	56	59	63	67	73	78	100	100	100	100	100	100	100	100
59	26	33	43	48	54	53	57	59	63	66	73	100	100	100	100	100	100	100	100	100
60	25	33	43	48	54	53	56	58	62	66	100	100	100	100	100	100	100	100	100	100
61	25	33	43	49	55	55	57	59	63	75	100	100	100	100	100	100	100	100	100	100
62	25	33	43	50	56	56	58	61	75	75	100	100	100	100	100	100	100	100	100	100
63	24	33	45	51	56	56	59	75	75	75	100	100	100	100	100	100	100	100	100	100
64	24	34	45	51	57	57	75	75	75	75	100	100	100	100	100	100	100	100	100	100
65	24	34	45	52	57	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
66	24	35	45	53	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
67	25	35	45	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
68	25	36	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
69	27	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
70	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
71	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
72	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
73	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
74	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
75	48	52	55	60	60	65	70	70	70	70	100	100	100	100	100	100	100	100	100	100
76	48	52	55	60	60	65	70	70	70	100	100	100	100	100	100	100	100	100	100	100
77	48	52	55	60	60	65	70	70	100	100	100	100	100	100	100	100	100	100	100	100
78	48	52	55	60	60	65	70	100	100	100	100	100	100	100	100	100	100	100	100	100
79	48	52	55	60	60	65	100	100	100	100	100	100	100	100	100	100	100	100	100	100
80	48	52	55	60	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
81	48	52	55	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
82	48	52	55	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
83	48	52	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
84	48	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
85+	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Attachment 1

	Female, Aggregate																			
Issue	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
0-15	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
16	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
17	99	100	100	100	100	100	100	100	93	95	96	97	97	100	100	100	100	100	100	100
18	83	83	84	84	84	84	86	78	78	79	82	84	85	88	88	90	93	95	98	100
19	65	66	68	68	68	68	63	63	64	66	69	71	72	74	75	80	85	90	95	100
20	48	50	51	51	51	47	48	48	49	51	56	57	58	61	63	70	78	85	93	100
21	47	48	50	51	47	47	48	49	51	53	57	60	61	64	64	71	78	86	93	100
22	44	47	48	45	47	47	48	49	53	54	60	61	63	64	66	73	80	86	93	100
23	42	45	44	45	47	47	49	51	53	54	61	64	64	67	69	75	81	88	94	100
24	39	40	42	44	47	47	50	51	54	56	64	64	66	69	70	76	82	88	94	100
25	34	38	41	44	47	47	50	53	56	57	64	67	69	71	73	78	84	89	95	100
26	34	38	41	45	49	49	51	56	58	59	66	69	70	73	70	76	82	88	94	100
27	34	38	41	47	50	51	54	57	59	60	69	70	73	70	71	77	83	88	94	100
28	34	37	43	47	53	53	56	59	62	63	70	73	70	72	74	79	84	90	95	100
29	34	38	43	49	54	56	58	60	63	64	73	70	72	74	75	80	85	90	95	100
30	35	38	43	50	56	56	59	63	66	67	70	71	74	75	76	81	86	90	95	100
31	35	38	43	51	56	58	60	64	67	65	71	72	74	75	76	81	86	90	95	100
32	35	39	45	51	56	59	63	66	65	66	72	72	75	76	76	81	86	90	95	100
33	36	39	44	52	58	62	64	65	66	67	72	74	75	76	76	81	86	90	95	100
34	36	40	45	52	58	63	63	66	67	68	74	74	76	76	76	81	86	90	95	100
35	36	40	45	53	59	61	65	67	68	70	75	74	75	76	75	80	85	90	95	100
36	36	40	45	53	55	62	65	67	68	70	74	74	74	75	75	80	85	90	95	100
37	36	41	47	52	57	62	65	67	68	69	72	72	73	75	74	79	84	90	95	100
38	34	41	44	52	57	63	66	68	69	70	72	71	72	74	75	80	85	90	95	100
39	34	40	45	53	58	63	66	68	69	69	70	70	70	73	74	79	84	90	95	100
40	32	40	45	53	58	65	65	67	68	69	70	69	70	73	73	78	84	89	95	100
41	32	40	45	53	57	63	64	67	68	68	69	69	69	73	74	79	84	90	95	100
42	32	40	45	52	56	61	63	65	66	68	69	68	70	74	75	80	85	90	95	100
43	31	39	45	51	55	59	61	65	65	66	68	69	69	74	77	82	86	91	95	100
44	31	39	45	50	54	58	61	63	64	66	67	68	71	75	78	82	87	91	96	100
45	31	38	44	49	53	56	59	62	63	65	67	68	71	77	79	83	87	92	96	100
46	29	37	43	48	51	54	59	62	63	65	67	69	71	77	78	82	87	91	96	100
47	28	35	41	46	49	54	57	61	62	66	68	69	71	77	77	82	86	91	95	100
48	28	35	41	44	49	52	57	61	63	66	68	71	72	75	77	82	86	91	95	100
49	26	34	39	43	47	52	55	61	63	67	69	71	72	75	75	80	85	90	95	100
50	25	32	38	41	46	50	55	61	63	67	69	72	72	75	74	79	84	90	95	100
51	25	32	38	41	45	50	55	61	63	66	68	69	71	74	74	79	84	90	95	100
52	23	30	36	41	45	51	56	61	62	65	66	68	68	73	73	78	84	89	100	100
53	23	30	36	41	47	51	56	61	62	63	65	66	68	72	72	78	83	100	100	100
54	22	29	35	41	47	53	57	61	61	62	62	66	66	69	70	76	100	100	100	100
55	22	29	35	41	47	53	57	61	61	61	62	63	64	68	69	100	100	100	100	100

Attachment 1

Issue	Female, Aggregate Duration																			
	Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
56	22	29	35	41	45	51	56	59	60	61	62	63	64	67	100	100	100	100	100	100
57	22	29	35	41	45	50	54	56	58	59	61	62	63	100	100	100	100	100	100	100
58	22	30	36	41	44	49	53	56	57	57	61	62	100	100	100	100	100	100	100	100
59	22	30	36	41	44	48	51	53	55	56	59	100	100	100	100	100	100	100	100	100
60	22	30	36	41	43	47	50	51	53	55	100	100	100	100	100	100	100	100	100	100
61	22	29	35	39	42	46	49	50	52	80	100	100	100	100	100	100	100	100	100	100
62	20	28	33	39	41	45	47	49	80	80	100	100	100	100	100	100	100	100	100	100
63	20	28	33	38	41	44	46	80	80	80	100	100	100	100	100	100	100	100	100	100
64	19	27	32	36	40	42	80	80	80	80	100	100	100	100	100	100	100	100	100	100
65	19	25	30	35	39	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
66	19	25	30	35	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
67	19	25	30	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
68	19	25	68	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
69	19	64	68	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
70	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
71	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
72	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
73	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
74	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
75	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
76	60	60	64	68	68	72	75	75	80	100	100	100	100	100	100	100	100	100	100	100
77	60	60	64	68	68	72	75	75	100	100	100	100	100	100	100	100	100	100	100	100
78	60	60	64	68	68	72	75	100	100	100	100	100	100	100	100	100	100	100	100	100
79	60	60	64	68	68	72	100	100	100	100	100	100	100	100	100	100	100	100	100	100
80	60	60	64	68	68	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
81	60	60	64	68	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
82	60	60	64	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
83	60	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
84	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
85+	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Attachment 1

Issue	Female, Non-Smoker																			
	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
0-15	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
16	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
17	96	98	98	98	98	99	99	99	92	92	93	95	95	97	99	99	99	100	100	100
18	78	80	80	80	80	81	81	74	75	75	78	79	82	83	85	88	91	94	97	100
19	60	62	63	63	63	65	59	59	60	60	64	67	67	70	72	78	83	89	94	100
20	42	44	45	45	45	42	42	42	45	45	50	51	53	56	58	66	75	83	92	100
21	41	42	44	45	41	42	42	44	47	47	51	53	54	57	59	67	75	84	92	100
22	39	41	44	41	41	42	44	45	49	49	54	56	57	58	60	68	76	84	92	100
23	38	41	38	40	41	42	44	46	49	50	56	57	58	60	62	70	77	85	92	100
24	36	36	38	40	41	42	46	47	50	51	58	59	60	62	63	70	78	85	93	100
25	32	34	37	40	41	43	46	49	51	53	59	60	62	63	64	71	78	86	93	100
26	32	34	37	41	43	45	47	50	53	53	60	62	63	64	62	70	77	85	92	100
27	32	34	38	43	46	47	49	51	53	55	62	63	64	62	62	70	77	85	92	100
28	30	34	39	43	47	49	51	53	56	58	63	63	61	62	63	70	78	85	93	100
29	30	35	40	45	50	51	52	55	58	59	64	61	62	63	63	70	78	85	93	100
30	31	35	40	46	51	52	53	56	59	60	62	62	63	65	65	72	79	86	93	100
31	31	35	40	46	51	53	55	58	60	58	62	62	63	65	65	72	79	86	93	100
32	32	35	40	45	51	53	56	59	57	58	62	63	63	65	64	71	78	86	93	100
33	32	36	41	47	52	55	58	55	58	59	63	63	65	65	65	72	79	86	93	100
34	33	36	41	47	52	55	55	57	58	59	63	65	64	65	64	71	78	86	93	100
35	33	36	41	47	52	53	57	58	59	61	63	64	64	64	64	71	78	86	93	100
36	33	36	41	47	49	53	57	58	59	61	63	64	63	64	63	70	78	85	93	100
37	32	36	41	44	49	53	57	58	59	60	62	62	61	62	63	70	78	85	93	100
38	32	37	39	45	50	54	57	58	60	60	61	61	61	62	61	69	77	84	92	100
39	30	35	39	45	50	54	57	58	60	59	60	60	59	60	61	69	77	84	92	100
40	28	35	39	45	50	54	56	57	59	59	60	59	59	59	60	68	76	84	92	100
41	28	35	39	45	49	52	55	55	58	57	58	59	58	59	60	68	76	84	92	100
42	27	35	39	44	49	52	54	55	56	57	57	57	58	60	61	69	77	84	92	100
43	27	34	39	44	47	50	53	53	55	55	56	57	56	60	61	69	77	84	92	100
44	26	34	38	42	47	50	52	53	54	55	55	55	56	61	62	70	77	85	92	100
45	26	33	38	42	45	48	51	51	52	53	54	55	56	61	62	70	77	85	92	100
46	24	32	37	40	43	47	49	51	52	53	54	55	56	60	61	69	77	84	92	100
47	24	30	35	39	42	45	47	49	51	53	54	55	56	59	60	68	76	84	92	100
48	23	30	35	37	40	44	47	49	50	53	54	55	55	59	57	66	74	83	91	100
49	23	29	33	35	39	42	45	48	50	53	54	55	55	57	56	65	74	82	91	100
50	21	27	32	34	37	41	44	48	50	53	54	55	55	56	55	64	73	82	91	100
51	21	26	30	34	37	41	44	48	49	51	53	53	54	55	55	64	73	82	91	100
52	20	25	30	33	37	41	44	47	48	50	50	51	51	55	53	62	72	81	100	100
53	19	24	29	32	37	41	43	47	48	48	49	49	51	52	52	62	71	100	100	100
54	18	24	29	32	37	41	43	45	47	47	47	49	49	51	51	61	100	100	100	100
55	18	23	28	32	37	41	43	45	45	45	46	46	47	50	50	100	100	100	100	100

Attachment 1

		Female, Non-Smoker																			
Issue		Duration																			
Age		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
56		18	23	28	32	36	39	42	44	44	45	46	46	46	49	100	100	100	100	100	100
57		18	23	28	31	35	38	41	42	44	44	45	45	46	100	100	100	100	100	100	100
58		17	23	26	31	35	36	38	41	41	42	45	45	100	100	100	100	100	100	100	100
59		17	23	26	30	33	35	38	39	40	41	44	100	100	100	100	100	100	100	100	100
60		17	23	26	30	32	34	36	38	39	40	100	100	100	100	100	100	100	100	100	100
61		17	22	25	29	32	33	35	36	38	80	100	100	100	100	100	100	100	100	100	100
62		16	22	25	28	30	32	34	35	80	80	100	100	100	100	100	100	100	100	100	100
63		16	20	24	28	30	32	34	80	80	80	100	100	100	100	100	100	100	100	100	100
64		14	21	24	27	29	30	80	80	80	80	100	100	100	100	100	100	100	100	100	100
65		15	19	23	25	28	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
66		15	19	23	25	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
67		15	19	22	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
68		13	18	68	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
69		13	64	68	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
70		60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
71		60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
72		60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
73		60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
74		60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
75		60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100
76		60	60	64	68	68	72	75	75	80	100	100	100	100	100	100	100	100	100	100	100
77		60	60	64	68	68	72	75	75	100	100	100	100	100	100	100	100	100	100	100	100
78		60	60	64	68	68	72	75	100	100	100	100	100	100	100	100	100	100	100	100	100
79		60	60	64	68	68	72	100	100	100	100	100	100	100	100	100	100	100	100	100	100
80		60	60	64	68	68	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
81		60	60	64	68	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
82		60	60	64	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
83		60	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
84		60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
85+		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Attachment 1

Issue	Female, Smoker																			
	Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+
0-15	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
16	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
17	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
18	99	100	100	100	100	100	100	95	96	97	100	100	100	100	100	100	100	100	100	100
19	87	89	92	92	92	92	84	84	86	86	92	93	95	96	99	99	99	100	100	100
20	74	77	80	80	80	73	73	73	75	77	83	83	86	88	90	92	94	96	98	100
21	71	74	78	78	71	71	73	74	77	79	85	86	88	89	90	92	94	96	98	100
22	68	71	75	70	71	71	73	74	78	79	88	90	89	89	92	94	95	97	98	100
23	65	69	67	70	70	70	73	77	79	81	89	90	90	92	92	94	95	97	98	100
24	62	60	64	69	70	70	74	77	79	81	92	90	92	93	93	94	96	97	99	100
25	53	58	63	67	69	70	74	78	81	82	92	93	93	95	95	96	97	98	99	100
26	53	58	63	69	71	72	75	79	82	82	93	93	95	96	90	92	94	96	98	100
27	52	56	63	70	74	74	78	81	82	84	93	95	95	90	90	92	94	96	98	100
28	52	56	64	71	75	77	79	82	85	86	95	95	90	92	92	94	95	97	98	100
29	51	56	64	71	78	78	81	84	86	88	95	90	90	92	92	94	95	97	98	100
30	51	56	64	72	79	79	82	85	88	89	90	90	92	93	93	94	96	97	99	100
31	51	56	64	72	78	81	84	84	88	84	90	90	92	93	93	94	96	97	99	100
32	51	56	64	71	78	81	85	86	84	85	90	90	92	94	93	94	96	97	99	100
33	51	57	62	71	78	82	85	83	84	85	90	92	93	93	93	94	96	97	99	100
34	51	56	62	71	78	82	81	83	85	86	90	92	92	94	93	94	96	97	99	100
35	51	56	62	71	78	79	83	84	85	86	90	91	91	93	93	94	96	97	99	100
36	49	56	62	71	74	79	83	84	85	86	90	90	91	93	92	94	95	97	98	100
37	48	55	62	67	74	79	83	84	85	86	89	90	89	92	91	93	95	96	98	100
38	47	55	57	66	72	77	81	84	86	86	87	88	88	90	91	93	95	96	98	100
39	45	50	57	66	72	77	81	83	85	86	86	87	86	89	90	92	94	96	98	100
40	41	50	57	66	72	77	81	83	84	85	86	86	86	89	89	91	93	96	98	100
41	40	50	57	65	71	76	79	81	83	84	85	86	85	89	90	92	94	96	98	100
42	40	49	57	65	69	74	77	80	82	83	84	85	86	90	92	94	95	97	98	100
43	39	49	55	63	69	73	76	78	80	82	83	84	85	92	93	94	96	97	99	100
44	39	48	55	62	67	71	75	78	80	80	82	84	86	93	96	97	98	98	99	100
45	37	47	55	61	65	70	73	76	78	80	81	84	86	94	97	98	98	99	99	100
46	36	46	53	59	63	68	71	75	77	79	83	85	86	93	96	97	98	98	99	100
47	34	44	51	57	62	66	70	75	77	80	83	85	86	93	94	95	96	98	99	100
48	34	44	50	54	60	64	69	74	77	80	84	86	87	92	92	94	95	97	98	100
49	33	42	48	53	58	63	68	74	77	81	84	86	87	92	91	93	95	96	98	100
50	31	41	46	51	57	61	67	74	77	81	85	87	87	91	90	92	94	96	98	100
51	30	39	45	51	56	61	67	74	75	80	83	85	85	90	90	92	94	96	98	100
52	29	38	45	50	56	62	68	74	75	79	81	83	84	90	90	92	94	96	100	100
53	28	37	43	49	57	62	68	73	74	77	79	81	83	89	89	91	93	100	100	100
54	28	36	43	49	57	63	69	73	74	75	78	80	81	87	89	91	100	100	100	100
55	26	35	42	49	57	63	69	73	73	74	76	78	79	86	87	100	100	100	100	100

Attachment 1

Issue		Female, Smoker																			
		Duration																			
Age	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20+	
56	26	35	42	49	56	62	67	71	72	74	76	78	79	85	100	100	100	100	100	100	
57	26	35	42	49	55	61	66	69	72	73	76	78	79	100	100	100	100	100	100	100	
58	28	36	43	49	55	59	63	68	69	72	76	78	100	100	100	100	100	100	100	100	
59	28	36	43	49	54	57	63	67	68	70	76	100	100	100	100	100	100	100	100	100	
60	28	36	43	49	53	57	61	64	67	69	100	100	100	100	100	100	100	100	100	100	
61	26	35	42	48	52	56	59	63	66	80	100	100	100	100	100	100	100	100	100	100	
62	26	33	41	47	51	55	58	62	80	80	100	100	100	100	100	100	100	100	100	100	
63	25	33	41	46	51	55	57	80	80	80	100	100	100	100	100	100	100	100	100	100	
64	25	33	40	45	50	53	80	80	80	80	100	100	100	100	100	100	100	100	100	100	
65	24	32	39	44	49	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
66	24	32	39	44	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
67	24	32	39	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
68	24	32	68	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
69	24	64	68	72	72	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
70	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
71	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
72	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
73	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
74	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
75	60	60	64	68	68	72	75	75	80	80	100	100	100	100	100	100	100	100	100	100	
76	60	60	64	68	68	72	75	75	80	100	100	100	100	100	100	100	100	100	100	100	
77	60	60	64	68	68	72	75	75	100	100	100	100	100	100	100	100	100	100	100	100	
78	60	60	64	68	68	72	75	100	100	100	100	100	100	100	100	100	100	100	100	100	
79	60	60	64	68	68	72	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
80	60	60	64	68	68	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
81	60	60	64	68	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
82	60	60	64	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
83	60	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
84	60	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
85+	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	

Appendix B

Interpretations of Statutory Accounting Principles

Introduction

Appendix B includes the final interpretations (INTs) of statutory accounting principles (SAPs) through December 2023. Reporting entities should note that interpretations are generally effective when finalized; therefore, the *Accounting Practices and Procedures Manual* (Manual) may not include every interpretation currently in effect due to the fact that it is published annually. As revisions are adopted, updates to the interpretations are tracked in the subsequent version of the Manual.

Historical

EITF Review/Rejected EITF Tracking

Beginning January 1, 1999, the Emerging Accounting Issues (E) Working Group (EAIWG) began addressing the Emerging Issues Task Force (EITF) opinions issued subsequent to 1996. In 2009, the EAIWG reached a consensus to incorporate rejected and non-applicable FASB EITFs that do not provide additional statutory accounting guidance in a listing within a designated interpretation. This interpretation (INT 99-00) included reference to all FASB EITFs, including those previously included in Appendix B as a statutory accounting interpretation, that were 1) rejected as not applicable to statutory accounting; 2) rejected without providing additional statutory guidance; or 3) rejected on the basis of issues rejected in a statement of statutory accounting principles (SSAP). In 2014, the Statutory Accounting Principles (E) Working Group (SAPWG) adopted a proposal to move all references to rejected GAAP material from INT 99-00 into *Issue Paper No. 99—Nonapplicable GAAP Pronouncements*. In 2015, Issue Paper No. 99 was moved to *Appendix D, Nonapplicable GAAP Pronouncements*.

Superseded SSAPs and Nullified INTs

In 2013, the SAPWG adopted a proposal to remove *Appendix H, Superseded SSAPs and Nullified Interpretations* from the Manual. Currently, these items are posted for public reference on the Statutory Accounting Principles (E) Working Group web page at https://content.naic.org/cmte_e_app_sapwg.htm.

Development Responsibilities

In 2015, the EAIWG was disbanded and its duties were absorbed by the SAPWG. The SAPWG is responsible for developing interpretations to address issues requiring interpretation, application or clarification of existing SAP.

TABLE OF CONTENTS

Interpretations of the Emerging Accounting Issues (E) Working Group and Statutory Accounting Principles (E) Working Group

No.	Title	Page
INT 00-03	Illustration of the Accounting/Reporting of Deposit-Type Contracts in Accordance with SSAP Nos. 51R, 52 and 56.....	00-03-1
INT 00-20	Application of SEC SAB No. 99, Materiality to the Preamble of the AP&P Manual.....	00-20-1
INT 00-24	EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses.....	00-24-1
INT 00-26	EITF 98-3: Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business	00-26-1
INT 00-28	EITF 99-12: Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination.....	00-28-1
INT 01-18	Consolidated or Legal Entity Level – Limitations on EDP Equipment, Goodwill and Deferred Tax Assets Admissibility.....	01-18-1
INT 01-25	Accounting for U.S. Treasury Inflation-Indexed Securities	01-25-1
INT 01-31	Assets Pledged as Collateral	01-31-1
INT 02-22	Accounting for the U.S. Terrorism Risk Insurance Program	02-22-1
INT 03-02	Modification to an Existing Intercompany Pooling Arrangement	03-02-1
INT 04-17	Impact of Medicare Modernization Act on Postretirement Benefits	04-17-1
INT 04-21	EITF 02-09: Accounting for Changes that Result in a Transferor Regaining Control of Financial Assets Sold.....	04-21-1
INT 05-05	Accounting for Revenues Under Medicare Part D Coverage	05-05-1
INT 06-02	Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)	06-02-1
INT 06-07	Definition of Phrase "Other Than Temporary".....	06-07-1
INT 06-12	Tax Deposits Submitted in Accordance with Section 6603 of the Internal Revenue Service (IRS) Code.....	06-12-1
INT 06-13	EITF 01-2: Interpretations of APB Opinion No. 29	06-13-1
INT 07-01	Application of the Scientific (constant yield) Method in Situations of Reverse Amortization.....	07-01-1
INT 08-05	EITF 02-11: Accounting for Reverse Spinoffs	08-05-1
INT 15-01	ACA Risk Corridors Collectibility	15-01-1
INT 18-03	Additional Elements Under the Tax Cuts and Jobs Act	18-03-1
INT 19-02	Freddie Mac Single Security Initiative	19-02-1
INT 20-01	ASUs 2020-04 & 2021-01 – Reference Rate Reform	20-01-1
INT 20-06	Participation in the 2020 TALF Program	20-06-1
INT 20-09	Basis Swaps as a Result of the LIBOR Transition	20-09-1
INT 21-01	Accounting for Cryptocurrencies.....	21-01-1
INT 22-01	Freddie Mac When-Issued K-Deal (WI Trust) Certificates.....	22-01-1
INT 22-02	Third Quarter 2022 Through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax.....	22-02-1
INT 23-01	Net Negative (Disallowed) Interest Maintenance Reserve	23-01-1
INT 23-03	Inflation Reduction Act – Corporate Alternative Minimum Tax	23-03-1
INT 23-04	Scottish Re Life Reinsurance Liquidation Questions	23-04-1

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 00-03: Illustration of the Accounting/Reporting of Deposit-Type Contracts in Accordance with SSAP Nos. 51R, 52 and 56

INT 00-03 Dates Discussed

December 6, 1999; March 13, 2000

INT 00-03 References

Current:

SSAP No. 51R—Life Contracts

SSAP No. 52—Deposit-Type Contracts

SSAP No. 56—Separate Accounts

INT 00-03 Issue

1. Deposit-type contracts, as defined in SSAP No. 52 may be maintained in the general account or transferred to the separate account of an insurance company. During the process of preparing Blanks proposals to conform the reporting requirements to the SSAPs, the Impact of Codification on NAIC Publications Working Group noted an inconsistency in the reporting of deposit-type contracts between SSAP No. 52 and SSAP No. 56. At the 1999 NAIC Fall National Meeting, SSAP No. 56 was amended to clarify that the requirements of SSAP No. 52 are applicable to separate account deposit-type contracts.

2. Exhibit A is included as an illustration of accounting/reporting of separate account deposit-type contracts in accordance with SSAP Nos. 51, 52 and 56. Is this illustration consistent with the intent of the Codification of Statutory Accounting Principles (E) Working Group?

INT 00-03 Discussion

3. The Working Group reached a consensus that Exhibit A is consistent with the intent of the SSAPs.

INT 00-03 Status

4. No further discussion is planned.

**Illustrative Example of the Accounting/Reporting of Deposit-Type Contracts in
Accordance with SSAPs 51R/52**

NOTE: Entries presented in this illustration may not reflect all accounting entries associated with the activity, e.g., some “due from” or “due to” entries are eliminated to simplify the example.

- Contractholder surrendered an ordinary life insurance policy and elected to place the proceeds (\$100,000) under a supplementary contract without life contingencies (SCWOLC).

General Account Statement

a.	Surrender Benefits & Withdrawals	\$100,000	
	Liability for Deposit –Type Contracts		\$100,000
b.	Aggregate Reserves for Life Policies	\$100,000	
	Increase in Aggregate Reserves for Life Policies		\$100,000

- Insurer transfers, pursuant to contract provisions, \$95,000 to separate account fund for SCWOLC contracts from general account fund for SCWOLC contracts; \$5,000 is retained in the general account.

General Account Statement

a.	Liability for Deposit –Type Contracts	\$95,000	
	Transfers to Separate Accounts		\$95,000
b.	Transfers to Separate Account	\$95,000	
	Cash		\$95,000

Separate Accounts Statement

c.	Other transfers from General Account (net)	\$95,000	
	Transfers on account of deposit-type contracts		\$95,000
d.	Cash	\$95,000	
	Other Transfers from General Account		\$95,000
e.	Increase in liability for deposit-type contracts	\$95,000	
	Liability for Deposit-Type Contracts		\$95,000

- Insurer establishes a \$4,000 CARVM valuation allowance for this contract in the separate account fund.

Separate Accounts Statement

a.	Liability for Deposit-Type Contracts	\$4,000	
	Increase in liability for deposit-type contracts		\$4,000
b.	Change in expense allowances recognized in reserves	\$4,000	
	Other transfers from General Account (net)		\$4,000

General Account Statement

c.	Transfers to Separate Accounts (net)	\$4,000	
	Transfer to/or (from) Separate Accounts		\$4,000

4. Insurer's separate account fund for SCWOLC contracts assets earns \$2,000 investment income that is immediately credited to the separate account fund for SCWOLC contracts.

Separate Accounts Statement

a.	Cash	\$2,000	
	Net investment income		\$2,000
b.	Increase in liability for deposit-type contracts	\$2,000	
	Liability for Deposit-Type Contracts		\$2,000

5. Contractholder is paid a \$1,000 SCWOLC contract benefit from the separate account fund. The example has been simplified to show the cash flows from the Separate Account to the General Account and the payment to the contractholder from the General Account.

General Account Statement

a.	Cash	\$1,000	
	Liability for Deposit-Type Contracts		\$1,000
b.	Liability for Deposit-Type Contracts	\$1,000	
	Cash		\$1,000

Separate Accounts Statement

c.	Transfers on account of deposit-type contracts	\$1,000	
	Cash		\$1,000
d.	Liability for Deposit-type Contracts	\$1,000	
	Increase in liability for deposit-type contracts		\$1,000

6. Contractholder requests the insurer to purchase a variable annuity contract (insurance product) with \$25,000 drawn from the separate account fund supporting the SCWOLC contract (deposit-type contract) and transfer it to a separate fund supporting variable annuities. This example has been simplified and ignores the internal cash exchange.

General Account Statement

a.	Transfers to Separate Accounts	\$25,000	
	Premiums and Annuity Considerations		\$25,000

Separate Accounts Statement

b.	Liability for Deposit-Type Contracts	\$25,000	
	Increase in liability for deposit-type contracts		\$25,000
c.	Transfers on account of deposit-type contracts	\$25,000	
	Other transfers to general account (net)		\$25,000
d.	Other transfers to general account (net)	\$25,000	
	Net Premiums and Annuity Considerations		\$25,000
e.	Increase in aggregate reserve for life, annuity	\$25,000	
	Aggregate Reserve for life, annuity		\$25,000

7. Contractholder in accordance with a Group GIC contract requests that \$15,000 be withdrawn from the Group GIC Separate Account fund maintained by the insurer and transferred to the contractholder's Separate Account fund supporting the SCWOLC contract.

Separate Accounts Statement

a.	Liability for Deposit-Type Contracts (GIC)	\$15,000	
	Increase in liability for deposit-type contracts		\$15,000
b.	Transfers on account of deposit-type contracts	\$15,000	
	Cash		\$15,000
c.	Cash	\$15,000	
	Transfers on account of deposit-type contracts		\$15,000
d.	Increase in liability for deposit-type contracts	\$15,000	
	Liability for Deposit-Type Contracts (SCWOLC)		\$15,000

General Accounts Statement

e.	Other transfers to separate account (net)	\$15,000	
	Liability for Deposit-Type Contracts (SCWOLC)		\$15,000
f.	Liability for Deposit-Type Contracts (SCWOLC)	\$15,000	
	Other transfers to separate account (net)		\$15,000

8. Contractholder is assessed the annual administration fee of \$100 for the SCWOLC contract.

Separate Accounts Statement

a.	Administration fees	\$100	
	Cash		\$100
b.	Liability for Deposit-type contracts	\$100	
	Increase in liability for deposit-type contracts		\$100

General Account Statement

c.	Cash	\$100	
	Management fees		\$100

“T” Accounts

General Account Statement

Balance Sheet

Cash

<u>Xaction Ref.</u>	Debit	Credit
Begin Bal.	100,000	
2b		95,000
5a	1,000	
5b		1,000
8c	100	
Total	101,100	96,000
Net	5,100	

Aggregate Reserves for Life Policies etc.

<u>Xaction Ref.</u>	Debit	Credit
Begin Bal.		100,000
1b	100,000	

Liab for Deposit-Type Contracts

<u>Xaction Ref.</u>	Debit	Credit
1a		100,000
2a	95,000	
5a		1,000
5b	1,000	
7e		15,000
7f	15,000	
Total	111,000	116,000
Net		5,000

Transfers to Sep Accts Pybl

<u>Xaction Ref.</u>	Debit	Credit
2a		95,000
2b	95,000	
3c	4,000	
7e	15,000	
7f		15,000
Total	114,000	110,000
Net	4,000	

Summary of Operations

Premiums & Considerations

<u>Xaction Ref.</u>	Debit	Credit
6a		25,000

Income from Fees . . From Sep Accts

<u>Xaction Ref.</u>	Debit	Credit
8c		100

Surrender Benefits

<u>Xaction Ref.</u>	Debit	Credit
1a	100,000	

Increase in Agg Res for Life Pol etc.

<u>Xaction Ref.</u>	Debit	Credit
1b		100,000

Transfers to Sep Accts

<u>Xaction Ref.</u>	Debit	Credit
3c		4,000
6a	25,000	
Total	25,000	4,000
Net	21,000	

Separate Accounts Statement

Balance Sheet

Cash

<u>Xaction Ref.</u>	Debit	Credit
Begin Bal.	15,000	
2d	95,000	
4a	2,000	
5c		1,000
7b		15,000
7c	15,000	
8a		100
Total	127,000	16,100
Net	110,900	

Aggregate Reserves for Life Policies etc.

<u>Xaction Ref.</u>	Debit	Credit
6e		25,000

Liab for Deposit-Type Contracts

<u>Xaction Ref.</u>	Debit	Credit
Begin Bal.		15,000
2e		95,000
3a	4,000	
4b		2,000
5d	1,000	
6b	25,000	
7a	15,000	
7d		15,000
8b	100	
Total	45,100	127,000
Net		81,900

Transfers to Gen Acct Pybl

<u>Xaction Ref.</u>	Debit	Credit
2c	95,000	
2d		95,000
3b		4,000
6c		25,000
6d	25,000	
Total	120,000	124,000
Net		4,000

Summary of Operations

Premiums & Considerations

<u>Xaction Ref.</u>	Debit	Credit
6d		25,000

Deposits Acct of Deposit-Type Contracts

<u>Xaction Ref.</u>	Debit	Credit
2c		95,000
5c	1,000	
6c	25,000	
7b	15,000	
7c		15,000
Total	41,000	110,000
Net		69,000

Net Invest Inc & Cap Gains

<u>Xaction Ref.</u>	Debit	Credit
4a		2,000

Change in Expense Allow

<u>Xaction Ref.</u>	Debit	Credit
3b	4,000	

Fees Assoc with Charges for Inv Mgmt etc.

<u>Xaction Ref.</u>	Debit	Credit
8a	100	

Increase in Agg Res for Life Cont etc.

<u>Xaction Ref.</u>	Debit	Credit
6e	25,000	

Increase in Liab for Deposit-Type Contracts

<u>Xaction Ref.</u>	Debit	Credit
2e	95,000	
3a		4,000
4b	2,000	
5d		1,000
6b		25,000
7a		15,000
7d	15,000	
8b		100
Total	112,000	45,100
Net	66,900	

General Account Instructions

NOTES TO FINANCIAL STATEMENTS

19. Separate Accounts

Illustration B:

Reconciliation of Net Transfers To or (From) Separate Accounts

1. Transfers as reported in the Summary of Operations of the Separate Accounts Statement:
 - a. Transfers to Separate Accounts \$ 25,000
 - b. Transfers from Separate Accounts \$ 4,000
 - c. Net transfers to or (From) Separate Accounts (a) – (b) \$ 21,000
2. Reconciling Adjustments:
 - a. _____ \$ _____
 - b. _____ \$ _____
 - c. _____ \$ _____
3. Transfers as Reported in the Summary of Operations of the Life, Accident & Health Annual Statement

(1c) + (2) = \$ 21,000

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

ASSETS	Current Year			Prior Year
	1 General Account Basis	2 Fair Value Basis	3 Total (Cols. 1 + 2)	4 Total
1. Bonds (Schedule D)				
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate (Schedule B)				
4. Real estate (Schedule A):				
4.1 Properties held for the production of income (less \$.....encumbrances)				
4.2 Properties held for sale (less \$.....encumbrances)				
5. Policy loans				
6. Cash (Schedule E-Part 1)		110,900	110,900	.....
7. Short-term investments (Schedule DA)				
8. Other invested assets (Schedule BA)				
9. Aggregate write-ins for invested assets				
10. Subtotals—Cash and invested assets (Lines 1 to 9)		110,900	110,900	.....
11. Investment income due and accrued				
12. Receivable for securities				
13. Net adjustment in assets and liabilities due to foreign exchange rates				
14. Aggregate write-ins for other-than-invested assets				
15. Lines 10 to 14		110,900	110,900	.....
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903 + 0998) (Line 9 above)				
1401.				
1402.				
1403.				
1498. Summary of remaining write-ins for Line 14 from overflow page				
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)				

**Illustration of the Accounting/Reporting of Deposit-Type Contracts
in Accordance with SSAP Nos. 51R, 52 and 56**

INT 00-03

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

LIABILITIES AND SURPLUS	Current Year			Prior Year
	1 General Account Basis	2 Fair Value Basis	3 Total (Cols. 1 +2)	4 Total
1. Aggregate reserve for life, annuity and accident and health policies and contracts (Exhibit 6, Line 9999999, Col. 2)....		25,000	25,000	.....
2. Liability for deposit-type contracts (Exhibit 7, Line 9, Col. 1).....		81,900	81,900	.....
3. Interest Maintenance Reserve.....				
4. Charges for investment management, administration and contract guarantees due or accrued.....				
5. Investment expenses due or accrued (Exhibit 4, Line 24).....				
6. Investment taxes, licenses and fees due or accrued, excluding federal income taxes (Exhibit 5, Line 8).....				
7. Federal and foreign income taxes due or accrued (excluding deferred taxes).....				
8. Reserve for future federal income taxes.....				
9. Unearned investment income (Exhibit 2, Line 14, Col. 2).....				
10. Other transfers to general account due or accrued (net) (including \$..... accrued expense allowances recognized in reserves).....		4,000	4,000	.....
11. Remittances and items not allocated.....				
12. Payable for securities.....				
13. Net adjustment in assets and liabilities due to foreign exchange rates.....				
14. Aggregate write-ins for liabilities.....				
15. Total Liabilities (including \$.....due or accrued net transfers to or (from) the general account).....		110,900	110,900	.....
16. Contributed surplus.....				
17. Aggregate write-ins for special surplus funds.....				
18. Unassigned funds.....				
19. Surplus (Lines 16 through 18).....				
20. Totals		110,900	110,900	.....
DETAILS OF WRITE-INS				
1401.				
1402.				
1403.				
1498. Summary of remaining write-ins for Line 14 from overflow page.....				
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)				
1701.				
1702.				
1703.				
1798. Summary of remaining write-ins for Line 17 from overflow page.....				
1799. Totals (Lines 1701 through 1703 plus 1798) (Line 17 above)				

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

SUMMARY OF OPERATIONS		1	2
		Current Year	Prior Year
1. Transfers to Separate Accounts:			
1.1 Net premiums and annuity considerations for life and accident and health policies and contracts		25,000	.....
1.2 Considerations for supplementary contracts with life contingencies.....		.....	.....
1.3 Aggregate write-ins for other transfers to Separate Accounts			
1.4 Totals (Lines 1.1 to 1.3).....		25,000	.....
2. Transfers on account of deposit-type contracts (including \$110,000 deposits less \$41,000 withdrawals).....		69,000	.....
3. Net investment income and capital gains and losses (Exhibit 1, Line 9)		2,000	.....
4. Aggregate write-ins for other income			
5. Totals (Lines 1.4 to 4).....		96,000	
DEDUCT:			
6. Transfers from the Separate Account on account of contract benefits:			
6.1 Death benefits .....		.....	.....
6.2 Matured endowments .....		.....	.....
6.3 Annuity benefits .....		.....	.....
6.4 Payments on supplementary contracts with life contingencies.....		.....	.....
6.5 Accident and health benefits .....		.....	.....
6.6 Surrender benefits and withdrawals for life contracts.....		.....	.....
6.7 Aggregate write-ins for other transfers from Separate Accounts on account of contract benefits .....		.....	.....
7. Transfers on account of policy loans .....		.....	.....
8. Net transfer of reserves from or (to) Separate Accounts .....		.....	.....
9. Other transfers from the Separate Accounts:			
9.1 Federal and foreign income taxes incurred .....		.....	.....
9.2 Change in expense allowances recognized in reserves		4,000	.....
9.3 Aggregate write-ins for other transfers from Separate Accounts.....		.....	.....
10. Subtotals (Lines 6.1 to 9.3)		4,000	.....
11. Fees associated with charges for investment management, administration and contract guarantees.....		100	.....
12. Increase in aggregate reserve for life and accident and health policies and contracts		25,000	.....
13. Increase in reserve for variable dividend accumulations .....		.....	.....
14. Increase in liability for deposit-type contracts		66,900	.....
15. Increase in reserve for future federal income taxes .....		.....	.....
16. Aggregate write-ins for reserves and funds .....		.....	.....
17. Totals (Lines 10 to 16).....		96,000	.....
18. Net gain from operations (including \$. unrealized capital gains) (Line 5 minus Line 17)		0	.....
SURPLUS ACCOUNT			
19. Surplus, December 31, prior year .....		.....	.....
20. Net gain from operations (Line 18).....		.....	.....
21. Surplus contributed or (withdrawn) during year.....		.....	.....
22. Change in reserve on account of change in valuation basis, (increase) or decrease .....		.....	.....
23. Transfer from Separate Accounts of the change in expense allowances charged or credited to surplus .....		.....	.....
24. Aggregate write-ins for gains and losses in surplus.....		.....	.....
25. Surplus, December 31, current year (Page 3, Line 19)		.....	.....
DETAILS OF WRITE-INS			
01.301. ....		.....	.....
01.302. ....		.....	.....
01.303. ....		.....	.....
01.398. Summary of remaining write-ins for Line 1.3 from overflow page .....		.....	.....
01.399. Totals (Lines 01.301 through 01.303 plus 01.398) (Line 1.3 above)		.....	.....
0401. ....		.....	.....
0402. ....		.....	.....
0403. ....		.....	.....
0498. Summary of remaining write-ins for Line 4 from overflow page .....		.....	.....
0499. Totals (Lines 0401 through 0403 plus 0498) (Line 4 above)		.....	.....
06.701. ....		.....	.....
06.702. ....		.....	.....
06.703. ....		.....	.....
06.798. Summary of remaining write-ins for Line 6.7 from overflow page .....		.....	.....
06.799. Totals (Lines 06.701 through 06.703 plus 06.798) (Line 6.7 above)		.....	.....
09.301. ....		.....	.....
09.302. ....		.....	.....
09.303. ....		.....	.....
09.398. Summary of remaining write-ins for Line 9.3 from overflow page .....		.....	.....
09.399. Totals (Lines 09.301 through 09.303 plus 09.398) (Line 9.3 above)		.....	.....
1601. ....		.....	.....
1602. ....		.....	.....
1603. ....		.....	.....
1698. Summary of remaining write-ins for Line 16 from overflow page .....		.....	.....
1699. Totals (Lines 1601 through 1603 plus 1698) (Line 16 above)		.....	.....
2401. ....		.....	.....
2402. ....		.....	.....
2403. ....		.....	.....
2498. Summary of remaining write-ins for Line 24 from overflow page .....		.....	.....
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)		.....	.....

**Illustration of the Accounting/Reporting of Deposit-Type Contracts
in Accordance with SSAP Nos. 51R, 52 and 56**

INT 00-03

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

ASSETS	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds				
2. Stocks:				
2.1 Preferred stocks (Schedule D, Part 2, Section 1)				
2.2 Common stocks (Schedule D, Part 2, Section 2)				
3. Mortgage loans on real estate (Schedule B, Part 1):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$..... encumbrances)				
4.2 Properties held for the production of income (less \$..... encumbrances)				
4.3 Properties held for sale (less \$..... encumbrances)				
5. Policy loans				
6. Premium notes, including \$..... for first year premiums				
7. Cash (\$....., Schedule E, Part 1) and short-term investments (\$....., Schedule DA, Part 2)	5,100	.....	5,100	.....
8. Other invested assets (Schedule BA, Part 1)				
9. Receivable for securities				
10. Aggregate write-ins for invested assets				
11. Subtotals, cash and invested assets (Lines 1 to 10)	5,100	.....	5,100	.....
12. Reinsurance ceded:				
12.1 Amounts recoverable from reinsurers (Schedule S, Part 2)				
12.2 Commissions and expense allowances due				
12.3 Experience rating and other refunds due				
12.4 Other amounts receivable under reinsurance contracts				
13. Electronic data processing equipment and software				
14. Federal and foreign income tax recoverable and interest thereon (including \$..... net deferred tax asset)				
15. Guaranty funds receivable or on deposit				
16. Life insurance premiums and annuity considerations deferred and uncollected on in force business (less premiums on reinsurance ceded and less \$..... loading)				
17. Accident and health premiums due and unpaid				
18. Investment income due and accrued (Exhibit 2)				
19. Net adjustment in assets and liabilities due to foreign exchange rates				
20. Receivable from parent, subsidiaries and affiliates				
21. Amounts receivable relating to uninsured accident and health plans				
22. Amounts due from agents				
23. Other assets nonadmitted (Exhibit 12)				
24. Aggregate write-ins for other-than-invested assets	5,100	.....	5,100	.....
25. Total assets excluding Separate Accounts business (Lines 11 to 24)	110,900	.....	110,900	.....
26. From Separate Accounts Statement				
27. Total (Lines 25 and 26)	116,000	.....	116,000	.....
DETAILS OF WRITE-INS				
1001.				
1002.				
1003.				
1098. Summary of remaining write-ins for Line 10 from overflow page				
1099. Totals (Lines 1001 through 1003 + 1098) (Line 10 above)				
2401.				
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 + 2498) (Line 24 above)				

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

LIABILITIES, SURPLUS AND OTHER FUNDS		1 Current Year	2 Prior Year
1.	Aggregate reserve for life policies and contracts \$.....(Exhibit 8, Line 9999999) less \$ included in Line 6.3 (including \$ Modco Reserve).....		
2.	Aggregate reserve for accident and health policies (Exhibit 9, Line 17, Col. 1) (including \$.....Modco Reserve).....		
3.	Liability for deposit-type contracts (Exhibit 10, Line 14, Col. 1) (including \$.....Modco Reserve).....	5,000	
4.	Policy and contract claims:		
4.1	Life (Exhibit 11, Part 1, Line 4.4, Col. 1 less sum of Cols. 9, 10 and 11).....		
4.2	Accident and health (Exhibit 11, Part 1, Line 4.4, sum of Cols. 9, 10 and 11).....		
5.	Policyholders' dividends \$.....and coupons \$.....due and unpaid (Exhibit 7, Line 10).....		
6.	Provision for policyholders' dividends and coupons payable in following calendar year—estimated amounts:		
6.1	Dividends apportioned for payment to 20 (including \$..... Modco Reserve).....		
6.2	Dividends not yet apportioned (including \$..... Modco Reserve).....		
6.3	Coupons and similar benefits (including \$..... Modco Reserve).....		
7.	Amount provisionally held for deferred dividend policies not included in Line 6.....		
8.	Premiums and annuity considerations for life and accident and health policies and contracts received in advance less \$.....discount; including \$.....accident and health premiums (Exhibit 1, Part 1, Col. 1, sum of Lines 4 and 14).....		
9.	Policy and contract liabilities not included elsewhere:		
9.1	Surrender values on canceled policies.....		
9.2	Provision for experience rating refunds, including \$..... accident and health experience rating refunds.....		
9.3	Other amounts payable on reinsurance, including \$.....assumed and \$.....ceded.....		
9.4	Interest Maintenance Reserve (Page 33, Line 6).....		
10.	Commissions to agents due or accrued-life and annuity contracts \$..... accident and health \$..... and deposit-type contract funds \$.....		
11.	Commissions and expense allowances payable on reinsurance assumed.....		
12.	General expenses due or accrued (Exhibit 5, Line 12, Col. 5).....		
13.	Transfers to Separate Accounts due or accrued (net) (including \$ 4,000) accrued for expense allowances recognized in reserves).....	(4,000)	
14.	Taxes, licenses and fees due or accrued, excluding federal income taxes (Exhibit 6, Line 9, Col. 5).....		
15.	Federal and foreign income taxes, including \$.....on realized capital gains (losses) (including \$..... net-deferred tax liability).....		
16.	Unearned investment income (Exhibit 2, Line 9, Col. 2).....		
17.	Amounts withheld or retained by company as agent or trustee.....		
18.	Amounts held for agents' account, including \$..... agents' credit balances.....		
19.	Remittances and items not allocated.....		
20.	Net adjustment in assets and liabilities due to foreign exchange rates.....		
21.	Liability for benefits for employees and agents if not included above.....		
22.	Borrowed money \$.....and interest thereon \$.....		
23.	Dividends to stockholders declared and unpaid.....		
24.	Miscellaneous liabilities:		
24.1	Asset valuation reserve (Page 34, Line 15, Col. 7).....		
24.2	Reinsurance in unauthorized companies.....		
24.3	Funds held under reinsurance treaties with unauthorized reinsurers.....		
24.4	Payable to parent, subsidiaries and affiliates.....		
24.5	Drafts outstanding.....		
24.6	Liability for amounts held under uninsured accident and health plans.....		
24.7	Funds held under coinsurance.....		
24.8	Payable for securities.....		
24.9	Capital notes \$..... and interest thereon \$.....		
25.	Aggregate write-ins for liabilities.....		
26.	Total liabilities excluding Separate Accounts business (Lines 1 to 25).....	1,000	
27.	From Separate Accounts statement.....	110,900	
28.	Total liabilities (Lines 26 and 27).....	111,900	
29.	Common capital stock.....		
30.	Preferred capital stock.....		
31.	Aggregate write-ins for other than special surplus funds.....		
32.	Surplus notes.....		
33.	Gross paid in and contributed surplus (Page 3, Line 33, Col. 2 plus Page 4, Line 51.1, Col. 1).....		
34.	Aggregate write-ins for special surplus funds.....		
35.	Unassigned funds (surplus).....		
36.	Less treasury stock, at cost:		
36.1	 shares common (value included in Line 29 \$.....)		
36.2	 shares preferred (value included in Line 30 \$.....)		
37.	Surplus (total Lines 31 + 32 + 33 + 34 + 35 - 36) (Including \$..... in Separate Accounts Statement).....		
38.	Totals of Lines 29, 30 and 37 (Page 4, Line 55).....		
39.	Totals of Lines 28 and 38 (Page 2, Line 27, Col. 3).....		
DETAILS OF WRITE-INS			
2501.	.....		
2502.	.....		
2503.	.....		
2598.	Summary of remaining write-ins for Line 25 from overflow page.....		
2599.	Totals (Lines 2501 through 2503 plus 2598) (Line 25 above).....		
3101.	.....		
3102.	.....		
3103.	.....		
3198.	Summary of remaining write-ins for Line 31 from overflow page.....		
3199.	Totals (Lines 3101 through 3103 plus 3198) (Line 31 above).....		
3401.	.....		
3402.	.....		
3403.	.....		
3498.	Summary of remaining write-ins for Line 34 from overflow page.....		
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34 above).....		

**Illustration of the Accounting/Reporting of Deposit-Type Contracts
in Accordance with SSAP Nos. 51R, 52 and 56**

INT 00-03

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

SUMMARY OF OPERATIONS (Excluding Unrealized Capital Gains and Losses)		1 Current Year	2 Prior Year
1. Premiums and annuity considerations for life and accident and health policies and contracts (Exhibit 1, Part 1, Line 20.4, Col. 1, less Col. 11)		25,000	
2. Considerations for supplementary contracts with life contingencies			
3. Net investment income (Exhibit 2, Line 16)			
4. Amortization of Interest Maintenance Reserve (IMR) (Page 33, Line 5)			
5. Separate Accounts net gain from operations excluding unrealized gains or losses			
6. Commissions and expense allowances on reinsurance ceded (Exhibit 1, Part 2, Line 26.1, Col. 1)			
7. Reserve adjustments on reinsurance ceded			
8. Miscellaneous Income:			
8.1 Income from fees associated with investment management, administration and contract guarantees from Separate Accounts		100	
8.2 Charges and fees for deposit-type contracts			
8.3 Aggregate write-ins for miscellaneous income			
9. Totals (Lines 1 to 8.3)		25,100	
10. Death benefits			
11. Matured endowments (excluding guaranteed annual pure endowments)			
12. Annuity benefits (Exhibit 11, Part 2, Line 6.4, Cols. 4 + 8)			
13. Disability benefits and benefits under accident and health policies			
14. Coupons, guaranteed annual pure endowments and similar benefits			
15. Surrender benefits and withdrawals for life contracts		100,000	
16. Group conversions			
17. Interest and adjustments on policy or deposit-type contract funds			
18. Payments on supplementary contracts with life contingencies			
19. Increase in aggregate reserves for life and accident and health policies and contracts		(100,000)	
20. Totals (Lines 10 to 19)		0	
21. Commissions on premiums, annuity considerations and deposit-type contract funds (direct business only) (Exhibit 1, Part 2, Line 31, Col. 1, less Col. 11)			
22. Commissions and expense allowances on reinsurance assumed (Exhibit 1, Part 2, Line 26.2, Col. 1, less Col. 11)			
23. General insurance expenses (Exhibit 5, Line 10, Cols. 1 + 2 + 3)			
24. Insurance taxes, licenses and fees, excluding federal income taxes (Exhibit 6, Line 7, Cols. 1 + 2 + 3)			
25. Increase in loading on deferred and uncollected premiums			
26. Net transfers to or (from) Separate Accounts		21,000	
27. Aggregate write-ins for deductions			
28. Totals (Lines 20 to 27)		21,000	
29. Net gain from operations before dividends to policyholders and federal income taxes (Line 9 minus Line 28)		4,100	
30. Dividends to policyholders			
31. Net gain from operations after dividends to policyholders and before federal income taxes (Line 29 minus Line 30)			
32. Federal and foreign income taxes incurred (excluding tax on capital gains)			
33. Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses) (Line 31 minus Line 32)			
34. Net realized capital gains or (losses) less capital gains tax and transferred to the IMR (Exhibit 3, Footnote (a), Line 3C)			
35. Net income (Line 33 plus Line 34)			
CAPITAL AND SURPLUS ACCOUNT			
36. Capital and surplus, December 31, prior year (Page 3, Line 38, Col. 2)			
37. Net income (Line 35)			
38. Change in net unrealized capital gains (losses)			
39. Change in net unrealized foreign exchange capital gain (loss)			
40. Change in net deferred income tax			
41. Change in nonadmitted assets and related items (Exhibit 12, Line 6, Col. 3)			
42. Change in liability for reinsurance in unauthorized companies			
43. Change in reserve on account of change in valuation basis, (increase) or decrease (Exhibit 8A, Line 9999999, Col. 4)			
44. Change in asset valuation reserve (Page 34, Lines 2 through 4 plus 8, 11 and 12, Col. 7)			
45. Change in treasury stock (Page 3, Lines 36.1 and 36.2 Col. 2 minus Col. 1)			
46. Surplus (contributed to) withdrawn from Separate Accounts during period			
47. Other changes in surplus in Separate Accounts statement			
48. Change in surplus notes			
49. Cumulative effect of changes in accounting principles			
50. Capital changes:			
50.1 Paid in			
50.2 Transferred from surplus (Stock Dividend)			
50.3 Transferred to surplus			
51. Surplus adjustment:			
51.1 Paid in			
51.2 Transferred to capital (Stock Dividend)			
51.3 Transferred from capital			
51.4 Change in surplus as a result of reinsurance			
52. Dividends to stockholders			
53. Aggregate write-ins for gains and losses in surplus			
54. Net change in capital and surplus for the year (Lines 37 through 53)			
55. Capital and surplus, December 31, current year (Lines 36 + 54) (Page 3, Line 38)			
DETAILS OF WRITE-INS			
08.301.			
08.302.			
08.303.			
08.398. Summary of remaining write-ins for Line 8.3 from overflow page			
08.399. Totals (Lines 08.301 through 08.303 plus 08.398) (Line 8.3 above)			
2701.			
2702.			
2703.			
2798. Summary of remaining write-ins for Line 27 from overflow page			
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)			
5301.			
5302.			
5303.			
5398. Summary of remaining write-ins for Line 53 from overflow page			
5399. Totals (Lines 5301 through 5303 plus 5398) (Line 53 above)			

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums and annuity considerations for life and accident and health policies and contracts	25,000	.....
2. Charges and fees for deposit-type contracts.....	.....	.....
3. Considerations for supplementary contracts with life contingencies .....	.....	.....
4. Net investment income.....	.....	.....
5. Commissions and expense allowances on reinsurance ceded.....	.....	.....
6. Fees associated with investment management, administration and contract guarantees from Separate Accounts	100	.....
7. Aggregate write-ins for miscellaneous income .....	.....	.....
8. Total (Lines 1 to 7).....	25,100	.....
9. Death benefits.....	.....	.....
10. Matured endowments .....	.....	.....
11. Annuity benefits .....	.....	.....
12. Disability benefits and benefits under accident and health policies .....	.....	.....
13. Coupons, guaranteed annual pure endowments and similar benefits .....	.....	.....
14. Surrender benefits and withdrawals for life contracts.....	100,000	.....
15. Group conversions .....	.....	.....
16. Interest and adjustments on policy or deposit-type contract funds .....	.....	.....
17. Payments on supplementary contracts with life contingencies .....	.....	.....
18. Total (Lines 9 to 17).....	100,000	.....
19. Commissions on premiums, annuity considerations and deposit-type contract funds.....	.....	.....
20. Commissions and expense allowances on reinsurance assumed .....	.....	.....
21. General insurance expenses .....	.....	.....
22. Insurance taxes, licenses and fees, excluding federal income taxes .....	.....	.....
23. Net transfers to or (from) Separate Accounts	25,000	.....
24. Aggregate write-ins for deductions .....	.....	.....
25. Total (Lines 18 to 24).....	125,000	.....
26. Dividends paid to policyholders.....	.....	.....
27. Federal income taxes (excluding tax on capital gains) .....	.....	.....
28. Total (Lines 25 to 27).....	125,000	.....
29. Net cash from operations (Line 8 minus Line 28)	(99,900)	.....
Cash from Investments		
30. Proceeds from investments sold, matured or repaid:		
30.1 Bonds .....	.....	.....
30.2 Stocks .....	.....	.....
30.3 Mortgage loans.....	.....	.....
30.4 Real estate .....	.....	.....
30.5 Other invested assets .....	.....	.....
30.6 Net gains (losses) on cash and short-term investments.....	.....	.....
30.7 Miscellaneous proceeds .....	.....	.....
30.8 Total investment proceeds (Lines 30.1 to 30.7) .....	.....	.....
31. Net tax on capital gains (losses) .....	.....	.....
32. Total (Line 30.8 minus Line 31) .....	.....	.....
33. Cost of investments acquired (long-term only):		
33.1 Bonds .....	.....	.....
33.2 Stocks .....	.....	.....
33.3 Mortgage loans.....	.....	.....
33.4 Real estate .....	.....	.....
33.5 Other invested assets .....	.....	.....
33.6 Miscellaneous applications .....	.....	.....
33.7 Total investments acquired (Lines 33.1 to 33.6) .....	.....	.....
34. Net increase (or decrease) in policy loans and premium notes .....	.....	.....
35. Net cash from investments (Line 32 minus Line 33.7 minus Line 34) .....	.....	.....
Cash from Financing and Miscellaneous Sources		
36. Cash provided:		
36.1 Surplus notes, capital and surplus paid in .....	.....	.....
36.2 Borrowed money \$..... less amounts repaid \$ .....	.....	.....
36.3 Capital notes \$..... less amounts repaid \$ .....	.....	.....
36.4 Deposits on deposit-type contract funds and other liabilities without life or disability contingencies.....	115,000	.....
36.5 Other cash provided .....	.....	.....
36.6 Total (Lines 36.1 to 36.5).....	115,000	.....
37. Cash applied:		
37.1 Dividends to stockholders paid .....	.....	.....
37.2 Interest on indebtedness .....	.....	.....
37.3 Withdrawals on deposit-type contract funds and other liabilities without life or disability contingencies	110,000	.....
37.4 Other applications (net).....	.....	.....
37.5 Total (Lines 37.1 to 37.4).....	110,000	.....
38. Net cash from financing and miscellaneous sources (Line 36.6 minus Line 37.5)	5,000	.....
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
39. Net change in cash and short-term investments (Line 29, plus Line 35, plus Line 38)	(94,900)	.....
40. Cash and short-term investments:		
40.1 Beginning of year.....	100,000	.....
40.2 End of year (Line 39 plus Line 40.1)	5,100	.....
DETAILS OF WRITE-INS		
0701. ....	.....	.....
0702. ....	.....	.....
0703. ....	.....	.....
0798. Summary of remaining write-ins for Line 7 from overflow page.....	.....	.....
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above) .....	.....	.....
2401. ....	.....	.....
2402. ....	.....	.....
2403. ....	.....	.....
2498. Summary of remaining write-ins for Line 24 from overflow page.....	.....	.....
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above) .....	.....	.....

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

EXHIBIT 7—DEPOSIT TYPE CONTRACTS

	1	2	3	4	5	6
	Total	Guaranteed Interest Contracts	Supplemental Contracts and Annuities Certain	Dividend Accumulations or Refunds	Premium and Other Deposit Funds	Other
1. Balance at the beginning of the year.....	15,000	15,000	.....	.....	.....	.....
2. Deposits received during the year.....	110,000	.....	110,000	.....	.....	.....
3. Investment earnings credited to the account.....	2,000	.....	2,000	.....	.....	.....
4. Other net change in reserves.....	(4,000)	.....	(4,000)	.....	.....	.....
5. Fees and other charges assessed.....	100	.....	100	.....	.....	.....
6. Surrender charges.....	.....	.....	.....	.....	.....	.....
7. Net surrender or withdrawal payments.....	41,000	15,000	26,000	.....	.....	.....
8. Other net transfers to or (from) General Accounts.....	.....	.....	.....	.....	.....	.....
9. Balance at the end of current year(Lines 1+2+3+4-5-6-7-8)	81,900	0	81,900	.....	.....	.....

Reconciliation of Exh. 7 to Summary of Operations:

Exh. 7, Column 1, Line 9	81,900
Exh. 7, Column 1, Line 1	<u>15,000</u>
Summary of Operations, Column 1, Line 14	66,900

Exh. 7, Column 1, Line 2	110,000
Exh. 7, Column 1, Line 7	<u>41,000</u>
Summary of Operations, Column 1, Line 2	69,000

Note: This illustration reflects 2001 financial statements and will not be subsequently updated.

EXHIBIT 10—DEPOSIT TYPE CONTRACTS

	1	2	3	4	5	6
	Total	Guaranteed Interest Contracts	Supplemental Contracts and Annuities Certain	Dividend Accumulations or Refunds	Premium and Other Deposit Funds	Other
1. Balance at the beginning of the year before reinsurance.....	.....	.....	.....	.....	.....	.....
2. Deposits received during the year.....	115,000	.....	115,000	.....	.....	.....
3. Investment earnings credited to the account.....	.....	.....	.....	.....	.....	.....
4. Other net change in reserves.....	.....	.....	.....	.....	.....	.....
5. Fees and other charges assessed.....	.....	.....	.....	.....	.....	.....
6. Surrender charges.....	.....	.....	.....	.....	.....	.....
7. Net surrender or withdrawal payments.....	41,000	15,000	26,000	.....	.....	.....
8. Other net transfers to or (from) Separate Accounts.....	69,000	(15,000)	84,000	.....	.....	.....
9. Balance at the end of current year before reinsurance (Lines 1+2+3+4-5-6-7-8).....	5,000	0	5,000	.....	.....	.....
10. Reinsurance balance at the beginning of the year.....	.....	.....	.....	.....	.....	.....
11. Net change in reinsurance assumed.....	.....	.....	.....	.....	.....	.....
12. Net change in reinsurance ceded.....	.....	.....	.....	.....	.....	.....
13. Reinsurance balance at the end of the year (Lines 10+11-12).....	.....	.....	.....	.....	.....	.....
14. Net balance at the end of current year after reinsurance (Lines 9- 13).....	.....	.....	.....	.....	.....	.....

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 00-20: Application of SEC SAB No. 99, Materiality to the Preamble of the AP&P Manual

INT 00-20 Dates Discussed

June 12, 2000; September 20, 2000; June 11, 2001; October 16, 2001

INT 00-20 References

Current:

Preamble to the NAIC *Accounting Practices and Procedures Manual* (Preamble)

INT 00-20 Issue

1. In summary, SEC Staff Accounting Bulletin No. 99, *Materiality* (SAB No. 99) addresses two issues; 1) may a company or auditor assume the immateriality of items that fall below a percentage threshold set by management or its auditors to determine whether amounts and items are material to the financial statements? and 2) may a company make intentional immaterial misstatements in its financial statements? The SEC staff answers each question as NO and gives numerous references to FASB guidelines to support their opinion.

2. The issue is whether the responses outlined in SAB No. 99 can be applied to statutory accounting and the concept of materiality as defined in paragraphs 48-53 of the Preamble.

INT 00-20 Discussion

3. At the 2000 Spring National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) reviewed SAB No. 99 for incorporation into the *Accounting Practices and Procedures Manual* (AP&P Manual or Manual). The SAPWG determined that no modifications to the Preamble were warranted and referred the issue to the NAIC/AICPA Working Group for their consideration. The SAPWG felt the SAB had applicability to management of reporting entities, independent auditors and State Examiners. The NAIC/AICPA WG reviewed the SAB and determined that an interpretation of the Preamble was a more effective way to adopt the SAB for statutory accounting. The NAIC/AICPA WG felt that the AP&P Manual reached a larger audience than the A/S Instructions or Examiner's Handbook.

4. The Working Group reached a consensus to adopt an interpretation of the concept of materiality based on certain matters outlined in SAB No. 99. The Working Group believes the responses below provide additional support for the concepts delineated in Section VII of the Preamble. The SAB contains numerous references to SEC guidelines and GAAP pronouncements that are not reflected in this interpretation as such matters are not necessarily applicable or appropriate for statutory financial reporting. The interpretative responses (as modified by this interpretation) are as follows:

QUESTION: Paragraph 53 of the Preamble states "The provisions of this Manual need not be applied to immaterial items." May a reporting entity's management, state examiner or independent auditor of the entity's financial statements assume the immateriality of items that fall below a percentage threshold set by management, state examiner or independent auditor to determine whether amounts and items are material to the financial statements?

INTERPRETIVE RESPONSE No. Over time, the NAIC is aware that reporting entities have developed quantitative thresholds as "rules of thumb" to assist in the preparation of their financial statements, and that state examiners and independent auditors also have used these thresholds in

their evaluation of whether items might be considered material to users of a reporting entity's financial statements. One rule of thumb in particular suggests that the misstatement or omission of an item that falls under a 5% of surplus threshold is not material in the absence of particularly egregious circumstances, such as self-dealing or misappropriation by senior management. Exclusive reliance on this or any percentage or numerical threshold has no basis in the accounting literature or the law.

The use of a percentage as a numerical threshold, such as 5% of surplus, may provide the basis for a preliminary assumption that - without considering all relevant circumstances - a deviation of less than the specified percentage with respect to a particular item on the reporting entity's financial statements is unlikely to be material. The NAIC has no objection to such a "rule of thumb" as an initial step in assessing materiality. But quantifying, in percentage terms, the magnitude of a misstatement is only the beginning of an analysis of materiality; it cannot appropriately be used as a substitute for a full analysis of all relevant considerations. Materiality concerns the significance of an item to users of the reporting entity's financial statements. A matter is "material" if there is a substantial likelihood that a reasonable person would consider it important.

QUESTION: May a reporting entity make intentional immaterial misstatements in its financial statements?

INTERPRETIVE RESPONSE No. In certain circumstances, intentional immaterial misstatements are unlawful.

Each reporting entity must make and keep books, records, and accounts, that, in reasonable detail, accurately and fairly reflect the acquisitions and dispositions of assets of the reporting entity and must maintain internal control that is sufficient to provide reasonable, but not absolute, assurances that, among other things, transactions are recorded as necessary to permit the preparation of financial statements in conformity with the revised *Accounting Practices and Procedures Manual*. In this context, determinations of what constitutes "reasonable assurance" and "reasonable detail" are based not on a "materiality" analysis but on the level of detail and degree of assurance that would satisfy prudent individuals in the conduct of their own affairs. It is unlikely that it is ever "reasonable" for a reporting entity to record misstatements or not to correct known misstatements as part of an ongoing effort directed by or known to senior management for the purpose of "managing" reported results or financial position.

The National Commission on Fraudulent Financial Reporting, also known as the Treadway Commission, in its 1987 report:

The tone set by top management - the corporate environment or culture within which financial reporting occurs - is the most important factor contributing to the integrity of the financial reporting process. Notwithstanding an impressive set of written rules and procedures, if the tone set by management is lax, fraudulent financial reporting is more likely to occur.

Statement on Auditing Standards No. ("SAS") 54, "Illegal Acts by Clients," and SAS No. 82, "Consideration of Fraud in a Financial Statement Audit" provide guidance to the independent auditor. Pursuant to paragraph 38 of SAS 82, if the independent auditor determines there is evidence that fraud may exist, the independent auditor must discuss the matter with the appropriate level of management. The auditor must report directly to the audit committee fraud involving senior management and fraud that causes a material misstatement of the financial statements. Paragraph 4 of SAS No. 82 states that "misstatements arising from fraudulent financial reporting are intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users." SAS No. 82 further states that

fraudulent financial reporting may involve falsification or alteration of accounting records; misrepresenting or omitting events, transactions or other information in the financial statements; and the intentional misapplication of accounting principles relating to amounts, classifications, the manner of presentation, or disclosures in the financial statements. The clear implication of SAS No. 82 is that immaterial misstatements may be fraudulent financial reporting.

Independent auditors that learn of intentional misstatements may also be required to (1) re-evaluate the degree of audit risk involved in the audit engagement, (2) determine whether to revise the nature, timing, and extent of audit procedures accordingly, and (3) consider whether to resign.

Intentional misstatements also may signal the existence of reportable conditions or material weaknesses in the reporting entity's system of internal accounting control designed to detect and deter improper accounting and financial reporting.

An auditor is required to report to the audit committee any reportable conditions or material weaknesses in a reporting entity's system of internal accounting control that the auditor discovers in the course of the examination of the registrant's financial statements.

INT 00-20 Status

5. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 00-24: EITF 98-13: Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses

INT 00-24 Dates Discussed

June 12, 2000; September 11, 2000

INT 00-24 References

Current:

SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*

Superseded:

SSAP No. 46—*Investments in Subsidiary, Controlled, and Affiliated Entities*

SSAP No. 88—*Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46*

INT 00-24 Issue

1. EITF 98-13 and Topic No. D-68, *Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of an Investee* (EITF 98-13 or Topic D-68) provides the FASB staff position that Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* (APB No. 18) requires an investor that owns common (or other voting) stock and also (a) owns debt securities (including mandatorily redeemable preferred stock), (b) owns preferred stock, or (c) has extended loans to the investee to continue to report losses. Paragraph 13 of FASB Statement 114, *Accounting by Creditors for Impairment of a Loan* (FAS 114) as amended by FASB Statement 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* (FAS 118) provides that when a loan is impaired, a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate. Paragraph 12 of FASB Statement 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115) provides that investments in both debt securities not held to maturity and equity securities that have readily determinable fair values shall be carried at fair value.

2. EITF 99-10, *Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of an Investee* (EITF 99-10) and Topic No. D-68 provides the FASB staff position on an investor's accounting when more than one type of interest is held. Specifically, the FASB staff announced that APB No. 18 requires that when an investor owns common stock and also (a) owns debt securities (including mandatorily redeemable preferred stock), (b) owns preferred stock, or (c) has extended loans to the investee (collectively referred to as "other investments"), the equity method investor should continue to report losses up to the investor's investment carrying value, including any additional financial support made or committed to by the investor. EITF 98-13 provides guidance on the interaction between the applicable literature for those instruments and APB No. 18 for situations in which an investee is incurring losses and (a) an investor is not required to advance additional funds to the investee and (b) previous losses have reduced the common stock investment account to zero. However, neither Topic D-68 nor EITF 98-13 provides guidance on how an investor should calculate the amount of equity method losses or subsequent income in that circumstance.

3. The issue is, when an investor is required to account for a common stock investment using the equity method, how the equity method loss pickup from the application of APB No. 18 (when the

carrying amount of the common stock has been reduced to zero) interacts with the applicable literature relating to investments in the other securities of the investee (either FAS 114 or FAS 115), and if an investor owns common stock and “other investments” in an investee and is not required to advance additional funds to the investee and if previous losses have reduced the common stock investment account to zero, how additional equity method losses should be measured and recognized by the investor.

INT 00-24 Discussion

4. The Working Group reached a consensus to adopt the final conclusions reached in EITF 98-13 and 99-10 with modification as follows:

5. The EITF reached a consensus that in situations where (a) an investor is not required to advance additional funds to the investee and (b) previous losses have reduced the common stock investment account to zero, the investor should continue to report its share of equity method losses in its statement of operations to the extent of and as an adjustment to the adjusted basis of the other investments in the investee. The order in which those equity method losses should be applied to the other investments should follow the seniority of the other investments (that is, priority in liquidation). For each period, the adjusted basis of the other investments should be adjusted for the equity method losses, then the investor should apply SSAP No. 97 to the other investments, as applicable.

6. For purposes of this consensus, other investments in the investee include, but are not limited to, preferred stock, debt securities, and loans to the investee (collectively referred to as loans and securities). The cost basis of the other investments is the original cost of those investments adjusted for the effects of other-than-temporary write-downs, unrealized gains and losses, and amortization of any discount or premium on debt securities or loans. The adjusted basis is the cost basis adjusted for the valuation allowance account for an investee loan and the cumulative equity method losses applied to the other investments. Equity method income subsequently recorded should be applied to the adjusted basis of the other investments in reverse order of the application of the equity method losses (that is, equity method income is applied to the more senior securities first).

7. When the investor has loans and securities of the investee that are within the scopes of SSAP No. 97, the investor should perform the following in order to determine the amount of equity method loss to report at the end of a period:

- a. Apply SSAP No. 97 to determine the maximum amount of equity method losses.
- b. Determine whether the adjusted basis of the other investment(s) in the investee is positive.
 - i. When the adjusted basis is positive, the adjusted basis of the other investments should be adjusted for the amount of the equity method loss based on its seniority. For investments accounted for in accordance with *SSAP No. 30R—Unaffiliated Common Stock*, this adjusted basis becomes the security’s basis from which subsequent changes in fair value are measured.
 - ii. When the adjusted basis reaches zero, equity method losses should cease being reported; however, the investor should continue to track the amount of unreported equity method losses for purposes of applying SSAP No. 97. (If one of the other investments is sold at a time when its carrying value exceeds its adjusted basis, the difference between the cost basis of that other investment and its adjusted basis at the time of sale represents equity method losses that were originally applied to that other investment but effectively reversed upon its sale. Accordingly, that excess represents unreported equity method losses that should continue to be tracked before future equity method income can be reported.

- c. After applying SSAP No. 97, apply SSAP No. 30R to the adjusted basis of the other investments in the investee, as applicable. Apply appropriate statutory accounting principles to other investments that are not within the scope of SSAP No. 30R.
8. The EITF reached a consensus that an investor should not recognize equity method losses based solely on the percentage of investee common stock held by the investor.
9. The EITF observed that an entity should utilize a single entity-wide approach to determine the amount of its equity method losses when previous losses have reduced the common stock investment account to zero and that the selected policy should be disclosed in the footnotes to the financial statements.
10. The provisions of these consensuses are effective for interim or annual periods beginning after January 1, 2001.
11. Refer to Exhibit 00-24A for an example that illustrates application of these consensuses.

INT 00-24 Status

12. No further discussion is planned.

Not for Distribution

Exhibit 00-24A**ILLUSTRATION OF THE APPLICATION OF THE INT 00-24 CONSENSUS'S****XYZ Investment in ABC Company**

1. ABC Company is a life insurance company, formed January 2, 20X1 to sell health insurance in the state of New York. On January 2, 20X1, XYZ Insurance Company invested \$500,000 in ABC, and purchased 100,000 shares of common stock at par, and 40,000 shares of preferred stock at par. ABC Preferred stock is non-voting, 5% cumulative.

2. XYZ determined it has obtained a controlling interest in ABC as XYZ owns 50% of the voting interests of ABC. XYZ accounted for its investment in ABC Insurance Company under the statutory equity method of accounting. The following table is selected information from the financial statements of ABC Insurance Company.

	1/2/20X1	12/31/20X1	12/31/20X2	12/31/20X3	12/31/20X4
Capital and Surplus:					
Common stock, \$1 par, 200,000 shares issued and outstanding	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Preferred stock, \$10 par, 100,000 shares issued and outstanding	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Surplus Notes			\$ 500,000	\$ 500,000	\$ 500,000
Unassigned Funds (Surplus)		\$ 130,000	(\$ 180,000)	(\$ 630,000)	(\$1,430,000)
Total Capital and Surplus	\$1,200,000	\$1,330,000	\$1,520,000	\$ 1,070,000	\$ 270,000
	12/31/20X5	12/31/20X6	12/31/20X7	12/31/20X8	12/31/20X9
Capital and Surplus:					
Common stock, \$1 par, 200,000 shares issued and outstanding	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Preferred stock, \$10 par, 100,000 shares issued and outstanding	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Surplus Notes	\$ 500,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Unassigned Funds (Surplus)	(\$1,980,000)	(\$1,830,000)	(\$1,280,000)	(\$ 430,000)	\$ 820,000
Total Capital and Surplus	(\$280,000)	\$ 370,000	\$ 920,000	\$1,770,000	\$3,020,000

3. At 1/2/20X1, XYZ recorded the following entry to record its investment in ABC:

Investment in ABC Common stock	\$ 100,000	
Investment in ABC Preferred stock	\$ 400,000	
Cash		\$ 500,000

To record initial investment in ABC Insurance Company.

4. During the year ended 12/31/20X1, ABC had statutory net income before dividends of \$200,000. At 12/31/20X1, ABC declared and paid a 5% preferred dividend, and a common stock dividend of \$.10 per share. XYZ recorded the following entries:

Cash	\$ 20,000	
Dividend Income		\$ 20,000
To record preferred dividend income from ABC Insurance Company for 20X1.		
Investment in ABC Common stock	\$ 75,000	
Unrealized Gain/Loss		\$ 75,000
To record 20X1 unrealized gain on investment in ABC Common. $((\$200,000 - \$50,000) * 50\%)$		
Cash	\$ 10,000	
Unrealized Gain/Loss	\$ 10,000	
Dividend Income		\$ 10,000
Investment in ABC Common stock		\$ 10,000
To record 20X1 dividend on ABC Common. $(100,000 \text{ shares} * \$0.10)$		

5. During the year ended 12/31/20X2, ABC issued an 8% surplus note of \$500,000. XYZ purchased 100% of the surplus note. During that same year, ABC incurred a statutory net loss before dividends of \$250,000. At 12/31/20X2, ABC declared and paid a 5% preferred dividend, and a common stock dividend of \$.05 per share. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Investment in ABC Surplus Notes	\$ 500,000	
Cash		\$ 500,000
To record investment in ABC Insurance Company surplus notes.		
Cash	\$ 20,000	
Dividend Income		\$ 20,000
To record preferred dividend income from ABC Insurance Company for 20X2.		
Unrealized Gain/Loss	\$ 150,000	
Investment in ABC Common stock		\$ 150,000
To record 20X2 unrealized loss on investment in ABC Common. $((\$250,000 - \$50,000) * 50\%)$		
Cash	\$ 5,000	
Unrealized Gain/Loss	\$ 5,000	
Dividend Income		\$ 5,000
Investment in ABC Common stock		\$ 5,000
To record 20X2 dividend on ABC Common. $(100,000 \text{ shares} * \$0.05)$		

6. During the year ended 12/31/20X3, ABC Insurance Company incurred a statutory net loss before dividends of \$400,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Dividends Receivable	\$ 20,000	
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X3.

Unrealized Gain/Loss	\$ 182,000	
Investment in ABC Preferred stock		\$ 172,000
Investment in ABC Common stock		\$ 10,000

To record 20X3 unrealized loss on investment in ABC Common and Preferred.

Total net loss and preferred stock dividend (\$450,000).

Common stock component reduces the Investment in ABC Common stock component to \$0. (20,000 * 50%)

Total net loss and preferred dividend (-\$400,000 - \$50,000)	\$450,000
Less amount used to reduce common stock investment to \$0	<u>20,000</u>
Amount remaining to be allocated to investment in preferred	430,000
XYZ ownership % of preferred	<u>40%</u>
XYZ reduction in investment in preferred	<u>\$172,000</u>

7. During the year ended 12/31/20X4, ABC Insurance Company incurred a statutory net loss before dividends of \$750,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Dividends Receivable	\$ 20,000	
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X4.

Unrealized Gain/Loss	\$ 458,000	
Investment in ABC Preferred stock		\$ 228,000
Investment in ABC Surplus note		\$ 230,000

To record 20X4 unrealized loss on investment in ABC Preferred and Surplus Notes.

Total net loss and preferred stock dividend (\$800,000).

Common stock component reduces the Investment in ABC Preferred stock component to \$0. (570,000 * 40%)

Preferred stock component calculated as:

Total net loss and preferred dividend (-\$750,000 - \$50,000)	\$800,000
Less amount used to reduce preferred stock investment to \$0	<u>570,000</u>
Amount remaining to be allocated to investment in surplus note	230,000
XYZ ownership % of surplus note	<u>100%</u>
XYZ reduction in investment in ABC Surplus Notes	<u>\$230,000</u>

8. During the year ended 12/31/20X5, ABC Insurance Company incurred a statutory net loss before dividends of \$500,000. ABC Insurance Company did not declare any dividends, and no interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Dividends Receivable	\$ 20,000	
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X5.

Unrealized Gain/Loss	\$ 270,000	
Investment in ABC Surplus note		\$ 270,000

To record 20X5 unrealized loss on investment in ABC Surplus Notes.

Total ABC net loss and preferred stock dividend (-\$500,000 - \$50,000).

Surplus Note component calculated as:

Total net loss and preferred dividend (-\$500,000 - \$50,000)	\$550,000
XYZ ownership % of ABC Surplus Note	<u>100%</u>

	\$550,000

Amount of unrealized loss recognized in 20X5	<u>\$270,000</u>

Amount of unrealized loss suspended	<u>\$280,000</u>

9. Since XYZ has not guaranteed any liabilities of ABC, the reduction they would recognize is limited to their remaining investment in ABC Surplus Notes. Therefore, they would only recognize a 20X5 unrealized loss on their investment in ABC of \$270,000.

10. During the year ended 12/31/20X6, ABC Insurance Company realigned their marketing efforts and modified the products they were selling. ABC also issued an additional 8% surplus note of \$500,000. This surplus note was purchased by an unaffiliated third party. During the year ended 12/31/X6, ABC Insurance Company had statutory net income before dividends of \$200,000. ABC Insurance Company did not declare any dividends on common stock, but declared and paid current and dividends in arrears on preferred. XYZ recorded the following entries:

Cash	\$ 80,000	
Dividends Receivable		\$ 60,000
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X6, and receipt of preferred dividends receivable for 20X3, 20X4 and 20X5.

11. XYZ did not record any change in their investment in ABC Surplus Notes, ABC Preferred or ABC Common, since ABCs' net income after preferred dividends did not exceed the losses accumulated during the period that XYZ suspended recording unrealized losses.

12. The following amounts were tracked:

Total ABC net income and preferred stock dividend (\$200,000 - \$50,000).

Surplus Note component calculated as:

Total net income and preferred dividend (\$200,000 - \$50,000)	\$150,000
XYZ ownership % of ABC Surplus Note	<u>50%</u>

Amount of unrealized loss suspended in 20X5	\$ 75,000

Remaining amount of unrealized loss suspended	<u>\$280,000</u>

	<u>\$205,000</u>

13. During the year ended 12/31/20X7, ABC Insurance Company had statutory net income before dividends of \$600,000. At 12/31/20X7, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Cash	\$ 20,000	
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X7.

Investment in ABC Surplus Notes	\$ 70,000	
Unrealized Gain/Loss		\$ 70,000

To record 20X7 unrealized gain on investment in ABC Surplus Notes.

Total ABC net income and preferred stock dividend (\$600,000 - \$50,000).

Surplus Note component calculated as:

Total net income and preferred dividend (\$600,000 - \$50,000)	\$550,000
XYZ ownership % of ABC Surplus Note	<u>50%</u>

\$275,000

Remaining amount of unrealized loss suspended in 20X5

\$205,000

20X7 amount of unrealized gain on investment in ABC Surplus Note

\$ 70,000

14. During the year ended 12/31/20X8, ABC Insurance Company had statutory net income before dividends of \$900,000. At 12/31/20X8, ABC declared and paid a 5% preferred dividend. No interest or principal repayments of the surplus note were approved. XYZ recorded the following entries:

Cash	\$ 20,000	
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X8.

Total ABC net income and preferred stock dividend (\$900,000 - \$50,000).

Surplus Note component calculated as:

Total net income and preferred dividend (\$900,000 - \$50,000)	\$850,000
XYZ ownership % of ABC Surplus Note	<u>50%</u>

\$425,000

20X8 amount of unrealized gain on investment in ABC Surplus Note

\$425,000

Investment in ABC Surplus Notes	\$ 425,000	
Unrealized Gain/Loss		\$ 425,000

To record 20X8 unrealized gain on investment in ABC Surplus Notes.

15. During the year ended 12/31/20X9, ABC Insurance Company had statutory net income, before interest on surplus notes and dividends, of \$1,400,000. The Commissioner approved one year's interest payment on the surplus notes. At 12/31/20X9, ABC declared and paid a 5% preferred dividend, and a \$.10 dividend per share on Common stock. XYZ recorded the following entries:

Cash	\$ 20,000	
Dividend Income		\$ 20,000

To record preferred dividend income from ABC Insurance Company for 20X9.

Cash	\$ 40,000	
Interest Income		\$ 40,000

To record surplus notes interest income from ABC Insurance Company for 20X9. (\$500,000 * 8%)

EITF 98-13: Accounting by an Equity Method Investor for Investee Losses
When the Investor Has Loans to and Investments in Other Securities of the Investee
and EITF 99-10: Percentage Used to Determine the Amount of Equity Method Losses

INT 00-24

Investment in ABC Surplus Notes	\$	5,000	
Investment in ABC Preferred Stock	\$	400,000	
Investment in ABC Common Stock	\$	130,000	
Unrealized Gain/Loss			\$ 535,000
To record 20X9 unrealized gain on investment in ABC Common, Preferred and Surplus Notes.			

Components computed as follows:

Total Net Income net of preferred stock dividend and interest on surplus notes	\$ 1,270,000
(\$1,400,000 - \$50,000 - \$80,000)	
Less amount needed to restore investment in surplus notes	<u>(\$ 10,000)</u>
Amount available for preferred stock and common stock investment	\$ 1,260,000
restoration	
Amount needed to restore preferred stock component	<u>(\$ 1,000,000)</u>
Amount available to restore common stock component	<u>\$ 260,000</u>
Surplus Notes component (\$10,000 * 50%)	\$ 5,000
Preferred Stock component (\$1,000,000 * 40%)	\$ 400,000
Common stock component (\$260,000 * 50%)	\$ 130,000

Cash	\$	10,000	
Unrealized Gain/Loss	\$	10,000	
Dividend Income			\$ 10,000
Investment in ABC Common stock			\$ 10,000
To record 20X9 dividend on ABC Common. (100,000 shares * \$.10)			

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 00-26: EITF 98-3: Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business

INT 00-26 Dates Discussed

June 12, 2000; September 11, 2000; March 5, 2006; June 11, 2006; December 10, 2006; March 10, 2007

INT 00-26 References

Current:

SSAP No. 95—Nonmonetary Transactions

Superseded:

SSAP No. 28—Nonmonetary Transactions

INT 00-26 Issue

1. The basic principle contained in APB Opinion No. 29, *Accounting for Nonmonetary Transactions* (APB No. 29) is that an exchange of nonmonetary assets should be recorded at fair value. Certain modifications to that basic principle are contained in paragraphs 20-23 of APB No. 29. Paragraph 21.b. provides that accounting for an exchange of productive assets for similar productive assets should be based on the recorded amount of the nonmonetary assets relinquished. Paragraph 4 of APB No. 29 states that Opinion is not applicable to business combinations.

2. APB Opinion No. 16, *Business Combinations* (APB No. 16) provides accounting guidance for business combinations. Paragraph 1 of APB No. 16 states that "a business combination occurs when a corporation and one or more incorporated or unincorporated businesses are brought together into one accounting entity. The single entity carries on the activities of the previously separate, independent enterprises."

3. It is not clear whether exchanges of certain types of assets, for example, radio stations, cable systems, and hotels, are considered exchanges of productive assets or business combinations.

4. The issues are whether the exchange of assets or groups of assets involving the receipt of a consolidated business can be considered an exchange of similar productive assets accounted for at historical cost pursuant to paragraph 21 of APB No. 29 and how a "business" should be defined.

5. In December of 2004, the Financial Accounting Standards Board (FASB) issued *FAS 153: Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29* (FAS 153), which addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21.b. of APB No. 29, and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. While the guidance referred to above has been amended, the statutory accounting guidance included in the following discussion is not impacted and remains in effect.

INT 00-26 Discussion

6. The Working Group reached a consensus to update the description of the issue by adding an explanatory paragraph 5, which discusses amendments to APB No. 29 resulting from FAS 153.

7. The Working Group reached a consensus to adopt the conclusions reached in EITF 98-3 with modification. APB No. 29 is adopted with SSAP No. 95. Although APB No. 16 is rejected in SSAP No. 68, the issues raised in EITF 98-3 are applicable to statutory accounting and SSAP No. 95. The modified conclusions of EITF 98-3 are outlined in paragraphs 8-15.

8. The EITF reached a consensus that the guidance below should be used to evaluate whether a business has been received in a nonmonetary exchange transaction.

9. A business is a self-sustaining integrated set of activities and assets conducted and managed for the purpose of providing a return to investors. A business consists of (a) inputs, (b) processes applied to those inputs, and (c) resulting outputs that are used to generate revenues. For a transferred set of activities and assets to be a business, it must contain all of the inputs and processes necessary for it to continue to conduct normal operations after the transferred set is separated from the transferor, which includes the ability to sustain a revenue stream by providing its outputs to customers.

10. The elements necessary for a transferred set to continue to conduct normal operations will vary by industry and by the operating strategies of the transferred set. An evaluation of the necessary elements should consider:

Inputs

- a. Long-lived assets, including intangible assets, or rights to the use of long-lived assets.
- b. Intellectual property.
- c. The ability to obtain access to necessary materials or rights.
- d. Employees.

Processes

- e. The existence of systems, standards, protocols, conventions, and rules that act to define the processes necessary for normal, self-sustaining operations, such as (i) strategic management processes, (ii) operational processes, and (iii) resource management processes.

Outputs

- f. The ability to obtain access to the customers that purchase the outputs of the transferred set.

11. A transferred set of activities and assets fails the definition of a business if it excludes one or more of the above items such that it is not possible for the set to continue normal operations and sustain a revenue stream by providing its products and/or services to customers. However, if the excluded item or items are only minor (based on the degree of difficulty and the level of investment necessary to obtain access to or to acquire the missing item(s)), then the transferred set is capable of continuing normal operations and is a business. The assessment of whether excluded items are only minor should be made without regard to the attributes of the transferee and should consider such factors as the uniqueness or scarcity of the missing element, the time frame, the level of effort, and the cost required to obtain the missing element. If goodwill is present in a transferred set of activities and assets, it should be presumed that the excluded items are minor and that the transferred set is a business.

12. The assessment of whether a transferred set is a business should be made without regard to how the transferee intends to use the transferred set. In other words, it is not relevant to the evaluation of whether the transferred set is a business whether the transferee will actually operate the set on a stand-alone basis or intends to continue using the transferred set in the same manner as the transferor.

13. If all but a de minimis amount of the fair value of the transferred set of activities and assets is represented by a single tangible or identifiable intangible asset, the concentration of value in the single asset is an indicator that an asset rather than a business is being received.

14. The level of working capital or the adequacy of financing necessary to conduct normal operations in the transferred set is not an indicator either way as to whether the set meets the definition of a business. Likewise, if the planned principal operations of the transferred set have commenced, the presence and/or expectation of continued operating losses while the set seeks to achieve the level of market share necessary to attain profitability is not an indicator of whether or not the set is a business. However, if the transferred set is in the development stage and has not commenced planned principal operations, the set is presumed not to be a business.

15. The determination of whether a transferred set of assets and activities is or is not a business is a three-step process. First, one must identify the elements included in the transferred set. Second, one must compare the identified elements in the transferred set to the complete set of elements necessary for the transferred set to conduct normal operations in order to identify any missing elements. Third, if there are missing elements, one must make an assessment as to whether the missing elements cause one to conclude that the transferred set is not a business. That assessment is based on the degree of difficulty or the level of investment (relative to the fair value of the transferred set) necessary to obtain access to or to acquire the missing elements. If the degree of difficulty and level of investment necessary to obtain access to or to acquire the missing elements are not significant, then the missing elements are considered minor and their absence would not cause one to conclude that the transferred set is not a business. The determination of the degree of difficulty or level of investment necessary to obtain access to or to acquire the missing elements requires significant judgment and is dependent on the particular facts and circumstances.

INT 00-26 Status

16. On March 10, 2007, the Working Group reached a consensus to remove SSAP No. 68 from the references section of this interpretation; as it should not be used to interpret SSAP No. 68. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 00-28: EITF 99-12: Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination

INT 00-28 Dates Discussed

June 12, 2000; September 11, 2000

INT 00-28 References

Current:

SSAP No. 68—*Business Combinations and Goodwill*

INT 00-28 Issue

1. APB No. 16, *Business Combinations* (APB No. 16) appears to include contradictory guidance about the date that should be used to value equity securities issued to effect a business combination accounted for using the purchase method. Paragraph 74 of APB No. 16 states that “the market price for a reasonable period before and after the date the terms of the acquisition are agreed to and announced should be considered in determining the fair value of securities issued.” However, paragraph 94 of APB No. 16 refers to determining the cost of an acquired company as of the date of acquisition, which is defined in paragraph 93 as, “ordinarily . . . the date assets are received and other assets are given or securities are issued.” This Issue addresses that apparent contradiction.

2. The interval between initiating and completing a business combination may involve an extended period of time. Although management of the companies involved may agree to and announce the terms of a business combination at the initiation date, internal or external contingencies, such as the need to obtain shareholder or regulatory approvals, may exist and prevent concurrent consummation of the combination. Because of the length of time that may be required to resolve those contingencies, the market price of the securities that are expected to be issued to effect a purchase business combination may fluctuate. As a result, the total cost of the acquired company assigned by the acquirer may vary significantly depending on the date that is used to value the securities that are issued.

3. The issues are:

- a. The date that should be used to value marketable equity securities of the acquirer issued to effect a business combination accounted for using the purchase method when the number of the acquirer’s shares or amount of other consideration is not subject to change pursuant to the existing terms of the acquisition agreement
- b. The date that should be used as the measurement date to value equity securities of the acquirer issued in a purchase business combination if the number of the acquirer’s shares or amount of other consideration to be issued could change pursuant to a formula in the initial acquisition agreement.

INT 00-28 Discussion

4. The Working Group reached a consensus to adopt the final conclusions reached in EITF 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination* (EITF 99-12) with modification. Although APB 16 is rejected in SSAP No. 68, the issues identified in EITF 99-12 are applicable to paragraph 3 of SSAP No. 68. The issue of cost is defined as:

3. The statutory purchase method of accounting is defined as accounting for a business combination as the acquisition of one entity by another. It shall be used for all purchases of SCA entities including partnerships, joint ventures, and limited liability companies. The acquiring reporting entity shall record its investment at cost. Cost is defined as the sum of: (a) any cash payment, (b) the fair value of other assets distributed, (c) the fair value of any liabilities assumed, and (d) any direct costs of the acquisition. Contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument shall be recorded by the issuer at fair value at the acquisition date.
5. As shown in subsection b of the excerpted paragraph above, SSAP No. 68 does not address the timing issues raised in EITF 99-12 of “other assets distributed”.
6. The modifications to the conclusions reached in EITF 99-12 are as follows:
7. The EITF reached a consensus on Issue 1 that the value of the acquirer’s marketable equity securities issued to effect a purchase business combination should be determined, pursuant to the guidance in paragraph 74 of APB No. 16, based on the market price of the securities over a reasonable period of time before and after the terms of the acquisition are agreed to and announced. In other words, the date of measurement of the value of the acquirer’s marketable equity securities should not be influenced by the need to obtain shareholder or regulatory approvals. EITF members observed that the reasonable period of time referred to in paragraph 74 of APB No. 16 is intended to be very short, such as a few days before and after the acquisition is agreed to and announced. EITF members also observed that in transactions involving a hostile tender offer, the measurement date for the value of the acquirer’s marketable equity securities occurs when the proposed transaction is announced and sufficient shares have been tendered to make the offer binding or when the proposed acquisition becomes nonhostile, as evidenced by the target company’s agreement to the purchase price.
8. The EITF also reached a consensus that if the purchase price (the number of shares or the amount of other consideration) is subsequently changed as a result of further negotiations or a revised acquisition agreement, a new measurement date for valuing the acquirer’s marketable equity securities that will be issued to effect the combination is established as of the date of the change. The Working Group clarified that if the change in the number of shares or other consideration is not substantive, a new measurement date does not result from the change.
9. The EITF addressed the accounting for contingent consideration issued to effect a purchase business combination in Issue No. 97-8, *Accounting for Contingent Consideration Issued in a Purchase Business Combination* (EITF 97-8). The measurement guidance in this Issue is to be applied to the acquirer’s equity securities issued to effect a business combination accounted for using the purchase method, including those instruments that meet the criteria in EITF 97-8 for recording as part of the cost of the business acquired. (EITF 97-8 was adopted by the Working Group in SSAP No. 68.)
10. The EITF reached a consensus on Issue 2 that if the application of the formula results in a change to the number of shares or the amount of other consideration to be issued in the purchase business combination, then the first date on which the number of acquirer shares and the amount of other consideration become fixed without subsequent revision is the measurement date. That is, the measurement date is the earliest date, from the date the terms of the acquisition are agreed to and announced to the date of final application of the formula pursuant to the acquisition agreement, on which subsequent applications of the formula do not result in a change in the number of shares or the amount of other consideration. For example, assume the terms of a purchase business combination are agreed to and announced on March 1, 1999. Also assume that the purchase agreement includes a formula arrangement that specifies that an adjustment will be made to the number of shares issued in the business combination if the average closing security price for the 10 days ending June 30, 1999, is less than \$16. If the 10-day average closing security price drops below \$16 for the first time on June 1, 1999, and does not subsequently recover to an amount equal to or greater than \$16 from June 1, 1999 through June 30, 1999, June 1, 1999 is the measurement date. However, if the originally announced number of shares or amount

of other consideration does not change as a result of final application of the formula, then the initial date that the terms were agreed to and announced is the measurement date. The EITF noted that a new measurement date does not occur as a result of the application of a nonsubstantive formula in the original agreement.

11. As another example, assume that the terms of the acquisition are agreed to and announced on March 31, 1999. The number of shares to be issued in the business combination is equal to \$20 million divided by the June 30, 1999 closing market price of the acquirer's common stock; however, if the June 30, 1999 closing market price of the acquirer's common stock is less than \$16 or greater than \$24, the exchange ratio is adjusted as follows: (a) if the closing market price is less than \$16, the acquirer will issue 1,250,000 shares of its common stock for the outstanding common shares of the target company, and (b) if the closing market price is greater than \$24, the acquirer will issue 833,000 shares of its common stock for the outstanding common shares of the target company. The variable exchange ratio represents a formula and, as a result, if the stock price changes during the period from March 31, 1999 through June 30, 1999, but remains within the \$16-\$24 range, the measurement date is June 30, 1999. However, if the acquirer's closing common stock price exceeds \$24 on June 1, 1999, and remains above \$24 through June 30, 1999, the number of shares to be issued in the transaction becomes fixed on June 1, 1999, and that date is the measurement date.

12. The EITF also reached a consensus that the securities should be valued based on market prices a few days before and after the measurement date determined in Issue 2 but that the measurement period would not include any dates after the date the business combination is consummated.

13. The EITF reached a consensus that the consensus reached on Issue 1 should only be applied prospectively to purchase business combinations consummated on or after January 1, 2001. The EITF reached a consensus that the consensus reached on Issue 2 should be applied prospectively to purchase business combinations initiated on or after January 1, 2001. An entity should apply its existing policy prior to the effective date of the consensus on Issue 2.

INT 00-28 Status

14. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 01-18: Consolidated or Legal Entity Level – Limitations on EDP Equipment, Goodwill and Deferred Tax Assets Admissibility

INT 01-18 Dates Discussed

March 26, 2001; June 11, 2001

INT 01-18 References

Current:

SSAP No. 16R—Electronic Data Processing Equipment and Software

SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements

SSAP No. 68—Business Combinations and Goodwill

SSAP No. 101—Income Taxes

Superseded:

SSAP No. 79—Depreciation of Nonoperating System Software – An Amendment to SSAP No. 16—Electronic Data Processing Equipment and Software

SSAP No. 10R—Income Taxes—A Temporary Replacement of SSAP No. 10

INT 01-18 Issue

1. Case Number 1: The reporting entity has several wholly-owned insurance company subsidiaries. The reporting entity will account for its investment in these subsidiaries at their underlying statutory equity in accordance with *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

2. Case Number 2: A reporting entity has deferred tax assets (DTAs) in excess of those that are allowed to be admitted in accordance with the guidance in *SSAP No. 101* paragraph 11. The reporting entity files a consolidated tax return with one or more affiliates. Those affiliates have deferred tax liabilities (DTLs) that exceed the remaining DTAs available for admission after application of paragraphs 11.a. and 11.b. of *SSAP No. 101* at the affiliates' legal entity level.

3. The accounting issues are:

Case Number 1:

When applying the limitations described in paragraph 11 of *SSAP No. 101*, paragraph 4 of *SSAP No. 16R*, and paragraph 7 of *SSAP No. 68* to the parent reporting entity's adjusted capital and surplus, is the reporting entity required to exclude any net deferred tax assets, EDP equipment and operating system software, and net positive goodwill included in its insurance subsidiaries' valuation? Or, is the limitation calculated solely based on the legal entity's adjusted capital and surplus?

The effect of looking solely at the legal entity is to allow for the "stacking" of intangibles, so that the parent reporting entity may effectively have more than the defined limitations "invested" in deferred tax assets, EDP equipment and operating system software and goodwill. These assets are limited at each subsidiary legal entity level.

Case Number 2:

Can the reporting entity offset its DTAs against existing gross DTLs of an affiliated entity? This offset would be pursuant to the allowance of an offset against existing DTLs under *SSAP No. 101*

paragraph 11.c. This offset would occur only after application of paragraphs 11.a. and 11.b. for both the reporting entity and the affiliate. The premise for the offset is that both entities file a consolidated federal income tax return and that future deductible items of the reporting entity are, by current tax law, able to offset future income items of the affiliate. The affiliates for this purpose would have to have a tax sharing agreement that required payment from one affiliate to another for loss usage.

INT 01-18 Discussion

4. The Working Group reached a consensus as follows:

Case Number 1:

The Working Group reached a consensus that in applying the limitations described in paragraph 11.b.ii. of SSAP No. 101, paragraph 4 of SSAP No. 16R, and paragraph 7 of SSAP No. 68 to the parent reporting entity's adjusted capital and surplus, the reporting entity shall not exclude any net deferred tax assets, EDP equipment, operating system software, and net positive goodwill included in its insurance subsidiaries valuation.

Case Number 2:

The Working Group reached a consensus that the reporting entity shall not offset its DTAs against existing gross DTLs of an affiliated entity.

INT 01-18 Status

5. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 01-25: Accounting for U.S. Treasury Inflation-Indexed Securities

INT 01-25 Dates Discussed

June 11, 2001; October 16, 2001; September 10, 2002; December 8, 2002; December 10, 2016; April 8, 2017

INT 01-25 References

Current:

SSAP No. 26R—Bonds

INT 01-25 Issue

1. Treasury inflation-indexed securities are direct obligations of the United States government, and are backed by the full faith and credit of the government.¹ The principal is protected against inflation. Since the principal is indexed to the Consumer Price Index and grows with inflation, the investor is guaranteed that the real purchasing power of the principal will keep pace with the rate of inflation (Based on the Reference CPI-U, which has a three-month lag). Although deflation could cause the principal to decline, Treasury will pay at maturity an amount that is no less than the par amount as of the date the security was first issued.

2. Interest is also protected from inflation. The investor will receive semiannual interest payments, based on a fixed semiannual interest rate applied to the inflation-adjusted principal, so that the investor is guaranteed a real rate of return above inflation.

Summary of the Structure and Index:

Principal amount. The principal amount of Treasury inflation-indexed securities will be adjusted for changes in the level of inflation. The inflation-adjusted principal amount of the securities can be calculated daily. However, the inflation adjustment will not be payable by Treasury until maturity, when the securities will be redeemed at the greater of their inflation-adjusted principal amount or the principal amount of the securities on the date of original issuance (i.e., par).

Index. The index for measuring the inflation rate will be the nonseasonally adjusted CPI-U (U.S. City Average All Items Consumer Price Index for All Urban Consumers). CPI-U was selected by Treasury because it is the best known and most widely accepted measure of inflation.

Interest payments. Every six months Treasury will pay interest based on a fixed rate of interest determined at auction. Semiannual interest payments are determined by multiplying the inflation-adjusted principal amount by one-half the stated rate of interest on each interest payment date.

Payment at maturity. If at maturity the inflation-adjusted principal is less than the par amount of the security (due to deflation), the final payment of principal of the security by Treasury will not be less than the par amount of the security at issuance. In such a circumstance, Treasury will pay an additional amount at maturity so that the additional amount plus the inflation-adjusted principal amount will equal the par amount of the securities on the date of original issuance. Initially, the securities will be issued with a 10-year maturity; however, Treasury expects to issue other maturities over time.

¹ The guidance prescribed within this interpretation is limited to treasury inflation-indexed securities backed by the full faith and credit of the United States Government. Inflation-indexed securities of foreign governments shall not follow the guidance within this interpretation and shall be accounted for and reported according to the applicable SSAP without adjustments for the inflation factor.

Stripping. The securities will be eligible for the STRIPS program (Separate Trading of Registered Interest and Principal of Securities) as of the first issue date. Unlike the conventional STRIPS program, however, interest components stripped from different inflation-indexed securities, at least initially, will not be interchangeable or fungible with interest components from other securities, even if they have the same payment or maturity date.

3. The accounting issue is how should changes to inflation-adjusted principal be recorded?
4. At the September 10, 2002 and December 8, 2002 the Working Group expanded this interpretation to address specific questions regarding U.S. Treasury Inflation-Indexed Securities purchased at either a premium or discount and how the inflation adjustment interacts with any such premium or discount, as well as the calculation of each of these amounts.
5. The following example will be used to highlight issues concerning the amortization of premium and inflation adjustment for a typical security:

Assume:

Par value of TIP security	\$500,000
Inflation factor at date of purchase	1.12075
Price at date of purchase	102.96875
Original issue date 6/30/X0	
Purchase date 06/30/X6	
Maturity date 06/30/X10	

Amount of inflation adjustment at date of purchase (\$500,000 * .12075)	\$60,375
Total purchase price (\$500,000*1.12075*1.0296875)	\$577,011
Premium at date of purchase (\$577,011 - \$500,000 - \$60,375)	\$16,636

6. The issues are:
 - Issue a. – If accretion or amortization should be recognized over the period of time the security is owned.
 - Issue b. – Assuming that at the end of the accounting period, 12/31/X6, the inflation factor is 1.13000, what the correct book value of the security would be.
 - Issue c. – Assuming that at the end of the accounting period, 12/31/X6, the inflation factor is 1.12000, what the correct value of the security would be.
 - Issue d. – How changes in accounting treatment would be handled.

INT 01-25 Discussion

7. At its October 16, 2001 meeting, the Working Group reached a consensus that the inflation adjustment be recognized as an unrealized gain until such time as it is paid, at which time it should be recognized as a realized gain. If there is a deflation adjustment, such amounts should only be recognized to the extent of any previously recognized inflation adjustment for that particular security, (reduce any unrealized gain on that security to zero) as the investor is guaranteed at maturity to receive at least the par amount of the security. (See paragraph 8.c. below for amendments to this paragraph adopted at the December 8, 2002 meeting.)

8. At its December 8, 2002 meeting, the Working Group reached a consensus on the following issues related to the purchase of a treasury inflation-indexed security at either a premium or a discount, how the inflation adjustment interacts with any such premium or discount, as well as the calculation of each of these amounts.

Issue a. – The \$16,636 premium paid for the security should be amortized over the remaining life of the security. Therefore, if the inflation adjustment factor never changed from the 1.12075 at date of purchase, the security would have a book value at maturity of \$560,375, the amount the reporting entity would receive at maturity date ($\$500,000 \times 1.12075$).

Issue b. – The reporting entity should record the unrealized gain/loss based on the difference in the inflation factor times the par amount, and amortize the premium over the remaining life of the security.

Issue c. – In the case where the inflation factor is reduced to a factor not less than 1.0000, the reporting entity should reflect the change in the inflation adjustment as well as amortization of premium. Paragraph 7 of this interpretation is amended as follows:

7. The Working Group reached a consensus that the inflation adjustment be recognized as an unrealized gain until such time as it is paid, at which time it should be recognized as a realized gain. If there is a deflation adjustment, such amounts should only be recognized to the extent the inflation factor is not reduced to an amount less than 1.0000 as the investor is guaranteed at maturity to receive at least the par amount of the security.

Issue d. - A change in accounting principle should be recorded per the requirements of *SSAP No. 3—Accounting Changes and Corrections of Errors*, paragraph 5:

5. The cumulative effect of changes in accounting principles shall be reported as adjustments to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principle had been applied retroactively for all prior periods.

In the specific question noted, if the reporting entity is currently recognizing both amortization of premium as well as the change in the inflation adjustment factor as amortization of premium, there should not be a cumulative effect on surplus to record.

INT 01-25 Status

9. No further discussion is planned.

10. On April 8, 2017, the Statutory Accounting Principles (E) Working Group modified this interpretation, adding footnote 1 to clarify that the guidance within this interpretation is only applicable to Treasury inflation-indexed securities backed by the full faith and credit of the United States Government.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 01-31: Assets Pledged as Collateral

INT 01-31 Dates Discussed

October 16, 2001; December 10, 2001; March 18, 2002; September 12, 2004; December 5, 2004; March 3, 2012; August 31, 2012

INT 01-31 References

Current:

SSAP No. 4—Assets and Nonadmitted Assets

SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

INT 20-06: Participation in the 2020 TALF Program

Superseded/Nullified:

SSAP No. 18—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

SSAP No. 33—Securitization

SSAP No. 45—Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements

SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

INT 99-02: Accounting for Collateral in Excess of Debt Principal

INT 01-31 Issue

1. Insurers may enter into certain transactions that require the granting of a security interest in certain assets to another party to serve as collateral for their performance under a contract. The arrangement is commonly referred to as a pledge, typically accomplished by delivery of assets to the secured party or to an independent custodian. In these transactions, the pledging insurer typically (1) continues to receive the income on the pledged collateral and (2) can remove and substitute other securities with little or no advance notice to the secured party as long as they comply with related investment quality and market value agreement provisions. Examples include collateral pledged under investment, derivative, debt obligations and policyholder transactions.
2. Specific examples of collateral pledged for derivative and investment transactions include but are not limited to: (1) securities posted with a broker as margin for futures and options transactions, (2) securities pledged to secure credit exposure with swap counterparties, (3) securities pledged under reverse repurchase agreements or securitizations that are accounted for as secured borrowing transactions and (4) securities pledged under securities lending transactions.
3. Specific examples of collateral pledged for debt obligations and policyholder transactions include but are not limited to assets pledged to secure (1) debt borrowings from or insurance contracts issued to banking entities and (2) insurance contracts issued to governmental entities such as municipalities.
4. Under these transactions, the fair value of the securities pledged as collateral may exceed the contract balance (swap fair value, advance balance, policyholder account balance, etc). For this interpretation, this excess carrying value of securities pledged over the corresponding asset or contract balance is called the “overcollateralization” amount.
5. The accounting issue is whether the assets pledged as collateral under the various transactions mentioned above should be considered admitted assets.

INT 01-31 Discussion

6. The Working Group reached a consensus that if the collateral had not been pledged in the examples described above, it is assumed the underlying asset would be recorded as an admitted asset under SSAP No. 4 (e.g. they are readily marketable assets available to meet both current and future policyholder obligations). In addition, it is assumed that the asset would not be considered impaired under SSAP No. 5R due to a default, fair value decline, or other loss contingency.

7. Therefore, for the examples described above, the pledging insurer would record the collateral (including the overcollateralization amount) as an admitted asset until they have committed a contract default that has not been cured in accordance with the contract provisions. This accounting is in accordance with the provisions of SSAP No. 103R. This consensus of reporting collateral as an admitted asset is further supported by SSAP Nos. 4 and 5 since generally, the insurer can readily substitute pledged assets. Additionally, an insurer may typically unwind the transaction allowing the assets to be available to the pledging insurer to meet policyholder obligations. Furthermore, no event has occurred to indicate an impairment or potential loss contingency with respect to such pledged assets. The fact that some pledged assets may constitute an overcollateralization amount does not change this analysis. Accordingly, all assets pledged in support of these type transactions should also be admitted.

8. At the time of an uncured default, the provisions of paragraph 20 of SSAP No. 103R shall be used to determine the appropriate accounting treatment for the collateral. If the secured party utilizes collateral to offset all or a portion of the liability owed by the pledging insurer as a result of the default, then the collateral amount utilized to offset the liability shall be removed from the balance sheet. At the same time, the amount of the liability that was offset should be removed from the balance sheet since that obligation has been satisfied through the secured party's utilization of that collateral. To the extent that an uncured default remains without the secured party utilizing the collateral to offset the obligation, the pledging insurer should only record an admitted asset for the amount of collateral that it can redeem.

INT 01-31 Status

9. As of March 18, 2002, the consensus position of this interpretation is consistent with the position of the NAIC Invested Asset (E) Working Group. This interpretation will be reviewed by the FAS 140 Subgroup of the NAIC Statutory Accounting Principles (E) Working Group in conjunction of its consideration of incorporating GAAP pronouncement *FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125* into the statutory accounting model. As such, this interpretation is subject to amendment pending disposition of the FAS 140 Subgroup's review of collateral and FAS 140 in its entirety.

10. On September 12, 2004, the Working Group noted that the review of FAS 140 was complete and INT 01-31 was listed as an interpretation of SSAP No. 91R. On March 3, 2012, the Working Group adopted with modification *FAS 166—Accounting for Transfers of Financial Assets, an Amendment of FAS 140* (FAS 166). With this adoption, there was no change to the consensus opinion within this interpretation, and this INT was listed as an interpretation of SSAP No. 103R.

11. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 02-22: Accounting for the U.S. Terrorism Risk Insurance Program

INT 02-22 Dates Discussed

December 8, 2002; March 9, 2003; March 24, 2018

INT 02-22 References

Current:

SSAP No. 35R—Guaranty Fund and Other Assessments

SSAP No. 62R—Property and Casualty Reinsurance

INT 02-22 Issue

1. The Terrorism Risk Insurance Act of 2002 establishes a temporary Federal program in the Department of the Treasury that provides for a system of shared public and private compensation for insured losses resulting from acts of terrorism, i.e., subject losses. The Terrorism Insurance Program (or the “Program”) requires that all entities that meet the definition of an insurer under the act (generally, commercial property/casualty insurers that are licensed in the U.S.) participate in the Program. The Program becomes effective upon enactment and runs through December 31, 2005. (For purposes of the act, there is a “Transition Period” that runs from enactment through December 31, 2002, and three “Program Years” that run from January 1st through December 31st of 2003, 2004, and 2005, respectively.) The amount of compensation paid to participating insurers under the Program is 90% of subject losses, after an insurer deductible, and subject to an annual cap. The deductible under the Program is 1% for the Transition Period, 7% for Program Year 1, 10% for Program Year 2, and 15% for Program Year 3. In each case, the deductible percentage is multiplied times the insurer’s direct earned premiums from the calendar year immediately preceding the respective Transition or Program year. The annual cap limits the amount of terrorism losses paid by insurers and the amount of Federal reimbursement and is \$100 billion for Program Year 1 (combined with the Transition Period), Program Year 2, and Program Year 3

2. The Program provides for the establishment of a mandatory surcharge on all covered policyholders to provide for recoupment of defined losses paid by the Department of Treasury. To the extent that the amount of Federal financial assistance exceeds the amount recovered through the mandatory surcharge, the Department of Treasury may impose a second surcharge. The two surcharges combined may not exceed 3% of the annual premium charged for the insured policy. The Program provides that the Department of the Treasury shall collect the surcharges and further provides that insurers shall collect the surcharges and remit such amounts collected to the Department of Treasury.

3. The issues are:

Issue 1: Does the Program result in a transfer of underwriting risk for terrorism losses to the Department of Treasury and, if so, how should the recovery from the Department of Treasury for terrorism losses be accounted for by insurers?

Issue 2: How should the imposition of the surcharges on policyholders by the Department of Treasury be accounted for by insurers?

INT 02-22 Discussion

4. The Working Group reached a consensus as follows:

Issue 1: Because the Program results in losses from acts of terrorism (above the defined insurer deductibles) being paid by the Department of Treasury, there is a transfer of insurance risk and accordingly, the recovery of such losses should be reported as reinsured losses.

Issue 2: Because the terrorism loss risk-spreading premium is imposed on policyholders as a surcharge and the Department of Treasury provides for insurers to collect the surcharge “and remit amounts collected to the Secretary,” the surcharge generally meets the requirements of paragraph 16 of SSAP No. 35R and should be accounted for as such.

INT 02-22 Status

5. No further discussion is planned.
6. This interpretation will remain in effect as long as the Terrorism Risk Insurance Act is authorized by the U.S. Congress.

Not for Distribution

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 03-02: Modification to an Existing Intercompany Pooling Arrangement

INT 03-02 Dates Discussed

March 9, 2003; June 22, 2003

INT 03-02 References

Current:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

SSAP No. 62R—Property and Casualty Reinsurance

SSAP No. 63—Underwriting Pools

INT 03-02 Issue

1. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions or a restructuring of the group's legal entity structure. As an insurance group's business objectives and strategies evolve, it may be necessary for the insurance group's legal entity structure to similarly evolve in order to address the insurance group's business needs.
2. SSAP No. 63, paragraphs 5 and 7, defines and describes intercompany pooling as an arrangement among affiliated entities whereby "all of the pooled business is ceded to the lead entity and then retroceded back to the pool participants in accordance with their stipulated shares." This arrangement is established through "a conventional quota share reinsurance agreement..." Arrangements whereby there is one lead company that retains 100% of the pooled business and all or some of the affiliated companies have a 0% net share of the pool may qualify as intercompany pooling."
3. Therefore, in order to effectuate a modification to the existing intercompany pooling arrangement, companies must either 1) amend the existing reinsurance agreement, or 2) execute new agreements. The latter scenario may entail executing at least two agreements: a commutation of the existing agreement, and a new quota share agreement(s) that covers both past and future periods.
4. To illustrate, in order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company must commute the existing pooling agreement and execute a new quota share agreement(s). In conjunction with executing the appropriate reinsurance agreements, a transfer of assets and liabilities amongst the impacted affiliates is also required in order to implement the new reinsurance agreement(s). At issue is the appropriate valuation basis to be used for assets and liabilities that are transferred pursuant to the new reinsurance agreement(s).
5. Since SSAP No. 63 does not specifically address modifications to intercompany pooling arrangements, insurance groups that modify their intercompany pooling arrangements must refer elsewhere in Statutory Accounting Principles (SAP) for relevant guidance. The obvious guidance for such transactions is SSAP No. 62R since an intercompany pooling arrangement is, by definition, affiliated reinsurance. There is, however, a minority opinion that *SSAP No. 25—Affiliates and Other Related Parties* appears to apply due to the affiliated nature of these transactions. Since the guidance and intent of SSAP No. 62R and SSAP No. 25 provide for different valuation bases, this interpretation serves to provide definitive guidance as to which SSAP is relevant for these transactions and, therefore, clarify the

appropriate valuation basis to be used for assets and liabilities transferred pursuant to a modification to an intercompany pooling arrangement.

SSAP No. 62R Approach:

6. This approach refers to the guidance and statutory accounting intent from SSAP No. 62R since intercompany pooling arrangements are defined and established through reinsurance. Further, since modifications to intercompany pooling agreements typically involve the transfer of net liabilities incurred since the inception of the existing pooling agreement (i.e., prior to the effective date of the new agreement), the retroactive reinsurance accounting guidance in paragraphs 33-39 of SSAP No. 62R is applicable. Paragraph 33 states that this special accounting treatment is warranted “due to the potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results...” However, paragraph 36.d. specifically applies to intercompany reinsurance arrangements, and amendments to intercompany reinsurance agreements, since the reinsurance agreement is among companies 100% owned by a common parent. This paragraph allows prospective accounting treatment for intercompany reinsurance agreements that do not result in a gain in surplus as a result of the transaction.

7. To provide historical perspective, prior to the adoption (with modification) of FASB *Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) as SAP, paragraph 36.d. was added as one of the SAP modifications. The intent of adding paragraph 36.d. was to specifically exclude intercompany reinsurance agreements among entities 100% owned by a common parent from retroactive reinsurance accounting requirements as a result of amending or modifying these agreements, provided there is no surplus gain. The presumption in this intent was that there would be no gains to the ceding entity resulting from implementing amendments or modifications to these types of reinsurance agreements.

8. Therefore, based on the foregoing guidance and background, the statutory accounting intent is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. On that basis, such a modification does not represent an economic transaction to the insurance group or to the impacted companies. As such, the transfer of both the assets and the liabilities valued at statutory book value ensures that there is no impact to surplus as a result of implementing a modification to an existing pooling arrangement.

SSAP No. 25 Approach:

9. An approach different from that which refers to reinsurance accounting guidance is to refer to the guidance in SSAP No. 25 since some may view a modification to an intercompany pooling agreement as a related party transaction involving the exchange of assets or liabilities. In this case, paragraphs 14-18 of SSAP No. 25 would appear applicable. This guidance specifies differing valuation bases, depending on whether the transaction is considered an economic or a non-economic transaction. SSAP No. 25, paragraph 15, states that “...The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed ...” Since insurance groups often modify intercompany pooling arrangements, this type of transaction is not permanent, and may be construed as a non-economic transaction. SSAP No. 25, paragraph 19.b., states that “non-economic transactions ... shall be recorded at the lower of existing book value or fair value at the date of the transaction.”

10. It appears that this guidance is intended to address matters involving discrete or isolated transfers of assets and/or liabilities between affiliates rather than transfers of assets and liabilities effected in relation to executing reinsurance transactions (the guidance for which is SSAP No. 62R). Additionally, application of this guidance would result in a change to the surplus of the insurance group as a result of implementing a modification to an existing intercompany pooling arrangement. As previously stated, the

statutory accounting intent is to avoid surplus gains for the insurance group as a result of implementing a modification to an intercompany pooling arrangement.

11. The accounting issues are:
 - a. What is the relevant guidance for modifications to intercompany pooling arrangements?
 - b. What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?

INT 03-02 Discussion

The Working Group reached a consensus as follows:

12. SSAP No. 62R provides accounting for property and casualty reinsurance agreements including specific guidance on intercompany pooling agreements. SSAP No. 62R provides two methods of accounting for changes in intercompany pooling agreements, depending on whether or not the pooling results in a gain in surplus.

13. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*.

INT 03-02 Status

14. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 04-17: Impact of Medicare Modernization Act on Postretirement Benefits

INT 04-17 Dates Discussed

September 14, 2004; December 5, 2004

INT 04-17 References

Current:

SSAP No. 92—Postretirement Benefits Other Than Pensions

Superseded:

SSAP No. 10R—Income Taxes

SSAP No. 14—Postretirement Benefits Other Than Pensions

SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8

INT 04-17 Issue

1. In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) became law. Under the Act, starting in 2006, retirees will have the ability to obtain prescription drug benefits through a new Medicare Part D program and companies that continue to provide postretirement prescription drug benefits to their retirees may be eligible to receive a new federal subsidy.

2. In May 2004, FASB adopted the Board directed FASB Staff Position (FSP) *FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP FAS 106-2). The guidance found in FSP FAS 106-2 superseded the earlier guidance in *FSP FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* and was intended as being the final guidance on this subject.

3. Questions have arisen regarding whether an employer that provides postretirement prescription drug coverage should recognize the effects of the Act on the plan's accumulated postretirement benefit obligation (APBO) and the employer's postretirement benefit costs and, if so, when and how to account for those effects.

INT 04-17 Discussion

4. The Working Group reached a consensus to adopt the final conclusions reached in FSP FAS 106-2 with the following modifications:

- a. Postretirement benefits should be accounted for in accordance with SSAP No. 92.
- b. Income Taxes should be accounted for in accordance with SSAP No. 101.
- c. Calculations shall not exclude non-vested employees.
- d. Any references to *FSP FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* are removed as this guidance was superseded by FSP FAS 106-2.
- e. The effective date is universal for both public and non-public entities.

5. Per FSP FAS 106-2:

3. The guidance in this FSP related to accounting for the subsidy applies only to the sponsor of a single-employer defined benefit postretirement health care plan for which (a) the employer has concluded that prescription drug benefits available under the plan to some or all participants for some or all future years are “actuarially equivalent” to Medicare Part D and thus qualify for the subsidy under the Act and (b) the expected subsidy will offset or reduce the employer’s share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. This interpretation also provides guidance for the disclosures about the effects of the subsidy for an employer that sponsors a postretirement health care benefit plan that provides prescription drug coverage but for which the employer has not yet been able to determine actuarial equivalency.

4. Although this FSP provides limited guidance on certain other related aspects of accounting and disclosure necessitated by the Act (for example, changes in assumed participation rates and health care cost trend rates, as well as income tax accounting) that guidance is not intended to supersede or in any way limit the application of other relevant authoritative literature. This FSP does not address the accounting for the subsidy in situations that may arise in which the expected subsidy exceeds the employer’s share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. It also does not address accounting for the subsidy by multiemployer health and welfare benefit plans or by the sponsors or participating employers of those plans.

6. The Act introduces two new features to Medicare that an employer needs to consider in determining those measurements: (a) a subsidy that is based on 28 percent of an individual beneficiary’s annual prescription drug costs between \$250 and \$5,000 (subject to indexation and the provisions of the Act as to “allowable retiree costs”) and (b) the opportunity for a retiree to obtain a prescription drug benefit under Medicare.

7. Per FSP FAS 106-2:

9. An employer’s eligibility for the 28 percent subsidy depends on whether the prescription drug benefit available under its plan is at least “actuarially equivalent” to the Medicare Part D benefit. At present, detailed regulations necessary to implement the Act have not been issued, including those that would specify the manner in which actuarial equivalency must be determined, the evidence required to demonstrate actuarial equivalency, and the documentation requirements necessary to be entitled to the subsidy.¹ In addition, the magnitude of the subsidy for an employer depends on how many of the employer’s Medicare-eligible retired Plan participants choose not to enroll in the *voluntary* Medicare Part D plan. Further, specific regulations regarding the payment/reimbursement mechanism for the subsidy are yet to be defined by the appropriate administrative agency. Accordingly, questions have been raised regarding whether the subsidy is substantively similar to other Medicare benefits that existed when Statement 106 was issued and therefore should be accounted for as a reduction of the APBO and net periodic postretirement benefit cost, or whether the subsidy represents a payment to the employer that is determined by reference to its plan’s benefit payments but is not, in and of itself, a direct reduction of postretirement benefit costs. Under either view, there is also a question as to when the subsidy should be given accounting recognition.

Effect on Per Capita Claims Cost

10. Regardless of the impact of the subsidy, the existence of prescription drug coverage under Medicare Part D may have an effect on an employer’s per capita claims cost for a plan that currently provides a prescription drug benefit. That effect depends on (a) whether current and future retirees (or their beneficiaries under the employer-sponsored plan) enroll in the voluntary

¹ Section 1860D-11(c) of the Social Security Act, as amended by the Act, states that “the Secretary [of Health and Human Services] shall establish processes and methods for determining the actuarial valuation of prescription drug coverage.”

Medicare Part D plan and (b) the Act's macro-socioeconomic effects on health care cost trends and consumers' behavior.

Plan Amendments

11. In response to the Act, or for other reasons, an employer may amend an existing plan (or establish a new one). To the extent that an employer amends a plan (positively or negatively), the APBO will be affected by the direct effects of the change in benefits attributed to employee services already rendered. If an amendment changes the determination as to the actuarial equivalency of benefits available under the plan, the expected subsidy to the employer also will change.

Income Tax Accounting

12. The Act excludes receipt of the subsidy from the taxable income of the employer for federal income tax purposes.² Accordingly, this interpretation addresses how that provision affects the accounting for the temporary difference related to the employer's accrued postretirement benefit cost under Statement 109, *Accounting for Income Taxes*.

FASB Staff Position

13. Paragraph 35 of Statement 106 specifies that health care coverage provided by Medicare shall be taken into account in measuring the employer's postretirement health care benefit obligation. Paragraph 40 of Statement 106 requires presently enacted changes in relevant laws to be considered in current period measurements of net periodic postretirement benefit cost and the APBO. Therefore, under that guidance, measures of the APBO and net periodic postretirement benefit cost on or after the date of enactment shall reflect the effects of the Act.

Effect of the Subsidy on Benefits Attributable to Past Service

14. When an employer initially accounts for the subsidy pursuant to the effective date and transition guidance in paragraphs 23–32, its effect on the APBO shall be accounted for as an actuarial experience gain pursuant to paragraphs 56 and 59 or 60 of Statement 106.

Effect of the Subsidy on Current Measures of Net Periodic Postretirement Benefit Cost

15. Because the subsidy affects the employer's share of its plan's costs, the subsidy is included in measuring the costs of benefits attributable to current service. Therefore, the subsidy reduces service cost (as defined in paragraph 47 of Statement 106) when it is recognized as a component of net periodic postretirement benefit cost.

Changes in Estimates

16. If an estimate of the expected subsidy subsequently changes—as a result of changes in regulations or legislation, changes in the underlying estimates of postretirement prescription drug costs, or for reasons other than a plan amendment—the effect of the change in estimate is an actuarial experience gain or loss pursuant to paragraph 56 of Statement 106.

Plan Amendments

17. If prescription drug benefits currently available under an existing plan are deemed not actuarially equivalent as of the date of enactment of the Act, but the plan is subsequently amended to provide actuarially equivalent benefits, the direct effect of the plan amendment on the APBO (that is, the effect of only the change in prescription drug coverage) and the effect on the APBO from any resulting subsidy to which the employer is expected to be entitled as a result of the amendment shall be combined. If that combined effect reduces the APBO, it is deemed to be an actuarial experience gain pursuant to paragraph 56 of Statement 106. If the combined effect

² New Section 139A of the Internal Revenue Code established by Section 1202 of the Act.

increases the APBO, it is deemed to be prior service cost that shall be accounted for pursuant to paragraphs 50-54 of Statement 106.

18. A plan that provides prescription drug benefits that previously were deemed actuarially equivalent under the Act may be subsequently amended to reduce its prescription drug coverage and that reduced coverage may not be considered actuarially equivalent. In that circumstance, any actuarial experience gain related to the subsidy previously recognized is unaffected. However, the combined net effect on the APBO of (a) the subsequent plan amendment that reduces benefits under the plan and thus disqualifies the benefits as actuarially equivalent and (b) the elimination of the subsidy shall be accounted for as prior service cost (credit) as of the date the amendment is adopted.

Income Tax Accounting

19. In the periods in which the subsidy affects the employer's accounting for the plan, it shall have no effect on any plan-related temporary difference accounted for under Statement 109 because the subsidy is exempt from federal taxation. That is, the measure of any temporary difference shall continue to be determined as if the subsidy did not exist. To illustrate, consider the following simple example.

Prior to the adoption of this FSP, an employer's carrying amount of accrued postretirement benefit cost (the amount recognized in the statement of financial position) is \$100 for a noncontributory, unfunded prescription drug benefit plan with only inactive participants who are not yet eligible to collect benefits. Assuming a tax rate of 35 percent and no corresponding tax basis for the accrued postretirement benefit cost, the employer would report a \$35 deferred tax asset related to that \$100 deductible temporary difference. Because the employer has a policy of amortizing gains and losses under paragraph 59 of Statement 106, upon adoption of the FSP and recognition of a \$28 actuarial gain resulting from the subsidy, neither the carrying amount of accrued postretirement benefit cost nor the deferred tax asset would change. Subsequently, ignoring interest on the APBO (which includes interest on the subsidy), as the actuarial gain related to the subsidy is amortized as a component of net periodic postretirement benefit cost, the carrying amount of accrued postretirement cost would be reduced. However, the associated temporary difference and deferred tax asset would remain unchanged. That is, after the gain related to the subsidy is amortized in its entirety, the carrying amount of accrued postretirement benefit cost would be \$72, and the deferred tax asset would remain at \$35.

For purposes of simplicity, this example ignores complexities regarding the amount and timing of the subsidies reflected in the carrying amount of accrued postretirement benefit cost arising from any of the following: (a) netting gains and losses and application of the corridor amortization approach described in paragraph 59 of Statement 106, (b) recognition of additional subsidies through amortization of prior service costs that include effects of the subsidy, or (c) reduction in future service and interest costs. Those complexities must be considered in determining the temporary difference on which the deferred tax effects under Statement 109 will be based. However, providing detailed guidance on the application of Statement 109 to postretirement benefits other than pensions is beyond the scope of this FSP.

INT 04-17 Disclosures

8. Per FSP FAS 106-2:

20. Until an employer is able to determine whether benefits provided by its plan are actuarially equivalent, it shall disclose the following in financial statements for interim or annual periods:

a. The existence of the Act

- b. The fact that measures of the APBO or net periodic postretirement benefit cost do not reflect any amount associated with the subsidy because the employer is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.
9. In interim and annual financial statements for the first period in which an employer includes the effects of the subsidy in measuring the net postretirement benefit cost and the first period in which an employer includes the effects of the subsidy in measuring net periodic postretirement benefit cost, it shall disclose the following:
- a. The reduction in the net postretirement benefit cost for the subsidy related to benefits attributed to former employees.
 - b. The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period. That effect includes (1) any amortization of the actuarial experience gain in (a) as a component of the net amortization called for by paragraph 49 of SSAP No. 92, (2) the reduction in current period service cost due to the subsidy, and (3) the resulting reduction in interest cost on the net postretirement benefit cost as a result of the subsidy.
 - c. Any other disclosures required by paragraph 66.p. of SSAP No. 92 which requires disclosure of “An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this statement.”
10. For purposes of the disclosures required by paragraph 66.a. of SSAP No. 92, an employer shall disclose gross benefit payments (paid and expected, respectively), including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively).

INT 04-17 Effective Date and Transition

11. This interpretation is effective for reporting years beginning on or after January 1, 2005 with early adoption allowed. A change resulting from adoption of this interpretation should be accounted for as detailed in paragraphs 12 and 13. A change resulting from the adoption of this interpretation shall be accounted for as a change in accounting principle in accordance with SSAP No. 3.
12. Per FSP FAS 106-2:
24. ... If the effects of the Act—including the subsidy, if any, changes in participation rates, and changes in estimated health care costs—cause the employer to conclude that enactment of the Act was not a “significant event” pursuant to paragraph 73 of Statement 106, the effects of the Act shall be incorporated in the next measurement of plan assets and obligations otherwise required by Statement 106 following the effective date of this FSP. If an employer concludes that enactment of the Act was a significant event, but either (a) benefits available under its plan are not actuarially equivalent to Medicare Part D or (b) the employer is unable to conclude (refer to paragraph 33) whether any benefits are actuarially equivalent, it shall measure any effects of the Act other than the subsidy (for example, changes in estimated participation rates or health care costs) at the next measurement date for plan assets and obligations required by paragraphs 28–32 of this FSP.
13. Per FSP FAS 106-2:
27. For a plan (a) that provides benefits that are considered actuarially equivalent as of the date of enactment, based on information that is available as of the date of adoption of this interpretation, and (b) for which enactment of the Act was a significant event, this interpretation provides two alternative methods of transition—retroactive application to the date of enactment (paragraphs 28–29) or prospective application from the date of adoption (paragraph 30).

Retroactive application to date of enactment

28. When this FSP is initially adopted, a remeasurement of the plan's assets and APBO, including the effects of the subsidy, if applicable, as well as the other effects of the Act, shall be made as of the earlier of (a) the plan's measurement date that normally would have followed enactment of the Act or (b) the end of the employer's interim or annual period that includes the date of the Act's enactment. As an alternative, employers are permitted, but not required, to perform that remeasurement as of the date of enactment. The measurement of the APBO shall be based on the plan provisions in place on the measurement date. Plan amendments occurring after the measurement date pursuant to (a) or (b) above shall not be anticipated in performing that measurement. However, if prior to the effective date of this FSP, a plan is amended so as to not be considered actuarially equivalent, the employer shall not reflect any effects of the subsidy in the transitional measurements required by this FSP. If the prescription drug coverage provided by a plan was amended after December 8, 2003, but before January 31, 2004 (the date before which plan amendments would not cause the deferral provided by FSP FAS 106-1 to expire), the effects of the prescription drug plan amendment and the consequential effects of the subsidy shall be accounted for pursuant to the applicable guidance in either paragraph 17 or 18 of this FSP.

29. The effects of measuring plan assets and obligations under paragraph 28 generally will not affect the accrued or prepaid postretirement benefit cost reported in the employer's statement of financial position as of the measurement date.³ However, those measurements will affect net periodic postretirement benefit cost for periods subsequent to the date of the re-measurement.⁴ To the extent that previously issued financial reports for periods prior to the effective date of this FSP would have been affected by the remeasurement of plan assets and obligations under paragraph 28, the requirements in paragraph 20 of APB Opinion No. 20, Accounting Changes, and paragraph 10 of FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, as applicable, shall be followed.⁵ In calculating the effects on prior periods, the guidance in paragraphs 17 and 18 of this FSP applies to plan amendments adopted subsequent to the measurement date described in paragraph 28 but before the effective date of this FSP. The effects of any such amendment shall be determined as of the date the plan amendment is adopted. The following examples illustrate the application of the provisions in this paragraph.

Example A—Calendar Year-End, September 30 Measurement Date

Calendar Company, a public company, sponsors a postretirement health care benefit plan that provides prescription drug coverage. It has a December 31 year-end for financial reporting purposes and uses a September 30 measurement date pursuant to paragraph 72 of Statement 106. Calendar Company elected to defer any accounting for the effects of the Act pursuant to FSP FAS 106-1 and made that election in the quarter ending March 31, 2004, the first period in which the plan's accounting for the effects of the Act normally would have been reflected in Calendar Company's financial statements.

Calendar Company adopts the guidance in this FSP as of July 1, 2004, the beginning of its third quarter. Calendar Company and its actuarial advisors determine that benefits provided by the plan as of the date of enactment were at least actuarially equivalent to

³ The paragraph 28 measurement would affect the statement of financial position if, pursuant to paragraph 60 of Statement 106, the employer has a policy of immediately recognizing gains and losses.

⁴ Depending on the measurement date selected for the plan pursuant to paragraph 72 of Statement 106, the net periodic postretirement benefit cost may not be affected by the Act in the employer's reporting period immediately following the measurement required by paragraph 28. For example, for a public company with a December 31 fiscal year-end, the end of the employer's interim period that includes the date of enactment would be December 31, 2003. If that employer uses a September 30 measurement date pursuant to paragraph 72 of Statement 106, the effects of the Act on the plan would first affect net periodic postretirement benefit cost in the employer's interim period that begins April 1, 2004.

⁵ Paragraph 10 of Statement 3 states that no cumulative effect of a change in accounting principle shall be included in net income of the interim period, other than the first interim period, in which the change is adopted. However, financial information for the pre-change interim periods of the fiscal year in which the change is made shall be restated on the basis of the new accounting principle whenever those pre-change interim periods are subsequently presented.

Medicare Part D, and, accordingly, Calendar Company will be entitled to the subsidy. Calendar Company performs an interim measurement of the effects of the Act on the APBO as of December 31, 2003, the end of its interim (and annual) period that includes the date of the Act's enactment and determines that the aggregate effect on service cost, interest cost, and amortization of gains and losses results in a reduction of \$500 in annual net periodic postretirement benefit cost compared to that amount calculated without considering the effects of the Act.

The effect of applying this FSP has no cumulative effect on Calendar Company's retained earnings as of December 31, 2003. Because Calendar Company uses a September 30 measurement date, the accounting for the plan is reflected in Calendar Company's financial statements on a one-quarter lag. Therefore, the Act had no effect on net periodic postretirement benefit cost for the first quarter. Accordingly, in applying the guidance in Statement 3, Calendar Company reports net periodic postretirement benefit cost for the nine-month period ending September 30, 2004, reflecting \$250 (the second and third quarter amounts) of the \$500 annual reduction. Net periodic postretirement benefit cost included in third quarter results of operations reflects only that quarter's \$125 reduction due to the Act. When presented for comparative purposes, for example in summary quarterly financial information in the annual report or for comparative purposes in the 2005 second quarter financial report, the results of operations for the second quarter of 2004 will be restated to reflect a \$125 reduction in net periodic postretirement benefit cost due to the Act.

Example B—April 30 Year-End, April 30 Measurement Date

Spring Company, a public company, sponsors a postretirement health care benefit plan that provides prescription drug coverage. It has an April 30 year-end for financial reporting purposes and uses April 30 as the measurement date for plan assets and obligations under Statement 106. Spring Company elected to defer any accounting for the effects of the Act pursuant to FSP FAS 106-1 and made that election in the quarter ending January 31, 2004, the first period in which the plan's accounting for the effects of the Act normally would have been reflected in Spring Company's financial statements.

Spring Company adopts the guidance in this FSP as of August 1, 2004, the beginning of its second quarter. Spring Company and its actuarial advisors determine that benefits provided by the plan as of the date of enactment were at least actuarially equivalent to Medicare Part D, and, accordingly, Spring Company will be entitled to the subsidy. Spring Company measures the effects of the Act on the APBO as of January 31, 2004, the end of its interim period that includes the date of the Act's enactment and determines that the aggregate effect on service cost, interest cost, and amortization of gains and losses results in a reduction of \$500 in annual net periodic postretirement benefit cost compared to that amount calculated without considering the effects of the Act.

Because the date for remeasuring the plan's assets and obligations required by this FSP—for an employer that elects retroactive application—occurs in Spring Company's prior fiscal year, the cumulative effect of applying the guidance in this FSP on Spring Company's retained earnings as of April 30, 2004, is \$125 (the fourth quarter effect on net periodic postretirement cost, ignoring any deferred income tax effects, which may be none). That cumulative effect of a change in accounting principle is recognized in Spring Company's net income for the six months ending October 31, 2004. Assuming no other changes in assumptions or other gains and losses arise in the regularly scheduled April 30, 2004 measurement of the plan, pursuant to the guidance in Statement 3, Spring Company reports net periodic postretirement benefit cost for the six-month period ending October 31, 2004, reflecting \$250 (the first and second quarter amounts) of the \$500 annual reduction. Net periodic postretirement benefit cost included in second quarter results of operations reflects only that quarter's \$125 reduction due to the Act. When presented for comparative purposes, for example in summary quarterly financial information in the annual report or for comparative purposes in the next fiscal year's first quarter financial report, the results of operations for the quarter ended July 31, 2004, will

be restated to reflect the \$125 reduction in net periodic postretirement benefit cost due to the Act and the \$125 cumulative effect of the change in accounting principle.

Prospective application as of date of adoption

30. When this FSP is initially adopted, a remeasurement of the plan's assets and APBO, including the effects of the subsidy, if applicable, as well as the other effects of the Act, shall be made as of the beginning of the period of adoption pursuant to the guidance in paragraph 73 of Statement 106. The measurement of the APBO shall be based on the plan provisions in place on the measurement date and shall incorporate the best available current information regarding actuarial assumptions and discount rates. The results of that measurement shall be used to determine net periodic postretirement benefit cost in interim periods following the date of adoption until the next measurement date otherwise required by Statement 106. The following example illustrates the application of the provisions of this paragraph.

Example C—Calendar Year-End, September 30 Measurement Date

Calendar Company, a public company, sponsors a postretirement health care benefit plan that provides prescription drug coverage. It has a December 31 year-end for financial reporting purposes and uses a September 30 measurement date pursuant to paragraph 72 of Statement 106. Calendar Company elected to defer any accounting for the effects of the Act pursuant to FSP FAS 106-1 and made that election in the quarter ending March 31, 2004, the first period in which the plan's accounting for the effects of the Act normally would have been reflected in Calendar Company's financial statements.

Calendar Company adopts the guidance in this FSP as of July 1, 2004, the beginning of its third quarter. Calendar Company and its actuarial advisors determine that benefits provided by the plan as of the date of enactment were at least actuarially equivalent to Medicare Part D, and, accordingly, Calendar Company will be entitled to the subsidy. Calendar Company measures the effects of the Act on the APBO as of April 1, 2004, the beginning of the plan's interim period that corresponds to the plan sponsor's first reporting period beginning after June 15, 2004, and determines that the aggregate effect on service cost, interest cost, and amortization of gains and losses results in a reduction of \$500 in annual net periodic postretirement benefit cost compared to that amount calculated without considering the effects of the Act.

Net periodic postretirement benefit cost for the quarters ending September 30 and December 31, 2004, reflecting the activity in the plan for the quarters ending June 30 and September 30, 2004, will include a \$125 per quarter reduction in net periodic postretirement benefit cost due to the effects of the Act.

Nonpublic entity with only small plans

31. If enactment of the Act constitutes a significant event for a plan, a nonpublic entity that meets the criteria in paragraph 23 may follow the guidance in paragraph 28, including the related transition guidance described in paragraph 29, or may incorporate the effects of the Act prospectively in measures of net periodic postretirement benefit cost and plan assets and obligations for fiscal years beginning after December 15, 2004.

Employer That Did Not Elect Deferral

32. For an employer that did not elect the deferral option provided under FSP FAS 106-1 and whose previous accounting for the effects of the Act differs from the guidance in this FSP, the adoption of this FSP constitutes a change in accounting principle under Opinion 20. Accordingly, the cumulative effect of retroactive application of this FSP to the date of the Act's enactment shall be reflected in the financial statements following the provisions of paragraph 20 of Opinion 20 and paragraphs 9 and 10 of Statement 3, as applicable.

Subsequent Determination of Actuarial Equivalence Absent a Plan Amendment

33. When adopting this FSP, an employer and its actuarial consultants may be unable to determine the extent to which the benefits provided by a plan are actuarially equivalent as of the date of the initial measurement applying the guidance in this FSP. If clarifying regulations related to the Act or new information about the interpretation or determination of *actuarial equivalency* under the Act becomes available, the employer shall reconsider whether the benefits provided under its plan, as presently constructed, are actuarially equivalent.⁶ If that reconsideration results in a conclusion that benefits provided by the plan are actuarially equivalent (or that additional benefits provided by the plan are actuarially equivalent in the case of a plan under which an employer previously had determined that some benefits were actuarially equivalent), that conclusion could be a significant event pursuant to paragraph 73 of Statement 106.⁷ If the effects of the subsidy on the plan are significant, a measurement of plan assets and obligations shall be performed as of the date that actuarial equivalency is determined. Any effect on the APBO due to the subsidy shall be reflected as an actuarial gain consistent with the guidance in paragraph 14 of this FSP. Measures of net periodic postretirement benefit cost for subsequent periods would reflect the effects of those measurements (reported on a lag basis, if appropriate; refer to footnote 6). Prior financial statements shall not be retroactively adjusted nor shall a cumulative effect for prior periods be recognized in income.

INT 04-17 Status

14. No further discussion is planned.

⁶ The guidance in this paragraph does not apply if a plan amendment is the event that gives rise to the employer's reconsideration of actuarial equivalency. The guidance in paragraphs 17 and 18 of this FSP apply to plan amendments.

⁷ To the extent that some benefits under a plan are determined to be actuarially equivalent at the date of adoption of the FSP, the provisions of paragraphs 24–32 apply.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 04-21: EITF 02-9: Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold

INT 04-21 Dates Discussed

December 5, 2004; March 13, 2005; March 3, 2012; August 31, 2012

INT 04-21 References

Current:

SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Superseded:

SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

INT 04-21 Issue

1. EITF No. 02-9, *Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold* (EITF 02-9) expands on a key concept presented in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), paragraph 55. This key concept requires a transferred financial asset that has been accounted for as sold to be accounted for as "re-purchased" if the basis for that sale accounting subsequently becomes invalid.

2. The following is excerpted from EITF 02-9:

1. ...One circumstance that has raised questions about the application of paragraph 55 occurs when the provisions of paragraph 55 are triggered because the transferor holds a contingent right such as a contingent call option on the transferred financial assets (for example, a removal of accounts provision or "ROAP") and the contingency has been met. This issue assumes that the transferee is not consolidated by the transferor.

2. Under Statement 140, rights held by the transferor (typically in the form of purchased options or forward purchase contracts) only preclude sale accounting under paragraph 9.c.(2) if they provide the transferor with (a) the unilateral right to cause the holder to return specific transferred financial assets, and (b) more than a trivial benefit. One class of contingent rights (including certain ROAPs 1) does not preclude sale accounting because it does not include unilateral rights. The most common type of ROAP is a default ROAP, which gives the holder the right but not the obligation to purchase (call) a loan that is in default (the meaning of default typically is specifically defined in each transaction). Such rights are common in credit card securitizations and in securitizations sponsored by the Government National Mortgage Association (GNMA) 2 and other governmental or quasi-governmental agencies. Once the contingency is met (in this case, when a given loan goes into default), the call option on that asset (loan) is no longer contingent. At that point, the transfer fails the criterion in paragraph 9.c.(2) of Statement 140 because the transferor has the unilateral right to purchase a specific transferred financial asset and obtains more than a trivial benefit. Under the requirements of paragraph 55, when a contingency related to a transferor's contingent right has been met, the transferor generally must account for the "re-purchase" of a specific subset of the financial assets transferred to and held by the qualifying entity. The transferor must do so regardless of whether it intends to exercise its call option.

3. Per EITF 02-9, the issues are:

Issue 1—How the transferor should account for the transferor's beneficial interests when the underlying assets are re-recognized under the provisions of paragraph 55 because the transferor's contingent right (for example, a ROAP or other contingent call option on the transferred financial assets) becomes exercisable, including whether any gain or loss should be recognized by the transferor when paragraph 55 is applied.

Issue 2—Whether under any circumstances a loan loss allowance should initially be recorded for loans that do not meet the definition of a security when they are re-recognized under the provisions of paragraph 55

Issue 3—How re-recognition under paragraph 55 of assets sold affects the accounting for the related servicing asset.

Issue 4—After a paragraph 55 event, how the transferor should account for the transferor's interests (other than the servicing asset).

INT 04-21 Discussion

4. EITF 02-9 consensus on each issue is as follows:

5. The Task Force reached a consensus on Issue 1 that upon application of paragraph 55, no gain or loss should be recognized in earnings with respect to any of the transferor's beneficial interests. Beneficial interests should be evaluated periodically for possible impairment, including at the time paragraph 55 is applied. A gain or loss may be recognized upon the exercise of a ROAP or similar contingent right with respect to the "re-purchased" transferred financial assets that were sold if the ROAP or similar contingent right held by the transferor is not accounted for as a derivative under Statement 133 and is not at-the-money, resulting in the fair value of those repurchased assets being greater or less than the related obligation to the transferee.

6. The Task Force reached a consensus on Issue 3 that under no circumstances should a loan loss allowance be initially recorded for loans that do not meet the definition of a security when they are re-recognized pursuant to paragraph 55.

7. The Task Force reached a consensus on Issue 4 that when a paragraph 55 event occurs, the accounting for the servicing asset related to the previously sold financial assets does not change as a result of the application of paragraph 55. That is, even though the transferor has regained control over the previously sold assets, the cash flows from those assets will contractually be paid to the SPE, which will then distribute the proceeds to satisfy its contractual obligations (including obligations to the beneficial interest holders). Because the transferor, as servicer, is still contractually required to collect the asset's cash flows for the benefit of the SPE and otherwise service the assets, it should continue to recognize the servicing asset and assess the asset for impairment as required by Statement 140.

8. The Task Force reached a consensus on Issue 5 that when a paragraph 55 event occurs, the transferor should continue to account for the transferor's interests in those underlying financial assets apart from any re-recognized financial assets. That is, the transferor's interests should not be combined with and accounted for with the re-recognized financial assets. However, a subsequent event that results in the transferor reclaiming those financial assets from the transferee—for example, the exercise of a ROAP or the consolidation by the transferor of the securitization entity in accordance with applicable generally accepted accounting principles, including Interpretation 46R—would result in a recombination of the transferor's interests with the underlying financial assets.

5. The Working Group reached a consensus to adopt EITF 02-9 as an interpretation of SSAP No. 103R, with modification as follows:

- a. Change references to FAS 140 to SSAP No. 103R including paragraph-specific references. Modify FAS 140, paragraph 55 references to refer to SSAP No. 103R, paragraph 59.
- b. Change references to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* to SSAP No. 86 as an interpretation of SSAP No. 91R.
- c. Remove reference to Interpretation 46R as FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, is pending review for statutory accounting. (The prior GAAP guidance in FASB Interpretation FIN 46 was rejected for statutory accounting in *SSAP No. 3—Accounting Changes and Corrections of Errors*.)
- d. Limit the applicability of EITF 02-9, Issue 3 to only valuation allowances applicable to statutory accounting for mortgage loans and real estate under development as provided in *SSAP No. 37—Mortgage Loans* and real estate under development as discussed in *SSAP No. 38—Acquisition, Development and Construction Arrangements*.

6. This interpretation was originally effective for years beginning January 1, 2005, to be consistent with the original effective date of SSAP No. 91R. Revisions adopted to this interpretation on March 3, 2012, are in accordance with the adoption with modification of FAS 166 in a new SSAP to supersede SSAP No. 91R.

INT 04-21 Status

7. In 2009, *FAS 166, Accounting for Transfers of Financial Assets, an Amendment of FAS 140*, was issued. In addition to amending FAS 140, it also amended FASB EITF 02-9. FAS 166 was adopted for statutory accounting in SSAP No. 103R to supersede SSAP No. 91R. On March 3, 2012, corresponding revisions to INT 04-21 were also adopted to reflect the updated GAAP guidance adopted for statutory accounting interpreting SSAP No. 103R. These changes will not be tracked in subsequent editions of the Manual.

8. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group and Statutory Accounting Principles (E) Working Group

INT 05-05: Accounting for Revenues Under Medicare Part D Coverage

INT 05-05 Dates Discussed

September 28, 2005; December 3, 2005; March 24, 2018; August 4, 2018

INT 05-05 References

Current:

SSAP No. 47—Uninsured Plans

SSAP No. 54R—Individual and Group Accident and Health Contracts

SSAP No. 66—Retrospectively Rated Contracts

SSAP No. 84—Health Care and Government Insured Plan Receivables

INT 05-05 Issue

1. The Medicare Modernization Act of 2003 (MMA) created a new program, commonly known as Medicare Part D, whereby Medicare recipients may obtain prescription coverage offered by insurers who have been approved by the Centers for Medicare and Medicaid Services (CMS). Insurers who offer Medicare Part D coverage will, starting in January 2006, receive several different types of funds relating to the program. Some of these funds relate to portions of the coverage that require an annual reconciliation, resulting in the return of any excess funds received. Other funds may be received (or may be required to be returned) to offset experience that is especially unfavorable (or, respectively, favorable).
2. How should the various components of the funds received or receivable by an insurer from Medicare Part D coverage be accounted for?

INT 05-05 Discussion

3. The attached appendix provides a listing of terms to which CMS ascribes a specific meaning. This list has been enhanced to include other terms in order to facilitate consistent application for accounting and the NAIC's risk-based capital (RBC) formula. It should be noted that the terms included in the attached appendix are, for the most part, defined by CMS. Consequently, the term "reinsurance payment" does not represent actual reinsurance as defined by *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*.
4. The Emerging Accounting Issues (E) Working Group reached a consensus to adopt the following guidance as it applies to the various funds to be received under the Medicare Part D program. The funds should be accounted for in accordance with one of the three SSAP's outlined below:
 - a. Specific funds received as reimbursements (or advance payments) for uninsured claims under a partially uninsured plan should be accounted for under SSAP No. 47. These funds include "reinsurance payments," "Coverage Gap Discount Program" payments and "low-income subsidy (cost-sharing portion)." These funds are paid by the government for a portion of claims above the out-of-pocket threshold or relate to prescription drug plan (PDP) payments for all or a portion of the deductible, the coinsurance and the co-payment amounts for low-income beneficiaries. CMS provides advance funding to the Part D sponsors. The Part D sponsor uses those advances to provide point-of-sale drug discounts to participants. CMS invoices the prescription drug manufacturers. The payment reconciliation process ensures that the Part D sponsor is paid dollar for dollar for coverage gap discounts advanced at the point of sale, based on accepted prescription drug

event (PDE) data, and that any unused excess advances from the government are repaid. The Coverage Discount Gap Program does not apply to low-income beneficiaries.

- b. Specific funds received by the PDP sponsor from either the Medicare Part D enrollee or the government as payment for standard coverage that will be subject to retrospective premium adjustments should be accounted for under SSAP No. 66. These funds include “direct subsidy,” “low-income subsidy (premium portion),” “beneficiary premium (standard coverage portion),” “Part D payment demonstration” and “risk corridor payment adjustment.” The funds noted above have a final policy amount that is calculated based on the loss experience of the insured during the term of the policy, therefore should be treated as such.
- c. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54R. These funds include “beneficiary premium (supplemental benefit portion)” as these payments are considered to be standard premium payments that do not meet the definitions under SSAP No. 47 or SSAP No. 66 as defined in paragraph 4.a. and paragraph 4.b. of this interpretation.

5. The collectibility and any nonadmission of amounts receivable from the government insured or uninsured plans are addressed in SSAP No. 84, paragraph 22, and SSAP No. 47, paragraph 10 and paragraph 11, respectively.

INT 05-05 Status

6. On August 4, 2018, the Statutory Accounting Principles (E) Working Group updated this interpretation to add a description of the Coverage Gap Discount Program, amend existing guidance on program payments and update definitions. No further discussion is planned.

Appendix – Commonly Used Terms for Medicare Part D Coverage

The federal Centers for Medicare and Medicaid Services (CMS) oversees the Medicare Part D prescription drug coverage, including coverage provided through a stand-alone prescription drug plan (PDP) and coverage provided as part of a Medicare Advantage plan. CMS ascribed specific meaning to most of the following terms. Other terms have been defined below in order to facilitate consistent application.

Beneficiary Premium (Standard Coverage Portion) – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for the standard coverage. This includes any late enrollment penalties that the PDP sponsor receives for an enrollee. The beneficiary premium is accounted for as health premium.

Beneficiary Premium (Supplemental Benefit Portion) – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for supplemental benefits. The beneficiary premium is accounted for as health premium.

Coverage Gap Discount Program – The federal Affordable Care Act amended the Health Care and Education Act of 2010 (H. R. 4872) (HCERA) in 2011 to establish a discount program that would make manufacturer discounts available to applicable Medicare beneficiaries receiving applicable covered Part D drugs while in the coverage gap. Part D sponsors must provide the discounts for the applicable drugs in the coverage gap at point-of-sale. CMS coordinates the collection of discount payments from manufacturers and payment to Part D sponsors that provided the discount to applicable beneficiaries through a contractor. The coordination involves a standard process for paying Part D sponsors based on new information submitted to CMS on prescription drug event data. The Coverage GAP Discount Program is reconciled quarterly.

Coverage Year Reconciliation – A reconciliation made after the close of each calendar year to determine the amounts that a PDP sponsor is entitled to for the low-income subsidy (cost-sharing portion), the reinsurance payment, and the risk corridor payment adjustment. To the extent that interim payments (if any) from CMS exceeded the amounts determined by the reconciliation, the PDP sponsor must return the excess to the government; to the extent that interim payments (if any) from CMS fell short of the amounts determined by the reconciliation, the government will make an additional payment to the PDP sponsor. The coverage year reconciliation results in the low-income subsidy (cost-sharing portion) and the reinsurance payment being essentially a self-insured (by the government) component of the Part D coverage, subject to SSAP No. 47. The coverage year reconciliation also results in the treatment of the risk corridor payment adjustment as a retrospective premium adjustment, subject to SSAP No. 66.

Direct Subsidy – The amount the government pays to the PDP sponsor for the standard coverage. These payments are accounted for as health premium.

Low-Income Subsidy (Cost-Sharing Portion) – The amount the government pays to the PDP sponsor for additional benefits provided to low-income enrollees. The additional benefits may include payment for some or all of the deductible, the coinsurance, and the co-payment above the out-of-pocket threshold. These payments are accounted for as payments made under a self-insured plan.

Low-Income Subsidy (Premium Portion) – The amount the government pays to the PDP sponsor for low-income enrollees in lieu of part or all of the beneficiary premium (standard coverage portion). These payments are accounted for as health premium.

PDP Sponsor – The entity that provides stand-alone Part D coverage (as opposed to Part D coverage provided through a Medicare Advantage plan).

Reinsurance Payment – An amount paid by the government for benefit costs above the out-of-pocket threshold (see “Standard Coverage”). Generally, when costs exceed the out-of-pocket threshold, the government pays a specified percentage of the costs, the enrollee pays a percentage (or the specified co-

payments which are updated based on cost trends for generic and for brand-name prescriptions), and the PDP sponsor pays the remainder. The amount paid by the government is treated as a claim payment made by a self-insured benefit plan rather than as revenue to the PDP sponsor, and the claims do not flow through the PDP sponsor's income statement. In cases where the government prepays the reinsurance payment on an estimated basis, the prepayment is treated as a deposit, which again does not pass through the PDP sponsor's income statement. The amount paid by the enrollee is paid directly to the pharmacy; therefore there is no required accounting for this amount by the PDP sponsor.

Part D Payment Demonstration – A payment from the government to a PDP sponsor participating in CMS's Part D Payment Demonstration. The payment demonstration is a special arrangement in which the PDP sponsor receives a predetermined per-enrollee capitation payment and the government no longer provides reinsurance for the specified percentage (example 80%) of costs in excess of the out-of-pocket threshold. Rather, the PDP sponsor assumes the risk for the specified percentage (example 80%) of costs, in addition to its normal percentage (example 15%) share of costs in excess of this threshold. However, risk corridor protection does still apply to this specified percentage (example 80%) share of costs. These payments are accounted for as health premium.

Reinsurance Coverage – The Medicare Part D provision under which the PDP sponsor may receive a reinsurance payment. This does not include payments under the Part D Payment Demonstration.

Risk Corridor Payment Adjustment – An amount by which the government adjusts its payments to the PDP sponsor, based on how actual benefit costs vary from the costs anticipated in the PDP sponsor's bid for the Part D contract (the "target amount" of costs). The government establishes thresholds for symmetric risk corridors around the target amount, using percentages of the target amount. If actual costs exceed the target amount but are less than the first threshold upper limit, then no adjustment is made. Risk corridor payment adjustments are accounted for as retrospective premium adjustments on retrospectively rated contracts.

Risk Corridor Protection – The Medicare Part D provision under which the PDP sponsor may receive (or pay) a Risk Corridor Payment Adjustment. Most employer plans providing Medicare Part D are not eligible for Risk Corridor Protection.

Standard Coverage – The Part D benefit design that conforms to certain standards prescribed by the government. The standard coverage comprises: no coverage for an annual initial deductible; coverage net of a coinsurance provision (the percentage of costs are payable by the insured) for costs up to an initial coverage limit; a range beyond the initial coverage limit (sometimes called the "coverage gap") in which the insured drug manufacturers and the PDP sponsor (for example, by 2020 insureds who are eligible for drug manufacturer discounts will pay 25% for qualifying brand and generic drugs, the PDP sponsor will be responsible for 25% of qualifying brand and 75% of generic drugs, and the drug manufacturer will be responsible for 50% of qualifying brand drugs); and an annual out-of-pocket threshold above which the insured pays the greater of a specified co-payment or a specified percentage of the drug cost. The various limits and thresholds are set at specified dollar amounts, which will be increased in later years based on the growth in drug expenditures. Wherever the term "standard coverage" is used as part of these instructions, the same treatment would be applied to coverage that has been approved as actuarially equivalent coverage. With respect to amounts above the out-of-pocket threshold, see the definitions of "Reinsurance Payment" and "Part D Payment Demonstration."

Supplemental Benefits – Benefits in excess of the standard coverage. These benefits typically will cover some portion of the deductible, the co-payments, or the coverage gap between the initial coverage limit and the out-of-pocket threshold. Supplemental benefits are part of an enrollee's Part D coverage, so they are not placed in the "Other" category in the RBC formula. However, they are not subject to either the reinsurance payment or the risk corridor payment adjustment, so they receive less favorable RBC treatment than the standard coverage.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)

INT 06-02 Dates Discussed

March 5, 2006; June 11, 2006; September 10, 2006

INT 06-02 References

Current:

SSAP No. 26R—Bonds

SSAP No. 30R—Unaffiliated Common Stock

SSAP No. 32R—Preferred Stock

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

INT 06-02 Issue

1. A certified capital company (CAPCO) is a state legislated venture capital firm that can be a partnership, corporation, trust or limited liability company, profit or not-for-profit, for which investors who invest cash to acquire an equity interest or qualified debt instrument receive state premium or income tax credit. Although these investments are sometimes termed by different acronyms, they will be referred to as a CAPCO for purposes of this issue.

2. A reporting entity that qualifies as a certified investor typically earns, in the year the investment is made, a vested credit against state premium or income taxes equal to greater than 100% of the investor's investment of certified capital, of which a certain percent (varies by state; example: 10%, 25%) may be taken in any taxable year. The credit to be applied in any one year may not exceed the entity's state premium or income tax liability for the taxable year. Any unused tax credit may be carried forward until the premium or income tax credit is used (varies by state; some indefinitely, in other instances there is a specified expiration date, such as 2010; 2020). In some cases, a certified investor may transfer or assign unused premium or income tax credits. In addition to tax credits, the CAPCO often pays a nominal amount of interest and has a specified principal repayment date. The CAPCO often provides for a mechanism that guarantees the principal repayment.

3. Depending on the terms of the agreement, a CAPCO may make prepayments of principal and interest on its indebtedness.

4. The accounting issues are:

Issue 1: How should investments in a CAPCO be accounted for?

Issue 2: If the CAPCO agreement provides for the majority of interest to be paid in advance, how should it be earned?

INT 06-02 Discussion

5. For Issue 1, the Working Group came to a consensus that reporting entities should account and report for investments in CAPCO's consistent with the agreement structure within the guidance provided below:

- a. Investment in a debt instrument of a CAPCO shall be reported as a bond in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and the designation assigned in the *NAIC Valuations of Securities* product prepared by the

NAIC Securities Valuation Office (Valuations of Securities manual) as stated in SSAP No. 26R, paragraph 11.

- b. Investment in an equity interest of a CAPCO shall be reported as common stock and reported at fair value as stated in SSAP No. 30R, paragraph ~~8~~9.
 - c. Investment in preferred stock interest of a CAPCO shall be reported as preferred stock in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and the designation assigned in the *NAIC Valuations of Securities* product prepared by the NAIC Securities Valuation Office (Valuations of Securities manual) as stated in SSAP No. 32R, paragraphs ~~19-22~~20-23.
 - d. Investment in a Joint Venture, Partnership and Limited Liability Company (LLC) shall be reported in accordance with SSAP No. 48, paragraphs 5-6. The reported value of the investment shall be decreased in proportion to the premium tax credits utilized.
 - e. The tax credits shall be recognized as a reduction of the tax liabilities as they are utilized. Tax credits received are not to be included in investment income.
6. For Issue 2, the Working Group came to a consensus that reporting entities should account for any prepaid interest received by the insurer to be recorded as an unearned interest liability and should be amortized over the life of the security. This is consistent with the treatment of prepaid interest in SSAP No. 37 and SSAP No. 49. This is also consistent with SSAP No. 34, which states that gross investment income should be reported as earned, and includes a change in unearned investment income.

INT 06-02 Status

7. No further discussion is planned.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 06-07: Definition of Phrase “Other Than Temporary”

INT 06-07 Dates Discussed

September 10, 2006; December 10, 2006; [December 11, 2023](#); [January 10, 2024](#)

INT 06-07 References

Current:

SSAP No. 26R—Bonds

SSAP No. 30R—Unaffiliated Common Stock

SSAP No. 32R—Preferred Stock

SSAP No. 37—Mortgage Loans

SSAP No. 39—Reverse Mortgages

SSAP No. 41R—Surplus Notes

SSAP No. 43R—Loan-Backed and Structured Securities

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

SSAP No. 68—Business Combinations and Goodwill

SSAP No. 93—Low-Income Housing Tax Credit Property Investments

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities

SSAP No. 105R—Working Capital Finance Investments

Superseded:

SSAP No. 88—Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46

SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-Backed and Structured Securities

SSAP No. 99—Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment

Affects:

Nullifies the prior interpretation on this topic, *INT 02-07 Definition of Phrase “Other Than Temporary”*

INT 06-07 Issue

1. The *Accounting Practices and Procedures Manual* contains guidance for determining when an investment is considered impaired within each of the above identified statements. Those statements should also be used to determine the measurement of an impairment loss. Each of the above statements also makes reference to an “other than temporary” decline in fair value. This interpretation is designed to address questions related to that phrase, as well as summarize the statutory accounting process for determining when an investment is considered impaired.

Step 1: Determine Whether an Investment Is Impaired

2. The decision for determining when an investment is considered impaired is dictated by the applicable SSAP and the respective impairment indicators included in each of the SSAPs. If an impairment indicator is present, the determination of an impairment shall be assessed at the individual security or investment level as reported in the annual statement and supporting schedules. For those SSAPs that require the reporting entity to use the fair value to determine if an impairment has occurred, the determination of that value shall be consistent with how the term fair value is defined within *SSAP No. 100—Fair Value*. Once a reporting entity has determined that an impairment indicator is present, the reporting entity shall continue to evaluate whether the investment is impaired each subsequent reporting

period until either (a) the investment experiences a recovery of the fair value up to (or beyond) its carrying value or (b) the investor recognizes an other-than-temporary impairment loss.

Step 2: Evaluate Whether an Impairment Is Other Than Temporary

3. There are numerous factors to be considered when determining whether an impairment is other than temporary and their relative significance will vary from case to case. The Emerging Accounting Issues (E) Working Group (Working Group) has been asked if the phrase “other than temporary” should be interpreted to mean “permanent.” The Working Group¹ believes the Statutory Accounting Principles (E) Working Group consciously chose the phrase “other than temporary” as the analysis was not intended to determine whether an individual security or investment was “permanently impaired.” The fair value of assets may decline for various reasons. The market price may be affected by general market conditions, which reflect prospects for the economy as a whole, or by specific information pertaining to an industry or an individual company. Such declines require further investigation by management. Acting upon the premise that a write-down may be required, management should consider all available evidence to evaluate the fair value of its investment.

4. The Working Group believes that the following items are only a few examples of the factors, which, individually or in combination, indicate that a security’s decline in value is specific to an issuer’s fundamental credit difficulties, or that a non-interest related decline is other than temporary and that a write-down of the carrying value is required:

- a. The length of time and the extent to which the fair value has been less than cost;
- b. The financial condition and short-term prospects of the issuer, including any specific events that may influence the operations of the issuer, such as changes in technology, that may impair the earnings potential of the asset or the discontinuance of a segment of the business that may affect the future earnings potential; or
- c. The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in value.

5. An interest related impairment should be deemed other-than-temporary when an investor has the intent to sell an investment, at the reporting date, before recovery of the cost of the investment. The investor should consider whether its cash or working capital requirements and contractual or regulatory obligations indicate that the investment may need to be sold before the forecasted recovery occurs. The term “interest related” includes a declining value due to both increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or perceived higher/lower risk of an entire sector. If the declining value is caused, in whole or in part, due to credit spreads widening, but not due to fundamental credit problems of the issuer, the change in credit spreads is deemed to be interest related. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due.

6. Unless evidence exists to support the assertion that the decline in fair value below carrying value is temporary, a write-down, accounted for as a realized loss, should be recorded. In accordance with the guidance of the SSAPs, such loss should be recognized in income for the period in which other than temporary impairment is determined to have occurred. The adjusted carrying value reflecting the impairment loss of the individual security or investment shall be the new cost basis of the individual security or investment.

¹ The recommendations provided by the Working Group were developed in part from SEC Staff Accounting Bulletin No. 59–*Noncurrent Marketable Equity Securities* (SAB 59). As such, readers of this interpretation should understand that SAB 59 has not been adopted as part of Statutory Accounting Principles as SAB’s are not part of the Statutory Hierarchy (see Preamble).

7. The Working Group has also been asked if it is appropriate for reporting entities, independent auditors or state examiners to apply predefined thresholds to the phrase “other than temporary”? The Working Group is aware that certain insurers, independent auditors and state examiners, over time, have developed quantitative thresholds as “rules of thumb” to assist in the evaluation of asset impairment. One rule of thumb in particular suggests that if the fair value is less than its carrying value by 20 percent or more, then it is considered to be other than temporarily impaired. Another suggests that an asset is other than temporarily impaired if the fair value has been less than cost for more than 6 months. The use of a numerical threshold may provide the basis for a preliminary assumption that – without considering all relevant circumstances – an impairment may have occurred. Identifying the impairment is only the beginning of the analysis; it cannot appropriately be used as a substitute for a full analysis of all relevant qualitative considerations. Exclusive reliance on such thresholds removes the ability of management to apply its judgment, a concept inherent to the impairment model.

Step 3: If the Impairment is Other Than Temporary, the Cost Basis of the Individual Asset Shall Be Written Down to a New Cost Basis and the Amount of the Write-Down Is Accounted for as a Realized Loss

8. If an impairment is considered other than temporary, the cost or carrying value of the asset should be written down to reflect its value in accordance with the relevant SSAP. A company's management should follow the impairment guidance in the SSAP pertaining to that particular asset class while considering various factors on a case-by-case basis in determining the amount of the realized loss that should be recorded.

INT 06-07 Discussion

9. The Working Group reached a consensus to adopt with modification paragraph 6, 7 and 11 of *FSP FAS115-1/124-1: The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP FAS 115-1/124-1). This INT rejects paragraphs 1-5, 8-10, 12-15, and 19 of FSP FAS 115-1/124-1. This INT does not address paragraphs 16-18 and footnote 1 to paragraph 7 of FSP FAS115-1/124-1.

10. Paragraphs 3-8 of this interpretation incorporate the guidance that was in *INT 02-07: Definition of Phrase “Other Than Temporary,”* paragraphs 3-9, with an addition to clarify the general credit spread widening that was discussed in INT 02-07, paragraph 6. On final adoption of this interpretation, INT 02-07 is nullified.

11. FSP FAS 115-1/124-1 nullified the requirements of paragraphs 10-18 of EITF 03-01: *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1) and carried forward the requirements of paragraphs 8, 9, 21 and 22 of the EITF to the FSP. The Working Group notes that the remaining paragraphs of EITF 03-01 either primarily related to the EITF process or are inconsistent with the current statutory model for impairment and are rejected. The Statutory Accounting Principles (E) Working Group is separately considering the disclosures related to the FSP.

12. FSP EITF 03-1-1: Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 (FSP EITF 03-1-1) was issued by the EITF on September 30, 2004, and delayed the effective date for the measurement and recognition guidance contained in paragraphs 10-20 of EITF 03-1. The delay of the effective date for paragraphs 10-20 of Issue 03-1 was superseded concurrent with the final issuance of FSP FAS 115-1/124-1 and as such, is rejected.

[13. Effective December 31, 2023, the Working Group rejected ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases](#)

(Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

INT 06-07 Status

~~13~~, 14. INT 06-07 nullifies *INT 02-07: Definition of Phrase “Other Than Temporary.”*

~~14~~, 15. No further discussion is planned.

Not for Distribution

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 06-12: Tax Deposits Submitted in Accordance with Section 6603 of the Internal Revenue Service (IRS) Code

INT 06-12 Dates Discussed

September 10, 2006; December 10, 2006

INT 06-12 References

Current:

SSAP No. 101—Income Taxes

Superseded:

SSAP No. 10R—Income Taxes – A Temporary Replacement of SSAP No. 10

INT 06-12 Issue

1. The American Jobs Creation Act of 2004 enacted on October 22, 2004, added new section 6603 to the Internal Revenue Service Code (the Code) to permit a taxpayer to make a deposit with the Internal Revenue Service to suspend the running of interest under section 6601 on a potential underpayment of tax. A deposit may be made with respect to certain underpayments of tax that have not been assessed at the time of the deposit.
2. Section 6603(a) provides that a taxpayer may make a deposit with the Service that may be used by the Secretary to pay any income, gift, estate, or generation-skipping taxes imposed on the taxpayer under the Code, or certain excise taxes imposed on the taxpayer under the Code. Section 6603(b) provides that, to the extent that a deposit is used by the Service to pay tax, the tax shall be treated as paid on the date the deposit is made for purposes of computing interest on underpayments under section 6601.
3. Section 6603(c) provides that the Service will return to the taxpayer any amount of a deposit that the taxpayer requests in writing be returned unless the amount has previously been used to pay tax or the Service determines that collection of tax is in jeopardy.
4. The accounting issue is whether protective tax deposits meet the definition of current income tax recoverable as that term is used in SSAP No. 101, paragraph 9.

INT 06-12 Discussion

5. The Working Group reached a consensus that deposits made with the Internal Revenue Service, as described in paragraphs 1-3 of this interpretation, meet the definition of a current income tax recoverable as defined in SSAP No. 101, paragraph 9, as the reporting entity has made the deposit under its substantial authority and the deposit can be recovered upon written request.
6. Section 6603 tax deposits are admitted assets to the extent the section 6603 tax deposit complies with SSAP No. 101 and this guidance. The reporting entity shall report section 6603 tax deposits as assets within the caption "Current Federal and Foreign Income Tax Recoverable and Interest thereon." The section 6603 tax deposit asset and any related tax liability shall be presented on a gross basis for statutory reporting purposes.

Calculating Nonadmission

7. The reporting entity shall expense amounts previously used to pay tax.
8. The reporting entity shall nonadmit:
 - a. amounts the Service has determined, or the reporting entity estimates it is probable the Service will determine, that collection of the tax from the reporting entity is in jeopardy for section 6603 tax deposit amounts in excess of the specifically established tax liability, or
 - b. any portion of the deposit that the reporting entity does not reasonably expect to be recovered in a subsequent accounting period for section 6603 tax deposit amounts in excess of specifically established tax liability.
9. The term “specifically established tax liability” is a liability, that for financial reporting purposes, the reporting entity has recognized relating to the IRS Section 6603 tax deposit. The reporting entity intends this “specifically established tax liability” to be settled by applying the section 6603 tax deposit. In calculating nonadmission discussed in the paragraph 8, the reporting entity shall deduct the specifically accrued tax liability prior to the determination of whether the remaining amounts should be nonadmitted.
10. To illustrate the nonadmission criteria, consider the following two situations:
 - a. IAOA insurer has a 6603 tax deposit of \$100,000 and a federal income tax liability of \$30,000 that IAOA intends to pay in the normal course of business. IAOA would not consider the tax liability when determining nonadmission of the section 6603 tax deposit. IAOA is not aware of any situations which would indicate that use of the deposit is in question and would admit the entire \$100,000 tax deposit.
 - b. TAI insurer has a \$110,000 section 6603 tax deposit and has been notified by its tax department that an adverse tax finding of \$45,000 was probable and may result in significant interest penalties. TAI recorded a “specifically established tax liability” of \$45,000 and intends to use the section 6603 tax deposit to settle the \$45,000 adverse tax finding. In determining the amount of the 6603 tax deposit to nonadmit, TAI would determine the amount in excess of the “specifically established tax liability, which is \$65,000 (\$110,000 – \$45,000). This net amount of \$65,000 is then evaluated for nonadmission, based on other relevant factors, if any. To continue the illustration, TAI became aware of an additional situation at the reporting date, which indicated that \$10,000 of the section 6603 tax deposit is not reasonably expected to be recovered in a subsequent accounting period. As a result, TAI would nonadmit \$10,000 of the tax deposit.

INT 06-12 Status

11. No further discussion is planned. The Working Group noted that *FIN 48: Accounting for Uncertainty in Income Tax, an interpretation of FASB Statement No. 109* (FIN 48) is pending review by the Statutory Accounting Principles (E) Working Group has the potential to impact the consensus in this interpretation. The Working Group will consider if the interpretation requires updating after the review of FIN 48 is complete.

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 06-13: EITF 01-2: Interpretations of APB Opinion No. 29

INT 06-13 Dates Discussed

September 10, 2006; December 10, 2006

INT 06-13 References

Current:

SSAP No. 40R—Real Estate Investments

SSAP No. 95—Nonmonetary Transactions

Superseded:

SSAP No. 77—Real Estate Sales – An Amendment to SSAP No. 40, Real Estate Investments

INT 06-13 Issue

1. The introduction to issues as described in *EITF 01-2: Interpretations of APB Opinion No. 29* is as follows:

1. The basic principle in Opinion 29 is that the accounting for nonmonetary transactions should be based on the fair values of the assets (or services) exchanged. The cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss for the difference between the carrying amount of the surrendered asset and its fair value should be recognized on the exchange. The fair value of the asset received should be used to measure the fair value of the asset surrendered (and the cost of the asset received) if it is more clearly evident than the fair value of the asset surrendered. Opinion 29 includes several modifications to that principle in circumstances in which (a) fair values of the assets exchanged are not readily determinable (paragraph 20.a. of Opinion 29), (b) the assets exchanged are products or properties held for sale in the same line of business to facilitate sales to customers other than the parties to the exchange (paragraph 20.b. of Opinion 29), (c) the assets exchanged are similar productive assets not held for sale in the ordinary course of business, [Note: See paragraph 44 of the STATUS section.] (d) the exchange involves an amount of monetary consideration (paragraph 22 of Opinion 29), and (e) the transaction represents a nonreciprocal transfer to owners (paragraph 23 of Opinion 29). Over the years, the Task Force has addressed several issues relating to the guidance in Opinion 29. The purpose of this Issue is to codify and reconcile the following Issues:

Issue No. 86-29, "Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value" (paragraphs 4-6, and 18-19)

Issue No. 87-17, "Spinoffs or Other Distributions of Loans Receivable to Shareholders" (paragraphs 28-29)

Issue No. 87-29, "Exchange of Real Estate Involving Boot" (paragraphs 25-27)

Issue No. 89-7, "Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity" (paragraphs 21-24)

Issue No. 96-2, "Impairment Recognition When a Nonmonetary Asset Is Exchanged or Is Distributed to Owners and Is Accounted for at the Asset's Recorded Amount" (paragraphs 33-39)

Issue No. 96-4, "Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners" (paragraphs 30-32)

Issue No. 98-7, "Accounting for Exchanges of Similar Equity Method Investments" (paragraph 11)

Issue No. 00-5, "Determining Whether a Nonmonetary Transaction Is an Exchange of Similar Productive Assets" (paragraphs 2-3, 9-10, and 12-17).

The Task Force observed that the transition guidance for the above Issues is governed by the original consensuses on those Issues.

2. As described in paragraph 44 in the STATUS section of *EITF 01-2, FAS 153: Exchanges of Nonmonetary Assets*, an amendment of *APB Opinion No. 29* (FAS 153), was issued in December 2004 and eliminated the fair value measurement exception for nonmonetary exchanges of similar productive assets provided in APB 29 and replaces it with an exception from fair value measurement for nonmonetary exchanges that lack commercial substance. As a result, FAS 153 nullifies Issues 1(b), 1(c), 2-5, and 7 since those issues interpret the exception to fair value measurement for similar productive assets that was eliminated by FAS 153. FAS 153 was adopted with modification in *SSAP No. 95—Nonmonetary Transactions*. *FAS 144: Accounting for the Impairment or Disposal of Long-Lived Assets*, also amended APB 29 and resolved issues 13(a) and 13(b) of EITF 01-2. FAS 144 was adopted with modification in *SSAP No. 90—Impairment or Disposal of Real Estate Investments*. This interpretation addresses the remaining issues of EITF 01-2.

3. The following EITF issues listed above were adopted, rejected or determined to be not applicable to statutory accounting principles in their entirety, as follows:

- *EITF Issue No. 86-29, "Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value"* – adopted in *SSAP No. 95—Nonmonetary Transactions*
- *EITF Issue No. 87-17, "Spinoffs or Other Distributions of Loans Receivable to Shareholders"* – determined to be not applicable to statutory accounting principles
- *EITF Issue No. 87-29, "Exchange of Real Estate Involving Boot"* – adopted in *SSAP No. 40R—Real Estate Investments*
- *EITF Issue No. 89-7, "Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity"* – rejected in *SSAP No. 68—Business Combinations and Goodwill*
- *EITF Issue No. 96-4, "Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners"* – rejected in *SSAP No. 95—Nonmonetary Transactions*

4. As EITF 01-2 was adopted to codify or reconcile the issues included in paragraph 1 of this interpretation, each issue will be described and discussed in paragraphs 5-18 of this interpretation.

INT 06-13 Discussion

5. Issue 6 and guidance per EITF 01-2:

Issue 6—If a nonmonetary exchange is required to be accounted for at fair value, whether full or partial gain recognition is appropriate in a circumstance in which one entity (Entity A) transfers its ownership of either a controlled productive asset or assets or a controlled business to another entity (Entity B) in exchange for a noncontrolling ownership interest in that entity (Entity B).

16. The Task Force reached a consensus on Issue 6 that if the fair value of the asset(s) given up (or of the ownership interest received if the fair value of that asset is more readily determinable) is less than its carrying value, that difference should be recognized as a loss. [Note: See STATUS

section.] If the fair value of the asset(s) given up (or of the ownership interest received if that asset's fair value is more readily determinable) is greater than its carrying value, then (a) a gain in the amount of that difference should be recognized if the entity accounts for the ownership interest received using the cost method, or (b) a partial gain should be recognized if the entity accounts for the ownership interest received using the equity method. The partial gain should be calculated as the amount described in (a), above, less the portion of that gain represented by the economic interest (which may be different from the voting interest) retained. For example, if Entity A exchanges an asset with a carrying value of \$1,000 and a fair value of \$2,000 for a 30 percent economic interest in Entity B, Entity A should recognize a gain of \$700 $[(\$2,000 - \$1,000) \times 70\%]$. Thus, the amount recorded for the ownership interest received is partially based on its fair value at the exchange date and partially based on the carryover amount of the asset(s) surrendered.

17. The Task Force observed that paragraph 20 of Opinion 29 requires that the accounting for a nonmonetary transaction subject to Opinion 29 should not be based on the fair values of the assets transferred unless those fair values are determinable within reasonable limits.

6. The STATUS section of EITF 01-2 states the following relative to Issue 6:

45. Issue 6 addresses whether full or partial gain recognition is appropriate in circumstances in which an entity transfers its ownership of either a controlled productive asset (or assets) or a controlled business to another entity in exchange for a noncontrolling ownership interest in that entity. Statement 153 amends the scope of Opinion 29 to exclude a transfer of assets to an entity in exchange for an equity interest in that entity. Statement 153 also amends Statement 140 to remove the scope exception in Statement 140 for exchanges of equity method investments for similar productive assets. Accordingly, transfers of equity method investments in exchange for other assets should be accounted for in accordance with Statement 140. However, Opinion 29 (as amended by Statement 153) and Statement 140 do not provide guidance on the accounting for transfers of nonfinancial assets in exchange for other assets. Therefore, the guidance in Issue 6 should continue to be applied in circumstances in which an entity transfers a nonfinancial asset (or assets) to another entity in exchange for a noncontrolling ownership interest in that entity and the exchange is required to be accounted for at fair value.

7. The Working Group reached a consensus to adopt the EITF 01-2 for Issue 6 guidance believing the economic interest relates to the ownership interest of Entity B in the above issue. This may or may not be different from the voting interest or controlling interest of Entity B. However, the GAAP guidance above for Issue 6 determines the proper accounting for the transactions between unrelated parties relative to the gain or loss on the nonmonetary transaction. This guidance establishes the cost basis for the ownership interest in Entity B to be recorded by Entity A. Subsequent to the transactions, existing guidance should apply for the ownership interest. For statutory purposes, the valuation of this ownership interest would then follow existing statutory guidance (e.g., *SSAP No. 30R—Unaffiliated Common Stock* for Common Stock, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* for Joint Ventures, *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities* for investments in SCA entities, etc.)

8. Issue 8 and guidance per EITF 01-2:

Exchanges Involving Monetary Consideration (Paragraph 22 of Opinion 29)

Issue 8(a)—What level of monetary consideration in a nonmonetary exchange causes the transaction to be considered monetary in its entirety and, therefore, outside the scope of Opinion 29.

19. The Task Force discussed an exchange of nonmonetary assets that would otherwise be based on recorded amounts but that also involves monetary consideration (boot). The Task Force reached a consensus that that transaction should be considered monetary (rather than nonmonetary) if the boot is significant, and agreed that "significant" should be defined as at least 25 percent of the fair value of the exchange. As a monetary transaction, both parties would record

the exchange at fair value¹ (as discussed in Issue 8(b), below). If the boot in a transaction is less than 25 percent, the pro rata gain recognition guidance in paragraph 22 of Opinion 29 should be applied by the receiver of boot, and the payer of boot would not recognize a gain. The Task Force acknowledged that the ability to satisfactorily measure fair value is a prerequisite to the use of fair value.

¹ For real estate transactions, see Issue 10.

Issue 8(b)—In a monetary exchange (required to be accounted for at fair value), whether "full or partial" gain recognition is appropriate if an entity transfers its ownership of a controlled asset, group of assets, or business to another entity in exchange for a noncontrolling ownership interest in the other entity.

20. The Task Force reached a consensus on Issue 8(b) that the gain should be computed in a manner consistent with the consensus reached in Issue 6. The Task Force reached a consensus that application of the consensus on Issue 8(b) is required for exchange transactions committed to after April 19, 2001. A transaction is committed to if the parties to the transaction have signed a binding, written agreement that specifically sets forth the principal provisions of the transaction. If any of the principal provisions are yet to be negotiated, or are subsequently changed, such a preliminary agreement does not qualify as a commitment for purposes of this consensus.

9. The Working Group reached a consensus to adopt the EITF 01-2 guidance for Issues 8(a) and 8(b) without modification.

10. Issue 9 and guidance per EITF 01-2:

Issue 9—In the monetary exchange described below, whether the amount of gain recognized should exceed the amount that would be computed pursuant to the guidance for Issue 8(b).

21. An enterprise transfers its ownership of an individual asset (or assets) or its ownership interest in a subsidiary to a newly created entity in exchange for an ownership interest in that entity that will be accounted for by the equity method and monetary consideration. The monetary consideration received exceeds the fair value of the portion of the surrendered asset that has been sold in the exchange. The excess monetary consideration is funded by proceeds from nonrecourse financing within the newly created entity. Subsequent to the transfer, the enterprise does not control the entity. The specifics of the transaction are as follows:

- Company A owns equipment with a book basis of \$100 and an appraised value of \$400.
- Company B, previously unrelated to Company A, creates a new subsidiary, Company X, and transfers cash of \$60 to Company X.
- Company A transfers the equipment to Company X in exchange for shares of Company X stock that represent a 40 percent ownership interest in Company X. Simultaneously, Company X borrows \$300 with recourse to only the equipment and pays Company A \$360 cash.

22. The Task Force reached a consensus that if the enterprise has no actual or implied commitment, financial or otherwise, to support the operations of the new entity in any manner, a gain of \$260 should be recognized. The investor's basis in the new entity should be no less than zero. The gain calculation is illustrated as follows:

Fair value of interest in equipment sold ($\$400 \times 60\%$)	\$ 240
Less: Cost of interest in equipment sold ($\$100 \times 60\%$)	(60)
	<u>\$ 180</u>
Plus: Additional gain to the extent of the negative investment	80*
Total gain recognized	<u>\$ 260</u>

* The additional gain is calculated as follows:

Cost of equipment	\$100
Less: Cost of interest in equipment sold	(60)
Remaining cost	40
Less: Cash received in excess of 60% of the equipment's fair value	(120)
Negative investment	<u>\$ (80)</u>

23. Task Force members noted that specific facts and circumstances may affect gain recognition and that it would be impractical for the Task Force to consider all possible variations of the basic transaction described above.

24. The SEC Observer emphasized that any gain recognition is heavily dependent on a careful analysis of specific facts and circumstances. Gain recognition would not be appropriate if a significant uncertainty exists regarding realization or the enterprise has an actual or implied commitment to support the operations of the new entity in any manner (see, for example, SAB 81).

11. The Working Group reached a consensus to adopt the EITF 01-2 guidance for Issue 9 without modification. The Working Group also noted the following facts are important to this consensus:

- The monetary consideration in the example is considered significant under the consensus of Issue 8(b), and as such, Issue 9 is considered a **monetary exchange**.
- The monetary consideration received by Entity A in the transaction **exceeds the fair value of the portion of the surrendered asset**.
- The excess monetary consideration is funded by proceeds from nonrecourse financing within Company X. The \$300 borrowing with recourse described in the example explicitly states **the recourse is only to the equipment and is not related to Entity A**.
- Prior to the transaction, Entity A and Entity B are unrelated parties. In exchange for the equipment, **Entity A receives shares of Company X stock representing a 40 percent ownership interest**.

In the example above, the monetary consideration received exceeds the fair value of the portion of the surrendered asset that has been sold in the exchange. When this occurs, additional gain should be recognized to ensure the basis in the ownership interest is not less than zero.

12. Issue 10 and guidance per EITF 01-2:

Exchanges of Real Estate Involving Monetary Consideration (Paragraph 22 of Opinion 29)

25. Statement 66 indicates that the accounting for exchanges of real estate is covered by Opinion 29 and not by Statement 66. However, as discussed above in Issue 8(a), the Task Force reached a consensus that an exchange of nonmonetary assets that would otherwise be based on recorded amounts under paragraph 21 of Opinion 29 but that involves boot should be considered a monetary (rather than nonmonetary) transaction if the boot is at least 25 percent of the fair value of the exchange. As a result, the Task Force reached a different consensus for exchanges

of either (a) real estate held for sale in the ordinary course of business for real estate to be sold in the same line of business or (b) real estate not held for sale in the ordinary course of business for similar real estate when the boot is at least 25 percent of the fair value of the exchange. (Those types of exchanges are referred to in Issues 10(a) and 10(b) as exchanges of similar real estate.)

Issue 10(a)—Whether Statement 66 applies to an exchange of similar real estate that is not subject to Opinion 29 because the transaction involves enough boot for the exchange to be considered monetary under the consensus for Issue 8(a).

26. The Task Force reached a consensus that a transaction involving an exchange of similar real estate that is considered a monetary transaction under Issue 8(a) because boot is at least 25 percent of the fair value of the exchange would be allocated between two components: a monetary portion and a nonmonetary portion. [Note: See STATUS section.] The allocation between the monetary and nonmonetary portions of the transaction should be based on their relative fair values at the time of the transaction. A Task Force member noted that Interpretation 43 provides guidance on when an asset is considered real estate.

Issue 10(b)—If applicable, how Statement 66 should be applied.

27. The Task Force reached a consensus that for the receiver of boot, the monetary portion would be accounted for under Statement 66 as the equivalent of a sale of an interest in the underlying real estate, and the nonmonetary portion would be accounted for based on the recorded amount (after reduction, if appropriate, for an indicated impairment in value) of the nonmonetary asset relinquished pursuant to paragraph 21 of Opinion 29. [Note: See STATUS section.] For the payer of boot, the monetary portion would be accounted for as an acquisition of real estate, and the nonmonetary portion would be accounted for pursuant to paragraph 21 of Opinion 29. Following is an example of the application of this consensus:

Assumptions

- Party A transfers real estate with a fair value of \$2,000,000 (Party A's net book value of \$1,500,000) to Party B and receives \$400,000 cash, a \$400,000 note from Party B payable to Party A, and real estate with a fair value of \$1,200,000 (Party B's net book value of \$800,000).
- The initial investment requirement for full accrual profit recognition under Statement 66 is 20 percent.
- The terms of the note from Party B to Party A would satisfy the continuing investment provisions necessary for application of the full accrual method. The interest rate on the note from Party B is a market rate, and the note is considered fully collectible.
- The values of the real estate transferred by both parties are readily determinable and clearly realizable at the exchange date.
- Neither party has any continuing involvement with the real estate transferred to the other.

Computation of Allocation by Both Party A and Party B

Monetary Portion of Transaction:

Total monetary consideration divided by total fair value of exchange	$\$800,000 \div \$2,000,000 = 40\%$

For this example, the monetary portion of the transaction is the exchange of \$400,000 cash and a \$400,000 note for real estate with a fair value of \$800,000 (\$2,000,000 x 40%).

Nonmonetary Portion of Transaction:

Fair value of real estate exchanged divided by total
 fair value of exchange $\$1,200,000 \div \$2,000,000 = 60\%$

For this example, the nonmonetary portion of the transaction is the exchange of real estate with a fair value of \$1,200,000 for similar real estate with a fair value of \$1,200,000 (\$2,000,000 x 60%).

Accounting by Party A (the Receiver of Monetary Consideration)

The monetary portion of the transaction qualifies for full accrual profit recognition because the cash down payment of \$400,000 and the \$400,000 note meet the criteria in paragraphs 9-12 of Statement 66 for a buyer's initial and continuing investment when applied to the monetary portion of the transaction. Accordingly, a gain of \$200,000 (\$800,000 total monetary consideration less \$600,000 [\$1,500,000 total net book value x 40%] pro rata portion of net book value) would be recorded at the date of sale.

The nonmonetary portion of the transaction does not qualify for gain recognition because the exchange involves similar real estate. The accounting basis of the new property equals \$900,000 (\$1,500,000 total net book value of the real estate exchanged less the \$600,000 pro rata portion of net book value sold).

Accounting by Party B (the Payer of Monetary Consideration)

The monetary portion of the transaction represents an acquisition of real estate for the monetary consideration paid of \$800,000.

The nonmonetary portion of the transaction does not qualify for gain recognition because the exchange involves similar real estate. The accounting basis of the new property equals \$1,600,000 (\$800,000 net book value of the real estate exchanged plus \$800,000 total monetary consideration paid).

13. The STATUS section of EITF 01-2 states the following relative to Issues 10(a) and 10(b):

46. Issues 10(a) and 10(b) previously addressed circumstances in which an entity is involved in a real estate exchange that meet the following conditions: (1) the exchange includes boot that is at least 25 percent of the fair value of the exchange and (2) the exchange is either (a) real estate held for sale in the ordinary course of business for real estate to be sold in the same line of business or (b) real estate not held for sale in the ordinary course of business for similar real estate. Statement 153, however, eliminates the fair value measurement exception for nonmonetary exchanges of similar productive assets provided in Opinion 29 and replaces it with an exception from fair value measurement for nonmonetary exchanges that lack commercial substance. Therefore, Issues 10(a) and 10(b) address circumstances in which an entity is involved in a real estate exchange that meets the following conditions: (1) the exchange includes boot that is at least 25 percent of the fair value of the exchange and (2) the exchange meets one of the conditions set forth in paragraph 20 of Opinion 29.

14. The Working Group reached a consensus to adopt the EITF 01-2 guidance for Issues 10(a) and 10(b) with the modification to replace references to FAS 66: *Accounting for Sales of Real Estate* with references to *SSAP No. 40R—Real Estate Investments*. In addition, reporting entities should note that as a result of the issuance of FAS 153, Issues 10(a) and 10(b) address circumstances in which an entity is involved in a real estate exchange that meets the following conditions: (1) the exchange includes boot that is at least 25 percent of the fair value of the exchange and (2) the exchange meets one of the conditions set forth in paragraph 20 of Opinion 29.

15. Issue 11 and guidance per EITF 01-2:

Nonreciprocal Transfers to Owners (Paragraph 23 of Opinion 29)

Spinoffs or Other Distributions of Loans Receivable to Shareholders

28. An enterprise distributes loans receivable to its owners by forming a subsidiary, transferring those loans receivable to the subsidiary, and then distributing the stock of that subsidiary to shareholders of the parent.

Issue 11—Whether the enterprise should report the distribution at book value as a spinoff or at fair value as a dividend-in-kind if the book value of the loans receivable, which may be either the "recorded investment in the receivable" or the "carrying amount of the receivable," is in excess of their fair value, and how the recipient should record the transaction.

29. The Task Force reached a consensus that the distribution should be reported at fair value by the enterprise and the recipient. Task Force members noted that the transaction is not a spinoff because the subsidiary does not constitute a business.⁴ Rather, the transaction should be considered a dividend-in-kind. Under paragraph 23 of Opinion 29, dividends-in-kind are nonreciprocal transfers of nonmonetary assets to owners that should be accounted for at fair value if the fair value of the nonmonetary asset distributed is objectively measurable and would be clearly realizable to the distributing entity in an outright sale at or near the time of distribution. On July 5, 1989, subsequent to the date of the consensus, the SEC staff issued SAB 82, which discusses accounting for transfers of nonperforming assets by financial institutions and disclosure of the impact of financial assistance from regulators. In discussing the value at which a transfer of nonperforming assets should be recorded by the transferor financial institution, SAB 82 makes reference to the Task Force consensus on Issue 10, that an enterprise that distributes loans to its owners should report such distribution at fair value.

⁴ Issue 98-3 provides guidance on determining whether an asset group constitutes a business.

16. The Working Group reached a consensus to adopt the EITF 01-2 guidance with the modification to replace the reference to paragraph 23 of APB Opinion 29 with paragraph 12 of SSAP No. 95, the reference in footnote 4 to EITF Issue 98-3 shall be replaced with INT 00-26: *EITF 98-3: Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*.

17. Issue 12 and guidance per EITF 01-2:

Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners

30. Some believe that paragraph 23 of Opinion 29 requires that nonreciprocal transfers of nonmonetary assets to owners on a non-pro rata basis be accounted for at fair value, without regard to the nature of the nonmonetary assets distributed. Others believe that Opinion 29 requires historical cost accounting for corporate liquidations or reorganizations involving the distribution to owners of all or a significant segment of the business, whether in a spinoff, split-off, or split-up and whether or not the distribution is on a pro rata basis.

31. Although Opinion 29 does not define the term split-off, federal income tax law states that a split-off is a transaction in which a parent company exchanges its stock in a subsidiary for parent company stock held by its shareholders. For federal income tax purposes, the exchange of shares need not be pro rata to all shareholders, or even include all shareholders, in order to be considered a tax-free split-off.

Issue 12—Whether a non-pro rata split-off of all or a significant segment of a business in a corporate plan of reorganization should be accounted for at historical cost or at fair value.

32. The Task Force reached a consensus that a non-pro rata split-off of a segment of a business in a corporate plan of reorganization should be accounted for at fair value. The Task Force also reached a consensus that a split-off of a targeted business, distributed on a pro rata basis to the holders of the related targeted stock, should be accounted for at historical cost. The Task Force observed that if the targeted stock was created in contemplation of the subsequent split-off, the two steps (creation of the targeted stock and the split-off) cannot be separated and should be viewed as one transaction with the split-off being accounted for at fair value.

18. The Working Group reached a consensus to adopt the EITF 01-2 guidance for Issue 12 with the modification to replace references to paragraph 23 of APB Opinion 29 with paragraph 12 of SSAP No. 95.

INT 06-13 Status

19. No further discussion is planned.

Not for Distribution

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 07-01: Application of the Scientific (Constant Yield) Method in Situations of Reverse Amortization

INT 07-01 Dates Discussed

March 10, 2007; June 2, 2007

INT 07-01 References

Current:

SSAP No. 26R—Bonds

SSAP No. 43R—Loan-Backed and Structured Securities

Superseded:

SSAP No. 98—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-Backed and Structured Securities

INT 07-01 Issue

1. SSAP No. 26R and SSAP No. 43R both reference the use of the scientific or constant yield method of amortization of a premium or a discount. *SSAP No. 26R—Bonds* provides the following (bolding added for emphasis):

Amortized Cost

9. **Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond.** Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst).

SSAP No. 43R—Loan-Backed and Structured Securities provides the following (bolding added for emphasis):

Amortization

8. **Amortization of premium or discount shall be calculated using the scientific (constant yield) interest method** and shall be recorded as an adjustment to investment income. The interest method results in a constant effective yield equal to the prevailing rate at the time of purchase or at the time of subsequent adjustments to book value. The amortization period shall reflect estimates of the period over which repayment of principal of the loan-backed securities is expected to occur, not the stated maturity period.

Collection of All Contractual Cashflows is Probable

12. The following guidance applies to loan-backed and structured securities for which it is probable that the investor will be able to collect all contractually required payments receivable. (Paragraphs 17-19 provide guidance for securities in which collection of all contractual cash flows is not probable and paragraphs 20-24 provide guidance for beneficial interests.) Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. Falling interest rates generate faster prepayment of the mortgages underlying the security, shortening its duration. This causes the reporting entity to reinvest assets sooner than expected at potentially

less advantageous rates. This is called prepayment risk. Extension risk is created by rising interest rates which slow repayment and can significantly lengthen the duration of the security. Differences in cash flows can also result from other changes in the cash flows from the underlying assets. If assets are delinquent or otherwise not generating cash flow, which should be reflected in the cash flow analysis through diminishing security cash flows, even if assets have not been liquidated and gain/losses have not been booked.

13. Changes in currently estimated cash flows, including the effect of prepayment assumptions, on loan-backed securities shall be reviewed periodically, at least quarterly. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Prepayment assumptions shall be applied consistently across portfolios to all securities backed by similar collateral (similar with respect to coupon, issuer, and age of collateral). Reporting entities shall use consistent assumptions across portfolios for similar collateral within controlled affiliated groups. Since each reporting entity may have a unique method for determining the prepayment assumptions, it is impractical to set standard assumptions for the industry. Relevant sources and rationale used to determine each prepayment assumption shall be documented by the reporting entity.

14. Loan-backed securities shall be revalued using the currently estimated cash flows, including new prepayment assumptions, using either the prospective or retrospective adjustment methodologies, consistently applied by type of securities. However, if at any time during the holding period, the reporting entity determines it is no longer probable that they will collect all contractual cashflows, the reporting entity shall apply the accounting requirements in paragraphs 17-19.

15. The prospective approach recognizes, through the recalculation of the **effective yield** to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.

16. The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated **effective yield** will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

2. The following identifies three situations where, using a constant yield methodology for determining amortization or accretion, changes in amortized value move in the opposite direction of what is expected. That is, if a security is purchased at a premium, the constant yield methodology will, in certain cases, cause the amortized value to move to a discount during the life of the security. Conversely, if the security were purchased at a discount, the constant yield methodology will, in certain cases, cause the amortized value to move to a premium during the life of the security.

Accounting Issues:

3. The fundamental accounting questions are

Issue 1: When applying the constant yield method to loan-backed or structured securities, can amortized value be interpreted to represent the discounted cash flows?

Issue 2: Should a security purchased at a premium be allowed to move to a discount, or should a discount be allowed to move to a premium, if this occurs as a result of applying the scientific (constant yield) interest method.”

Issue 3: On the subject of Parity (described in example 3), is it appropriate under statutory accounting guideline to “assume away” day delay and subsequently eliminate amortizing to a value less than par? If so, should a payment date assumption or a record date assumption be used?

4. Following are practical situations where a security purchased at a premium will have increases in amortized value, and where a security purchased at a discount will have decreases in amortized value. The question is should the scientific (constant yield) method be interpreted to allow these securities to be amortized as illustrated below.

Example 1

5. This first example examines a stepped coupon bond purchased at a discount. At time of acquisition the future interest rate adjustments are known, and so are taken into account in the yield calculation. This example illustrates how a (theoretical) stepped coupon bond, without a call schedule, could result in the amortized value changing from a discount to a premium.

Description: FEDERAL HOME LN MTG CORP MTN

Maturity: 03-18-2019

Int Type: Stepped Coupon not callable

03/18/2004 4.000%

03/18/2007 6.000%

03/18/2013 8.000%

Purchase Date: 3/18/2004

Purchase Price: 97.125

Based on this information, the effective annual yield at acquisition is: 6.3246%

6. The following illustrates the semiannual amortization schedule determined at time of acquisition. The amortized values represent the sum of the discounted future cash flows at each payment date. Based on the purchase price and cash flow assumptions, the semiannual yield is 3.1623%.

Pay Date	Par Value	Interest Rate Annual	Interest Payment	Total Payment	Income	Accr Disc	Amort Value
3/18/2004	1,000,000.00			(971,250.00)			971,250.00
9/18/2004	1,000,000.00	4.0000%	20,000.00	20,000.00	30,713.97	10,713.97	981,963.97
3/18/2005	1,000,000.00	4.0000%	20,000.00	20,000.00	31,052.78	11,052.78	993,016.75
9/18/2005	1,000,000.00	4.0000%	20,000.00	20,000.00	31,402.30	11,402.30	1,004,419.05
3/18/2006	1,000,000.00	4.0000%	20,000.00	20,000.00	31,762.88	11,762.88	1,016,181.92
9/18/2006	1,000,000.00	4.0000%	20,000.00	20,000.00	32,134.86	12,134.86	1,028,316.78
3/18/2007	1,000,000.00	4.0000%	20,000.00	20,000.00	32,518.60	12,518.60	1,040,835.38
9/18/2007	1,000,000.00	6.0000%	30,000.00	30,000.00	32,914.48	2,914.48	1,043,749.86
3/18/2008	1,000,000.00	6.0000%	30,000.00	30,000.00	33,006.64	3,006.64	1,046,756.50
9/18/2008	1,000,000.00	6.0000%	30,000.00	30,000.00	33,101.72	3,101.72	1,049,858.22
3/18/2009	1,000,000.00	6.0000%	30,000.00	30,000.00	33,199.81	3,199.81	1,053,058.02
9/18/2009	1,000,000.00	6.0000%	30,000.00	30,000.00	33,300.99	3,300.99	1,056,359.02
3/18/2010	1,000,000.00	6.0000%	30,000.00	30,000.00	33,405.38	3,405.38	1,059,764.40
9/18/2010	1,000,000.00	6.0000%	30,000.00	30,000.00	33,513.07	3,513.07	1,063,277.47
3/18/2011	1,000,000.00	6.0000%	30,000.00	30,000.00	33,624.17	3,624.17	1,066,901.64
9/18/2011	1,000,000.00	6.0000%	30,000.00	30,000.00	33,738.77	3,738.77	1,070,640.41
3/18/2012	1,000,000.00	6.0000%	30,000.00	30,000.00	33,857.00	3,857.00	1,074,497.41
9/18/2012	1,000,000.00	6.0000%	30,000.00	30,000.00	33,978.98	3,978.98	1,078,476.39
3/18/2013	1,000,000.00	6.0000%	30,000.00	30,000.00	34,104.80	4,104.80	1,082,581.19
9/18/2013	1,000,000.00	8.0000%	40,000.00	40,000.00	34,234.61	(5,765.39)	1,076,815.80
3/18/2014	1,000,000.00	8.0000%	40,000.00	40,000.00	34,052.29	(5,947.71)	1,070,868.09
9/18/2014	1,000,000.00	8.0000%	40,000.00	40,000.00	33,864.20	(6,135.80)	1,064,732.30
3/18/2015	1,000,000.00	8.0000%	40,000.00	40,000.00	33,670.17	(6,329.83)	1,058,402.47
9/18/2015	1,000,000.00	8.0000%	40,000.00	40,000.00	33,470.00	(6,530.00)	1,051,872.47
3/18/2016	1,000,000.00	8.0000%	40,000.00	40,000.00	33,263.50	(6,736.50)	1,045,135.97
9/18/2016	1,000,000.00	8.0000%	40,000.00	40,000.00	33,050.47	(6,949.53)	1,038,186.45
3/18/2017	1,000,000.00	8.0000%	40,000.00	40,000.00	32,830.71	(7,169.29)	1,031,017.16
9/18/2017	1,000,000.00	8.0000%	40,000.00	40,000.00	32,603.99	(7,396.01)	1,023,621.15
3/18/2018	1,000,000.00	8.0000%	40,000.00	40,000.00	32,370.11	(7,629.89)	1,015,991.26
9/18/2018	1,000,000.00	8.0000%	40,000.00	40,000.00	32,128.83	(7,871.17)	1,008,120.08
3/18/2019	1,000,000.00	8.0000%	40,000.00	1,040,000.00	31,879.92	(8,120.08)	1,000,000.00
Subtotal						28,750.00	

7. As can be seen from this schedule, the amortized value quickly changes from a discount situation to a premium situation. The question is should the accretion of the discount end when the discount is fully amortized, i.e. when Amortized Value = Par Value. In the above, this would occur somewhere between 3/18/05 and 9/18/05. Or, is it proper to report the amortized value as the sum of the discounted cash flows at a given point in time using the effective yield at acquisition? (Note: A prospective method is not applicable for this situation since the cash flows are known at time of acquisition, and those assumptions will not change over time.)

Example 2

8. The second situation explores a variable rate security using the Retrospective Method of Amortization. This example exemplifies the issue identified as “Drift.” As variable interest rates are not known in advance, adjustments to yields must be made whenever a new interest rate becomes effective. Using the retrospective method, the effective yield is calculated based upon the purchase price, and the actual received and the projected future cash flows. For simplicity’s sake, a bond with a single principal payment at maturity is used, but similar results would occur if the security were any type of variable rate instrument.

9. The situation presented below shows the cash flow assumptions at purchase when there is only one known interest rate. Immediately following, are the effects of using a retrospective adjustment, once the second interest rate is known and applied.

Original Purchase Assumptions:

Par value:	1,000,000.00
Price:	98.000
Cost:	980,000.00
Acq Date:	01/022006
Maturity Date:	12/15/2009
Interest rate:	2.000%
Pays:	Quarterly
Effective Annual Yield:	2.53326%
Qtrly Yield:	.63332%

Pay Date	Par Value	Int Rate	Int Recvd	Prin Recd	Total Cash	Income	Accretion Discount	Amortized Value
1/2/2006	1,000,000	2.00%	(944.44)		(980,944.44)			980,000.00
3/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	5,034.16	978.60	980,978.60
6/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,212.69	1,212.69	982,191.29
9/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,220.37	1,220.37	983,411.67
12/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,228.10	1,228.10	984,639.77
3/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,235.88	1,235.88	985,875.65
6/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,243.71	1,243.71	987,119.36
9/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,251.58	1,251.58	988,370.94
12/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,259.51	1,259.51	989,630.45
3/15/2008	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,267.49	1,267.49	990,897.94
6/15/2008	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,275.51	1,275.51	992,173.45
9/15/2008	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,283.59	1,283.59	993,457.04
12/15/2008	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,291.72	1,291.72	994,748.76
3/15/2009	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,299.90	1,299.90	996,048.66
6/15/2009	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,308.13	1,308.13	997,356.80
9/15/2009	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,316.42	1,316.42	998,673.22
12/15/2009	1,000,000	2.00%	5,000.00	1,000,000.00	1,000,000.00	6,324.76	1,326.78	-

10. Based on the purchase assumptions, the amortization schedule for this security is normal. The accretion of discount is a smooth curve, and the amortized value approaches par value at maturity. As previously indicated, the following shows the interest rate adjusted for the accrual period ending 3/15/08. The original purchase assumptions are as stated above. The interest payments from 3/15/06 through 12/15/07 are paid based on the 2.000% annual interest rate effective from issue date (12/15/05) through 12/14/07. For accrual period beginning 12/15/07, however, the interest rate adjusts to 3.500%. Using a retrospective methodology, the following amortization schedule results:

Pay Date	Par Value	Int Rate	Int Recvd	Prin Recd	Total Cash	Income	Accretion Discount	Amortized Value
1/2/2006	1,000,000	2.00%	(944.44)		(980,944.44)			980,000.00
3/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	6,510.55	2,455.00	982,455.00
6/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,046.82	3,046.82	985,501.81
9/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,071.77	3,071.77	988,573.58
12/15/2006	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,096.93	3,096.93	991,670.51
3/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,122.30	3,122.30	994,792.81
6/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,147.87	3,147.87	997,940.67
9/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,173.65	3,173.65	1,001,114.33
12/15/2007	1,000,000	2.00%	5,000.00	0.00	5,000.00	8,199.64	3,199.64	1,004,313.97
3/15/2008	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,225.85	(524.15)	1,003,789.82
6/15/2008	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,221.56	(528.44)	1,003,261.38
9/15/2008	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,217.23	(532.77)	1,002,728.61
12/15/2008	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,212.87	(537.13)	1,002,191.48
3/15/2009	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,208.47	(541.53)	1,001,649.94
6/15/2009	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,204.03	(545.97)	1,001,103.98
9/15/2009	1,000,000	3.50%	8,750.00	0.00	8,750.00	8,199.56	(550.44)	1,000,553.54
12/15/2009	1,000,000	3.50%	8,750.00	1,000,000.00	1,008,750.00	8,195.05	(553.54)	-

11. From this, it is apparent that the amortized value quickly breaks out of the cost / par range and becomes a premium situation. The book value for the periods prior to 12/15/07 would have been reported at the original amortized values as determined in the prior spreadsheet. On the 12/31/07 annual statement there would be a retrospective catch-up adjustment.

12. Because of the variability of cash flows, recalculating a yield based on the retrospective method and applying that yield to calculate an amortized value can cause a security to bust out of the cost / par range, and the amortization (accretion) to move in the “wrong direction.” For variable rate, interest only, and principal only asset backed securities, the additional complication caused by day delay would also come into play.

Example 3

13. The third example represents a mortgage backed security purchased at a slight premium. This situation illustrates what is described as “**Parity**.” American Banker Online describes parity as “The parity price at which the yield of a mortgage-backed bond equals its net coupon rate. Securities with parity amortize to a value less than 100.

14. Parity occurs because the accrual date, usually the last day of the month, is many days prior to the payment date, typically 15, or 25 days for a mortgage backed security, and up to 45, or 55 days (or longer) for a collateralized mortgage obligation. The following is a simplified example using a mortgage backed security. The assumption is that the security is purchased at a slight premium (price = 100.1000). Because of day delay, however, the parity price is not 100, but is approximately 99.90.

CUSIP: 123456-AB-1 (Made up)

Description: Sample Mortgage Backed Security

Final payment date: 01/15/2006

Int Rate: 5.50%

Day Delay: 44

CPR: 6%

Purchase Date: 2/15/2004

Purchase Price: 100.1000

Par Purchased: 1,000,000.00

Annual Yield (SIA) 5.16841%

Periodic (monthly) Yield 0.43070%

Interest Rate 5.500%

	Prin Red	Principal	Book	Total Incm	Int Incm	Amort	Amort Fctr
2/15/2004		1,000,000.00	1,001,000.00	-	(2,138.89)	-	1.00100
3/15/2004	46,066.11	953,933.89	954,767.44	4,311.32	4,477.77	(166.45)	1.00087
4/15/2004	45,822.29	908,111.60	908,790.15	4,112.19	4,267.19	(155.00)	1.00075
5/15/2004	45,579.72	862,531.88	863,066.88	3,914.17	4,057.72	(143.56)	1.00062
6/15/2004	45,338.40	817,193.48	817,596.34	3,717.24	3,849.37	(132.13)	1.00049
7/15/2004	45,098.32	772,095.16	772,377.29	3,521.39	3,642.12	(120.73)	1.00037
8/15/2004	44,859.48	727,235.68	727,408.48	3,326.64	3,435.97	(109.33)	1.00024
9/15/2004	44,621.87	682,613.81	682,688.66	3,132.95	3,230.91	(97.95)	1.00011
10/15/2004	44,385.48	638,228.33	638,216.60	2,940.35	3,026.93	(86.58)	0.99998
11/15/2004	44,150.31	594,078.02	593,991.06	2,748.80	2,824.04	(75.23)	0.99985
12/15/2004	43,916.35	550,161.67	550,010.81	2,558.32	2,622.22	(63.89)	0.99973
1/15/2005	43,683.59	506,478.08	506,274.66	2,368.90	2,421.47	(52.57)	0.99960
2/15/2005	43,452.03	463,026.05	462,781.38	2,180.53	2,221.78	(41.25)	0.99947
3/15/2005	43,221.66	419,804.39	419,529.77	1,993.20	2,023.15	(29.95)	0.99935
4/15/2005	42,992.48	376,811.91	376,518.63	1,806.92	1,825.58	(18.66)	0.99922
5/15/2005	42,764.48	334,047.43	333,746.76	1,621.67	1,629.05	(7.38)	0.99910
6/15/2005	42,537.66	291,509.77	291,212.98	1,437.45	1,433.57	3.88	0.99898
7/15/2005	42,312.00	249,197.77	248,916.12	1,254.26	1,239.12	15.14	0.99887
8/15/2005	42,087.50	207,110.27	206,855.00	1,072.08	1,045.71	26.38	0.99877
9/15/2005	41,864.16	165,246.11	165,028.45	890.93	853.32	37.61	0.99868
10/15/2005	41,641.97	123,604.14	123,435.31	710.78	661.95	48.83	0.99863
11/15/2005	41,420.92	82,183.22	82,074.43	531.64	471.60	60.04	0.99868
12/15/2005	41,201.01	40,982.21	40,944.66	353.50	282.25	71.24	0.99908
1/15/2006	40,982.21	-	-	176.35	93.92	37.55	*

* The last amortization calculation is an adjustment to bring book value to 0.

15. By looking at the amortization factors, which represent amortized value / remaining principal, it is evident that the security quickly goes from a premium situation to a discount situation between 5/15/2005 and 6/15/2005. Due to Parity, the security does not amortize to a value of 100, but to a slight discount.

16. In addressing the issue of parity for REMICs, the tax code allows for accruing interest and calculating Original Issue Discount (OID) on a payment date to payment date basis, thereby eliminating the discrepancy between the accrual periods and the payment dates. Another method of eliminating parity would be to use the accrual end date (record date) plus one as the assumed payment date. Both methods sync up the accrual period and the payment date, essentially eliminating day delay.

17. Is it appropriate under statutory accounting guideline to “assume away” day delay and subsequently eliminate amortizing to a value less than par? If so, should a payment date assumption or a record date assumption be used?

INT 07-01 Discussion

18. The Working Group came to the following consensuses:

Issue 1: When applying the constant yield method to loan-backed or structured securities, can amortized value be interpreted to represent the discounted cash flows?

19. The Working Group noted that in the case of loan-backed or asset-backed securities; the unamortized balance of an issue at any point in time will represent the present value of all future cash flows discounted to the present using the constant yield.

Issue 2: Should a security purchased at a premium be allowed to move to a discount, or should a discount be allowed to move to a premium, if this occurs as a result of applying the scientific (constant yield) interest method.”

20. It has been noted that certain anomalies will exist with certain types of bonds, loan-backed and structured securities when applying the constant yield method. These anomalies can cause a premium to move to a discount, or a discount to move to a premium.

21. Some think that the value should be frozen once this occurs. However, both SSAP No. 26R and SSAP No. 43R are clear that the scientific (constant yield) interest method is required to be used when accreting/amortizing the discount/premium on a bond, loan-backed or structured security.

22. The Working Group noted that recording a discount or a premium and accreting/amortizing to par is consistent with a held to maturity approach that results in no gain or loss at maturity. Although it could be argued that freezing a discount or premium, or stopping at par at a particular point in time, would achieve the same result, this approach appears to ignore the fundamentals of the issue that have led to the anomalies. The Working Group noted that ignoring the facts of the issue in order to prevent the original premium or original discount from reversing is inappropriate, and that the above examples demonstrate that fact. Therefore, a security purchased at a premium is allowed to move to a discount, and that a discount is allowed to move to a premium, if this occurs as a result of applying a constant yield method.

Issue 3: On the subject of Parity (described in example 3), is it appropriate under statutory accounting guideline to “assume away” day delay and subsequently eliminate amortizing to a value less than par? If so, should a payment date assumption or a record date assumption be used?

23. It has been noted for mortgage backed securities; interest is often “earned” as of the end of the month but not paid until a later date. This delay known as the “day delay” is often 10-25 days depending on the contract. The yields as provided by “Bloomberg,” are Security Industry Association (SIA)

compliant yields, which do not “assume away ‘day delay’”, but produce amortization to a value of less than 100, as seen in the example. After discussion, the Working Group determined that the difference between amortizing to the earned record date or to the payment date for the securities described in issue 3 is typically immaterial. Therefore, the Working Group determined to continue to allow flexibility in amortization for the day delay.

24. The user of this interpretation should also note that amortization continues to apply the effective yield method in the above situations provided that doing so does not conflict with other statutory requirements in the SSAPs. For example, yield to worst is still a continuing requirement and other SVO requirements are still in effect, etc.

INT 07-01 Status

25. No further discussion is planned.

Not for Distribution

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 08-05: EITF 02-11: Accounting for Reverse Spinoffs

INT 08-05 Dates Discussed

March 29, 2008; May 31, 2008

INT 08-05 References

Current:

SSAP No. 24—*Discontinued Operations and Unusual or Infrequent Items*

SSAP No. 95—*Nonmonetary Transactions*

INT 08-05 Issue

1. *EITF 02-11: Accounting for Reverse Spinoffs* (EITF 02-11) was issued in September 2002 to address whether to account for spinoffs as reverse spinoffs based on the substance, instead of the legal form, of such transactions. In a reverse spinoff, the legal spinnee should be treated as though it were the spinnor for accounting purposes. (*In spinoff transactions, the 'spinnor' is the entity transferring assets, whereas the term 'spinnee' refers to the new entity.*)

2. As noted within EITF 02-11:

1. An entity may desire to reorganize its operations in response to its business needs. For example, an entity (the "spinnor") may transfer assets into a new legal spun-off entity (the "spinnee") and distribute the shares of the spinnee to its shareholders, without the surrender by the shareholders of any stock of the spinnor. Such a transaction is commonly referred to as a "spinoff." Consider the following example:

Big Company owns and operates a mall and a retail store that occupies the anchor store position in that mall. The mall and the store are managed by two separate divisions. The shareholders of Big Company would like to split Big Company into two companies so that each can focus on its own operations. To achieve this, Big Company transfers the mall's assets and operations into a newly created subsidiary, Mall Company, and distributes the shares of Mall Company to its shareholders on a pro rata basis in a spinoff.

2. A spinoff allows an entity to be reorganized in a manner that allows it to meet the needs of its owners. However, there may be other benefits as well. If the spinoff qualifies as a nontaxable reorganization, the distribution results in no taxable gain being recognized by either the spinnor or its shareholders. Additionally, if the spinnee is subsequently sold by the shareholders, the double taxation that would have occurred if a company sold its subsidiary directly and distributed the proceeds to its shareholders is avoided.

3. The accounting guidance for spinoffs is provided in Opinion 29. Although the basic principle underlying Opinion 29 is that the accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved, it provides a modification to that basic principle for nonreciprocal transfers to owners (such as spinoffs). Opinion 29, paragraph 23 (as amended by Statement 144), states:

Accounting for the distribution of nonmonetary assets to owners of an enterprise in a spin-off or other form of reorganization or liquidation or in a plan that is in substance the rescission of a prior business combination should be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) of the nonmonetary assets distributed. A prorata distribution to owners of an enterprise of shares of a subsidiary or other investee company that has been or is being consolidated or that has been or is being accounted for under the equity method is to be considered to be

equivalent to a spin-off. Other nonreciprocal transfers of nonmonetary assets to owners should be accounted for at fair value if the fair value of the nonmonetary asset distributed is objectively measurable and would be clearly realizable to the distributing entity in an outright sale at or near the time of the distribution.

4. Accordingly, under Opinion 29, an entity's distribution of the shares of a wholly owned or consolidated subsidiary to its shareholders should be recorded based on the carrying value of the subsidiary. Regardless of whether the spun-off operations will be sold immediately after the spinoff, the transaction should not be accounted for as a sale of the accounting spinnee followed by a distribution of the proceeds.

5. In certain cases, the spinoff of a subsidiary to its shareholders is such that the legal form of the transaction does not match its substance. That is, in certain circumstances, the spinnee will be the continuing entity. The issue is whether to account for a spinoff as a reverse spinoff based on the substance instead of the legal form of the transaction. In a reverse spinoff, the legal spinnee should be treated as though it were the spinnor for accounting purposes (accounting spinnor).

6. Consider the following example:

Snack Food Company owns two subsidiaries—Ice Cream Subsidiary and Snack Subsidiary. Ice Cream Subsidiary is significantly larger and more profitable than Snack Subsidiary. The shareholders of Snack Food Company would like to continue the ice cream operations and dispose of the snack food operations. To facilitate this, Snack Food Company distributes the shares of Ice Cream Subsidiary to the shareholders thereby creating Ice Cream Company. The shareholders are then able to dispose of the operations of Snack Food Company (now solely comprising Snack Subsidiary operations) by selling the shares directly to a third party and, at the same time, retain ownership of the Ice Cream Company.

Accounting for the above transaction based upon its legal form would present Snack Food Company as the spinnor with Ice Cream Company as the spinnee. However, in substance, Snack Food Company has disposed of Snack Subsidiary and continued its ice cream operations. The legal form of the spinoff may have been driven primarily by tax planning strategies. Accounting for the transaction based on its substance depicts Ice Cream Company as the accounting spinnor and Snack Food Company as the accounting spinnee.

3. Per EITF 02-11, paragraph 5, the issue is whether to account for a spinoff as a reverse spinoff based on the substance instead of the legal form of the transaction. In a reverse spinoff, the legal spinnee should be treated as though it were the spinnor for accounting purposes (accounting spinnor).

4. The FASB Emerging Issues Task Force reached the following consensus in paragraphs 7-8 of EITF 02-11:

7. The Task Force reached a consensus that reverse spinoff accounting is appropriate when treatment of the legal spinnee as the accounting spinnor results in the most accurate depiction of the substance of the transaction for shareholders and other users of the financial statements. The Task Force observed that the determination of whether reverse spinoff accounting is appropriate is a matter of judgment that depends on an evaluation of all relevant facts and circumstances.

8. The Task Force reached a consensus that in determining whether reverse spinoff accounting is appropriate, a presumption should exist that a spinoff should be accounted for based on its legal form, in other words, that the legal spinnor is also the accounting spinnor. However, that presumption may be overcome. An evaluation of the following indicators should be considered in that regard. Nevertheless, no one indicator should be considered presumptive or determinative.

5. The FASB Emerging Issues Task Force identified the following indicators that a spinoff should be accounted for as a reverse spinoff in paragraph 8 of EITF 02-11:

- **The size of the legal spinnor and the legal spinnee**—All else being equal, in a reverse spinoff, the accounting spinnor (legal spinnee) is larger than the accounting spinnee (legal spinnor). The determination of which entity is larger is based on a comparison of the assets, revenues, and earnings of the two entities. There are no established "bright lines" that should be used to determine which entity is the larger of the two.
- **The fair value of the legal spinnor and the legal spinnee**—All else being equal, in a reverse spinoff, the fair value of the accounting spinnor (legal spinnee) is greater than that of the accounting spinnee (legal spinnor).
- **Senior management**—All else being equal, in a reverse spinoff, the accounting spinnor (legal spinnee) retains the senior management of the formerly combined entity. Senior management generally consists of the chairman of the board, chief executive officer, chief operating officer, chief financial officer, and those divisional heads reporting directly to them, or the executive committee if one exists.
- **Length of time to be held**—All else being equal, in a reverse spinoff, the accounting spinnor (legal spinnee) is held for a longer period than the accounting spinnee (legal spinnor). A proposed or approved plan of sale for one of the separate entities concurrent with the spinoff may identify that entity as the accounting spinnee.

INT 08-05 Discussion

6. The EITF consensus is that reverse spinoff accounting is appropriate when treatment of a legal spinnee as the accounting spinnor results in the most accurate depiction of the substance of the transaction for shareholders and other users of the financial statements. The Task Force observed that the determination of whether reverse spinoff accounting is appropriate is a matter of judgment that depends on an evaluation of all relevant facts and circumstances.

7. The Task Force consensus indicated that a presumption should exist that a spinoff should be accounted for based on its legal form (legal spinnor is the accounting spinnor); however that presumption can be overcome based on an evaluation of indicators that may suggest when a reverse spinoff exists (legal spinnee would be accounting spinnor).

8. In various instances within the statutory accounting guidelines, guidance is incorporated to promote accounting in accordance with the substance of transactions instead of their legal form. The Working Group reached a consensus to adopt EITF 02-11, indicating that reverse spinoff accounting is appropriate when treatment of a legal spinnee as the accounting spinnor results in the most accurate depiction of the substance of the transaction. In situations in which reverse spinoff accounting is judged to be most appropriate, this will result with the carrying value of the spinnee, instead of the spinnor, being utilized in determining the spinoff distribution to shareholders.

9. The following examples have been incorporated from EITF 02-11 to illustrate situations in which a spinoff should be accounted for in accordance with the legal form or as a reverse spinoff:

Example 1 - Retail Company, a retail store chain, has a wholly owned restaurant subsidiary. The retail and restaurant operations are operated independently with a small executive management team overseeing both. Since the two have unrelated operations, the shareholders believe that the two operations should be separated by way of a spinoff. They believe that this will allow those separate companies to pursue opportunities in their respective industries and maximize their individual value. In order to accomplish the spinoff, Retail Company creates a new legal entity, Restaurant Company, into which the assets and operations of the restaurant subsidiary are

transferred. The shares of Restaurant Company are then distributed to the shareholders of Retail Company on a pro rata basis.

The executive management team of Retail Company will be divided between the two entities. A comparison of the two companies is presented below:

(In 000s)	Assets	Revenues	Net Income	Fair Value
Retail	\$500	\$410	\$150	\$675
Restaurant	\$100	\$ 75	\$21	\$170

Evaluation: Based on an analysis of the indicators in this example, the spinoff should be accounted for in accordance with its legal form. That is, the transaction should not be accounted for as a reverse spinoff. Retail Company should be designated as the accounting spinor based on the first two indicators listed below.

- Retail Company has substantially larger operations than Restaurant Company.
- The fair value of Retail Company is greater than Restaurant Company.
- The management team is allocated between the two operations.
- There are no planned or likely disposals of either Retail Company or Restaurant Company.

The designation of Retail Company as the accounting spinor will provide the most accurate depiction of the transaction to shareholders and other users of the financial statements because, in substance, Retail Company has spun off its Restaurant Company into a separate company.

Example 2 - Retail Company, a retail store chain, has a wholly owned restaurant subsidiary. The retail and restaurant operations are operated independently, with a small executive management team overseeing both. While the restaurant subsidiary has grown rapidly, the retail operations have deteriorated steadily due to increased competition. The shareholders believe that the two operations should be separated by way of a spinoff. Management intends to dispose of the retail operations. In order to accomplish the spinoff, Retail Company creates a new legal entity, Restaurant Company, into which the assets and operations of the restaurant subsidiary are transferred. The shares of Restaurant Company are then distributed to the shareholders of Retail Company on a pro rata basis.

The executive management team of the combined entity will be assigned primarily to Restaurant Company, as the intent is to dispose of Retail Company (now solely comprising the retail operations). A comparison of certain statistics of the two companies is presented below:

(In 000s)	Assets	Revenues	Net Income	Fair Value
Retail	\$300	\$210	\$ 35	\$375
Restaurant	\$600	\$450	\$150	\$700

Evaluation: Based on an analysis of the indicators in this example, the spinoff should be accounted for as a reverse spinoff. Restaurant Company, although the legal spinnee, should be designated as the accounting spinnor based on the following:

- Restaurant Company has substantially larger operations than Retail Company.
- The fair value of Restaurant Company is greater than that of Retail Company.
- The management team is primarily assigned to Restaurant Company.
- Management intends to dispose of Retail Company upon finalizing the spinoff.

The designation of Restaurant Company as the accounting spinnor will provide the most accurate depiction of the transaction to shareholders and other users of the financial statements, as, in substance, Retail Company has disposed of its retail operations and continued its restaurant operations.

INT 08-05 Status

10. No further discussion is planned.

Not for Distribution

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 15-01: ACA Risk Corridors Collectibility

INT 15-01 Dates Discussed

October 19, 2015; November 5, 2015

INT 15-01 References

Current:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act

INT 15-01 Issue

1. The federal Affordable Care Act (ACA) includes three types of risk sharing programs known as risk adjustment, reinsurance and risk corridors. The risk corridors program is a temporary program that is effective for benefit years beginning in 2014 through 2016 and applies to Qualified Health Plans (QHPs) in the individual and small group markets whether sold on or outside of an exchange.
2. The risk corridors program creates a mechanism for sharing risk for allowable costs between the federal government and QHP issuers – collecting charges from the issuer if the issuer's QHP premiums exceed claims costs of QHP enrollees by a certain amount, and making payments to the issuer if the issuer's premiums fall short by a certain amount, subject to certain adjustments for taxes, administrative expenses, and other costs and payments. The risk corridors program is intended to protect against inaccurate rate setting by limiting the extent of QHP issuer losses and gains. In the event that risk corridors program collections are not sufficient to cover all the required distributions, the ACA allows the use of other sources of federal funding for the required distributions, subject to the availability of appropriations.
3. On April 11, 2014, the U.S. Department of Health and Human Services (HHS) issued a bulletin titled "Risk Corridors and Budget Neutrality," which described how it intended to administer risk corridors over the three-year life of the program. HHS stated that if risk corridors collections for a particular year are insufficient to make full risk corridors payments for that year, risk corridors payments for the year will be reduced pro rata to the extent of any shortfall. The HHS noted that lacking other appropriations or sources of funding, subsequent year program collections would first be applied to the unpaid program balances of preceding years. In December 2014, federal funds were not appropriated for the federal costs of the risk-sharing program.
4. On October 1, 2015, HHS announced proration results for 2014 risk corridors payments. Based on current data from QHP issuers' risk corridors submissions, issuers will pay \$362 million in risk corridors charges, and have submitted for \$2.87 billion in risk corridors payments for 2014. As of October 1, 2015, assuming full collections of risk corridors charges, this will result in a proration rate of 12.6 percent. HHS will begin collection of risk corridors charges in November 2015, and will begin remitting risk corridors payments to issuers starting December 2015. The announcement noted that the risk corridor payment and charge amounts reflected in the October 1, 2015, bulletin do not reflect any payment or charge adjustments due to resubmissions after September 15, 2015, or the effect of subsequent appeals.
5. There was diversity in practice regarding the accrual of 2014 risk corridors receivables for the first two quarters of 2015. Some entities did not accrue material amounts for the risk corridors receivables or did not accrue any amount due to the lack of federal government appropriations, and pursuant to the requirement in *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*, which requires that preparers be conservative and diligent in developing their estimates. Other entities appear to have accrued the full amount of funds estimated to be received under the risk corridors program. For some entities the

accrued receivables represent a material amount of surplus and uncollectibility or delayed collectibility represents a solvency concern.

6. At a minimum, impairment analysis and/or updated estimates are required under SSAP No. 107 for the 2014 risk corridors receivables. In determining the amount to be impaired, one issue identified is that 2015 and 2016 collections may not be sufficient to cover the full 2014 program requests.

7. The accounting issues are:

Issue 1: **Determining the Amount of Impairment** – The 2015 and 2016 program collections may not be sufficient to fund the shortfall of 2014 program requests. Therefore, the accounting issue identified is how to determine the required impairment amount.

Issue 2: **Nonadmittance** – The accounting questions regarding nonadmission have been focused on the amounts in excess of the confirmed proration payment of 12.6%, of which there is a reasonable and probable expectation that the 2015 and 2016 program collections will cover some portion of the 2014 benefit year shortfall.

An accounting issue identified is whether nonadmittance is required or permitted to be applied to the 2014 program benefits in excess of the 12.6% prorated amount for which reporting entities have a reasonable and probable expectation of future collection. Even if an entity has a reasonable and probable expectation of payment of the amount in excess of the confirmed proration of 12.6%, extended delays in payment are expected.

Issue 3: **Timing of Impairment or Nonadmittance Recognition** – The HHS notice of the 12.6% proration amount was provided on October 1, 2015; however, prior to October 1, there were other indicators that the risk corridors program would have 2014 benefit shortfalls (in April and December of 2014 as detailed above and other public reports). Doubts about program collectibility of receivables and problems with estimations are among the reasons many entities did not accrue risk corridors receivables or only accrued immaterial amounts. The accounting issue identified is whether impairment recognition is required to be reflected in the September 30, 2015, financial statements.

Issue 4: **Accrual of 2015 and 2016 Receivables** – Shall the accrual of receivables for the benefit years 2015 and 2016 continue to be estimated?

INT 15-01 Discussion

8. For Issue 1, impairment analysis and/or updated estimates for the 2014 risk corridors receivables are required under SSAP No. 107.

9. The Working Group determined that impairment is indicated if an entity accrued as of the reporting date under the 2014 Risk Corridors program more than they have a reasonable expectation of receiving. SSAP No. 107, paragraph 59.e. (quoted below), requires evaluation of the collectibility of all amounts receivable from the risk corridors program for each reporting period, and if in accordance with SSAP No. 5R it is probable that risk corridors receivables are uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made.

59. Risk corridors assessments meet the definition of liabilities as set forth in SSAP No. 5R. Risk corridors receivables due to the reporting entity meet the definition of an asset and are admissible to the extent that they meet all of the criteria in this statement.

- a. Assumptions used in estimating retrospective premium adjustments shall be consistent with the assumptions made in recording other assets and liabilities necessary to reflect the underwriting results of the reporting entity such as claim and loss reserves (including IBNR) and contingent commissions. Contingent

commissions and other related expenses shall be adjusted in the same period the additional or return retrospective premiums are recorded.

- b. The additions or reductions to premium revenue resulting from the risk corridors program are recognized over the contractual period of coverage, to the extent that such additions or reductions are reasonably estimable. Reporting entities shall be aware of the significant uncertainties involved in preparing estimates and be both diligent and conservative in their estimations. Risk corridors payables and receivables shall be estimated based on experience to date. The method used to estimate the payables and receivables shall be reasonable and consistent between reporting periods. In exercising the judgment required to prepare reasonable estimates for the financial reporting of risk corridors program payables and receivables, the statutory accounting concept of conservatism shall be followed. In addition, reporting entities are required to have sufficient information to determine a reasonable estimate. Part of ensuring sufficient information requires that the reporting entity's estimate is based on demonstrated knowledge of the impacts of the other risk-sharing programs on the risk corridors program and the terms of the risk corridors program. In addition, the estimates shall be consistent with other financial statement assertions and the pricing scenarios used by the reporting entity.
- c. The risk corridors receivables are from a federal governmental program. Amounts over 90 days due shall not cause the receivable to be treated as a nonadmitted asset based solely on aging.
- d. Provided that the risk corridors receivables due the reporting entity are determined in a manner that is consistent with the requirements of this statement, the receivables are admitted assets until determination of impairment or payment denial is received from the governmental entity or government-sponsored entity administering the program. Upon notification that payments to be paid to the reporting entity will be less than the recorded receivables, any amount in excess of the confirmed amount shall be written off and charged to income, except for amounts that are under appeal. Any receivable for risk adjustment amounts under appeal shall be reflected as a nonadmitted asset.
- e. Evaluation of the collectibility of all amounts receivable from the risk corridors program shall be made for each reporting period. If, in accordance with SSAP No. 5R, it is probable that the risk corridors receivables are uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made. If it is reasonably possible, that a portion of the balance determined in accordance with this paragraph is not anticipated to be collected and is therefore not written off, the disclosure requirements outlined in SSAP No. 5R shall be followed.
- f. Reporting shall be consistent with SSAP No. 66—Retrospectively Rated Contracts, paragraph 9 guidance on reporting for retrospective premium.

10. Current facts and circumstances must be taken into account when determining impairment. In accordance with SSAP No. 107, paragraph 59.e., any uncollectible receivable shall be written off and charged to income in the period the determination is made. The Working Group noted that the following are some, but not an all-inclusive list of the relevant factors to consider in determining the amount of impairment to include:

- a. Amounts in excess of the proration amount of 12.6% must be evaluated for impairment.
- b. Judgment is involved in the determination of the impairment amount.
- c. Information used in determination of impairment shall be based on the most current and reliable information available.

- d. Other known or probable changes in program collections or funding must also be evaluated, including the possibility of fewer contributors or lesser collections due to insolvencies.
- e. The intent and ability of the reporting entity to remain in business for a period of time sufficient to allow for recovery of risk corridors receivables.

11. The Working Group noted that the impaired amount would be based on the facts and circumstances and is required to be evaluated at each reporting period by management.

12. For Issue 2, SSAP No. 107 addresses nonadmittance in paragraph 59.c., noting that, “Amounts over 90 days due shall not cause the receivable to be treated as a nonadmitted asset based solely on aging.” However, SSAP No. 107 does not preclude nonadmittance for other reasons. In addition, SSAP No. 4 provides that:

“The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet, and are, therefore, considered nonadmitted.”

13. The lack of appropriations, documented program shortfalls and known extended payment delays are indicative that some of the program receivables are not available to meet policyholder obligations when due, and therefore, evaluation for possible nonadmittance under SSAP No. 4 in addition to impairment evaluation is appropriate.

14. The Working Group discussed that nonadmission was appropriate for amounts that have a reasonable and probable expectation of recovery which are not currently available to pay claims. In this case, 2014 amounts in excess of the 12.6% proration amount which have not been written off for impairment, and have a reasonable expectation of delayed recovery shall be nonadmitted. The Working Group discussed that amounts in excess of the proration amount which are nonadmitted, shall remain nonadmitted until additional proration amounts are confirmed by HHS or other information of a sufficient nature supports that collectibility is probable and reasonable. Consistent with SSAP No. 107, paragraph 59, the statutory accounting concept of conservatism shall be followed when estimating amounts; reporting entities are required to have sufficient information to determine a reasonable estimate. Part of ensuring sufficient information requires that the reporting entity’s estimate is based on demonstrated knowledge of the impacts of the other risk-sharing programs on the risk corridors program and the terms of the risk corridors program. Consistent with Issue 4, below, estimates shall not assume the availability of federal funds unless such federal funds are appropriated by Congress for the federal costs of the risk sharing program.

15. Such admitted amounts should also have a reasonably short time horizon to ensure that amounts will be available to pay policyholder claims. Some regulators and reporting entities may also take the position that it is probable that risk corridors receivables accrued during the 2014 plan year are uncollectible in excess of 12.6% proration, and therefore, any amounts in excess of proration would be fully written off. If this were the case, the 12.6% prorated balance would be admitted unless extended payment delays or other information cause a reevaluation of admissibility.

16. For Issue 3, the October 1 notification from HHS provided evidence of the estimated amount of proration for the underfunded program. The underfunded program was a condition that existed at the date of the September 30, 2015, balance sheet. Therefore, in accordance with *SSAP No. 9—Subsequent Events*, paragraph 11 (quoted below) this would be a Type I subsequent event that would be reflected in the financial statements for the third quarter. Type I events include estimates inherent in the process of preparing financial statements.

11. The following are examples of Type I recognized subsequent events:
- a. If the events that gave rise to litigation had taken place before the balance sheet date and that litigation is settled, after the balance sheet date but before the financial statements are issued or are available to be issued, for an amount different from the liability recorded in the accounts, then the settlement amount should be considered in estimating the amount of liability recognized in the financial statements at the balance sheet date.
 - b. Subsequent events affecting the realization of assets, such as receivables and inventories or the settlement of estimated liabilities, should be recognized in the financial statements when those events represent the culmination of conditions that existed over a relatively long period of time. For example, a loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after the balance sheet date but before the financial statements are issued or are available to be issued ordinarily will be indicative of conditions existing at the balance sheet date. Thus, the effects of the customer's bankruptcy filing shall be considered in determining the amount of uncollectible trade accounts receivable recognized in the financial statements at the balance sheet date.

17. For Issue 4, the Working Group determined that risk corridors receivables for the 2015 and 2016 benefit years estimated in accordance with SSAP No. 107, paragraphs 59.b. and 59.e. are nonadmitted 1) until such time that the prior benefit year is paid in full and 2) until additional proration amounts are confirmed by HHS or other information of a sufficient nature supports that collectibility is probable and reasonable. Consistent with SSAP No. 107, paragraph 59, the statutory accounting concept of conservatism shall be followed when estimating amounts; reporting entities are required to have sufficient information to determine a reasonable estimate. Part of ensuring sufficient information requires that the reporting entity's estimate is based on demonstrated knowledge of the impacts of the other risk-sharing programs on the risk corridors program and the terms of the risk corridors program. Estimates shall not assume the availability of federal funds unless such federal funds are appropriated by Congress for the federal costs of the risk corridors program.

INT 15-01 Status

18. No further discussion is planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act

INT 18-03 Dates Discussed

May 14, 2018; August 4, 2018

INT 18-03 References

Current:

SSAP No. 101—Income Taxes

INT 18-03 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the following items under the federal Tax Cuts and Jobs Act (TCJA) as additional guidance to *SSAP No. 101—Income Taxes*:

- a. Repatriation Transition Tax (RTT)
- b. Alternative Minimum Tax (AMT) Credit
- c. Global Intangible Low-Taxed Income (GILTI)

Issue 1 – Repatriation Transition Tax

2. The Repatriation Transition Tax (RTT) is a one-time transition tax on untaxed foreign earnings of foreign subsidiaries of U.S. companies. Under section 965 of the Internal Revenue Code (IRC), these earnings are deemed to be repatriated. Under the IRC guidance, foreign earnings held in the form of cash and cash equivalents are taxed at a 15.5% rate, and the remaining earnings are taxed at an 8% rate.

- a. The RTT is calculated in the 2017 and, in some cases, the 2018 tax return. It is not a temporary tax item and does not reverse in subsequent years.
- b. The RTT is an amount owed under the revised tax law, and is not impacted by future taxable income.
- c. Although the full amount of the calculated RTT is owed, companies can elect to pay the liability over eight years under a set IRC schedule. If electing to make installment payments, the future RTT payments are due regardless whether a company has future taxable income or losses.

Issue 2 – Alternative Minimum Tax Credit

3. The Alternative Minimum Tax (AMT) credit is, pursuant to the provisions of the TCJA, a tax refund of AMT amounts paid in prior periods. The AMT credit can be recovered through an offset to regular taxes or received as a refund.

- a. A reporting entity could realize all of its AMT receivable in the 2018 tax year if it is used to reduce its regular tax obligation. (It could also be used fully in 2019-2021 in this manner.)

- b. If the AMT credit carryforward is not used to reduce regular taxes, it can be recovered as a refund (50%) to the extent not so used in tax years 2018 through 2020, with a 100% refund in 2021 to the extent not used to reduce 2021 regular tax liability.
- c. If the AMT credit will be received as a refund (and not as an offset to tax liability), it may be subject to U.S. federal administrative sequestration requirements, which could reduce the amount paid by the federal government. (In 2017, the sequestration percentage was 6.6%, but this percentage varies yearly.)
- d. U.S. GAAP guidance permits reporting the AMT credit as a current-year recoverable or as a deferred tax asset (DTA).

Issue 3 - Global Intangible Low-Taxed Income Tax - Description

- 4. The Global Intangible Low-Taxed Income (GILTI) tax is a new tax under the TCJA and is calculated each year on a portion of a controlled foreign corporation's active income.
 - a. GILTI is included in 2018 and subsequent year tax returns. An amount owed for GILTI in any tax year is not a temporary tax item and does not reverse in subsequent years. GILTI is a current income tax.
 - b. Assessments of changes in the basis differences in foreign entities could result in calculations of deferred tax items related to GILTI. The issue is whether existing basis differences will result in GILTI when they reverse. Although these deferred items may be theoretically correct, such calculations are expected to be very complex and require aggregate assessments that consider all companies within a consolidated tax group.
 - c. In January 2018, the *Financial Accounting Standards Board (FASB) Staff Q&A Topic 740, No. 5 Accounting for Global Intangible Low Taxed Income* identified that reporting entities may make an election to recognize deferred items under GILTI. (The recognition of the deferred items does not impact current tax recognition for GILTI, but whether basis differences for foreign controlled entities shall result in deferred tax assets or deferred tax liabilities.) The FASB Staff Q&A Topic 740, No. 5 also identified that FASB staff will be monitoring how entities that pay tax on GILTI are accounting for and disclosing these deferred effects over the next few quarters. The FASB staff will provide a subsequent update so the FASB can consider whether accounting and disclosure improvements are needed for U.S. GAAP.

INT 18-03 Discussion

- 5. The Statutory Accounting Principles (E) Working Group consensuses for accounting and reporting for the noted items are included below.

Issue 1 – Repatriation Transition Tax:

- 6. The Repatriation Transition Tax (RTT) is a current-year tax item captured in SSAP No. 101, paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as “current federal and foreign income taxes” and not as a deferred tax liability (DTL), regardless if an entity elects to make installment payments of the amount owed or pays the amount in full.

Disclosure

7. Reporting entities that are subject to the RTT shall include the following in a narrative disclosure as part of the income tax disclosures in Note 9:

- a. RTT owed under the TCJA.
- b. Schedule of payments made and expected future payments to satisfy the RTT liability. This disclosure shall explicitly identify whether the insurance entity has remitted full payment of the RTT, or whether the reporting entity is electing to pay the liability under the permitted installments. If the reporting entity fully remitted the RTT, disclosure of the RTT and the remitted payment is only required in the year-end 2018 financial statements. Reporting entities electing to make installment payments shall include the disclosure beginning in the year-end 2018 financial statements and continuing through the year-end statutory financial statements for the year in which the last installment payment was remitted.

Issue 2 – Alternative Minimum Tax Credit:

8. The Alternative Minimum Tax (AMT) credit qualifies as a current income tax recoverable pursuant to paragraph 9 of SSAP No. 101. Although qualifying as a current-year recoverable, some companies may elect to report the AMT credit as a DTA. Although the AMT refund qualifies as a current income tax recoverable, in order to mirror provisions permitted under U.S. GAAP, reporting entities may elect to report the AMT credit as either a current-year recoverable or as a DTA. If reported as a DTA, it would be subject to the statutory accounting admittance limitations for DTAs. If the AMT credit accounted for as a DTA exceeds statutory admittance provisions, it would be nonadmitted under SSAP No. 101.

Disclosure

9. Reporting entities with an AMT credit shall include the following narrative disclosure as part of the income tax disclosures in Note 9:

- a. Identification of whether the AMT credit was recognized as a current-year recoverable or DTA.
- b. The balance of the AMT credit carryforward as of the beginning of the year; the amount of the AMT credit recovered during the year; other current-year adjustments to the AMT credit carryforward; the balance of the AMT credit carryforward at the end of the year; the amount, if any, by which the ending balance has been reduced for sequestration; and the amount, if any, by which the reporting entity has elected to nonadmit. (This disclosure intends to capture any nonadmittance of the AMT credit by the reporting entity prior to application of the DTA admittance limitations reflected in SSAP No. 101.)

(These disclosures shall be made on an accrual basis beginning in the 2018 year-end statutory financial statements and continuing through the year-end statutory reporting period in which the AMT credit is fully utilized/received.)

Issue 3 – Global Intangible Low-Taxed Income Tax:

10. Under statutory accounting, reporting entities shall not recognize deferred GILTI tax for basis differences in foreign entities. GILTI tax from the current-year tax return is treated as a current-year tax item captured in SSAP No. 101, paragraph 3. The amount payable shall be recognized as a current-year expense with a liability recognized as a current federal and foreign income tax.

11. As an exception to this general rule, reporting entities are permitted to recognize deferred tax items for basis differences expected to reverse as GILTI in future years if they have recognized deferred tax items for basis differences expected to reverse as GILTI under U.S. GAAP. However, a reporting entity that has recognized deferred tax items for GILTI under U.S. GAAP may follow the statutory accounting general rule (no recognition of deferred tax items). Reporting entities that recognize deferred tax items for GILTI shall explicitly disclose this item in Note 9, beginning with the 2018 year-end statutory financial statements.

INT 18-03 Status

12. Any accounting change required by INT 18-03 shall, if not otherwise covered by *INT 18-01: Updated Tax Estimates Under the Tax Cuts and Jobs Act*, be recognized as a change in accounting estimate, pursuant to *SSAP No. 3—Accounting Changes and Corrections of Errors*.

13. The consensuses adopted in this interpretation provide information regarding the RTT, AMT credit and GILTI under the federal Tax Cuts and Jobs Act, and the statutory accounting assessment for reporting and disclosure for each of these items.

14. No further discussion is planned.

Not for Distribution

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 19-02: Freddie Mac Single Security Initiative

INT 19-02 Dates Discussed

February 6, 2019; April 6, 2019

INT 19-02 References

Current:

SSAP No. 26R—Bonds

SSAP No. 43R—Loan-Backed and Structured Securities

INT 19-02 Issue

1. This interpretation has been issued to provide a limited-scope exception to the exchange and conversion guidance in *SSAP No. 26R—Bonds* as well as prescribe guidance in *SSAP No. 43R—Loan-Backed and Structured Securities* (SSAP No. 43R) for instruments converted in accordance with the Freddie Mac Single Security Initiative. Under this initiative, reporting entities will be permitted to exchange “45-day securities” for “55-day securities” without any material change to the securities, or to the loans that back the securities. (With the exchange, there would be a 10-day delay in payment cycle.)

2. Information on the Freddie Mac Single Security Initiative (Freddie Mac Gold PC Exchange). Information is also available via the noted link: <http://www.freddiemac.com/mbs/exchange/faqs.html>.

- a. Freddie Mac will offer holders of 45-day, TBA-eligible and non-TBA-eligible Gold PCs and Giants the option to exchange their eligible 45-day securities for 55-day Freddie Mac securities and float compensation. For the TBA-eligible security exchanges, the 55-day corresponding security will be a Uniform Mortgage-Backed Security (UMBS™) or Supers, while for non-TBA eligible exchanges, the corresponding security will be a 55-day Freddie Mac MBS or Giant MBS.
- b. Most elements of the new 55-day security received upon exchange will exactly match those of the PC or Giant being exchanged – most fundamentally, the cash flows of the 55-day security will ultimately be backed by the same loans as the original PC or Giant. Each new 55-day security will mostly have the same characteristics as the corresponding PC such as unpaid principal balance, pool factor, and weighted average coupon. The 55-day security will have a new CUSIP, prefix, pool number, and issuance date.
- c. Freddie Mac is offering the exchange to promote liquidity in the 55-day TBA-eligible market. The exchange of non-TBA eligible securities for 55-day Freddie Mac MBS will help provide greater consistency across Freddie Mac’s fixed-rate securities population. After the Single Security Initiative’s implementation, all new issue Freddie Mac Single Family fixed-rate securities will have a 55-day payment delay.
- d. Exchanges will be initiated at the option of the investor and will not be mandatory. The exchange offer is expected to open in May 2019, the month prior to the Single Security Initiative go-live. The Dealer-facilitated path will stay open for the foreseeable future, while the Direct-to-Freddie Mac exchange path is expected to stay open for 3-5 years.

- e. Investors will receive a one-time payment that will be the approximate fair value compensation for the 10 days' delay of the bond's payment, or float compensation. For the Direct-to-Freddie Mac exchange path, this compensation will be paid through a one-time cash payment. For the Dealer-facilitated path, it is anticipated that the dealer will likely net the float compensation payment from the buy-back price of the 55-day security. Freddie Mac will treat the float compensation payment as a tax-free adjustment to the security basis. As such, for those investors that execute their exchange through the Direct-to-Freddie Mac path, Freddie Mac does not intend to report the payment as taxable income to the investor or to the IRS. However, Freddie Mac is not dictating to investors how they must treat the payment. Some investors may conclude, after consulting with their tax advisors, that the float compensation is taxable income when received.

INT 19-02 Discussion

3. The Working Group reached a consensus to incorporate a limited-scope exception to *SSAP No. 26R—Bonds* and prescribe guidance for SSAP No. 43R specific to securities exchanged as part of the Freddie Mac Single Security Initiative. This limited-scope exception requires continuation of the amortized cost basis of the security surrendered to the new security received in the exchange. This is an exception to the guidance in SSAP No. 26R that requires fair value of the surrendered security to become the cost basis for the received security, unless the fair value of the security received is more clearly evident. Although there is not explicit guidance for exchanges in SSAP No. 43R, an entity referring to other statutory accounting standards for application, (such as *SSAP No. 95—Nonmonetary Transactions*) would infer a fair value measurement, rather than a continuation of the amortized cost basis.

4. By continuing the amortized cost basis, the reporting entity shall not recognize any gains or losses (from comparison of fair value to the amortized cost basis) as a result of the exchange. This is considered appropriate as most of the elements of the security held after the exchange will exactly match the security surrendered, including unpaid principal balance, pool factors and weighted average coupon. Furthermore, the cash flows of the new securities will be ultimately backed by the same loans as the original security.

5. This interpretation also permits reporting entities to adjust the security's basis (decrease) for the float compensation received. This treatment agrees to how Freddie Mac will treat the compensation payment. This treatment was determined by Freddie Mac after receiving confirmation from the Securities Exchange Commission (SEC) that the SEC does not object to the treatment of the exchange as a minor modification of an existing security. Freddie Mac has also identified that it does not intend to report the float compensation as taxable income to the investor or the IRS, but has identified that the holders of the securities must rely on their own tax and accounting advisors in determining the best course of action.

INT 18-03 Status

6. The consensus adopted in this interpretation shall remain applicable as long as securities are exchanged under the Freddie Mac Single Security Initiative. This interpretation is only applicable for the specific exchange program reviewed and shall not be inferred to other security exchanges.

7. No further discussion is planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 20-01: ASUs 2020-04, ~~and~~ 2021-01 & 2022-06 - Reference Rate Reform

INT 20-01 Dates Discussed

March 26, 2020; April 15, 2020; May 20, 2021, March 22, 2023, August 13, 2023

INT 20-01 References

Current:

SSAP No. 15—Debt and Holding Company Obligations

SSAP No. 22R—Leases

SSAP No. 86—Derivatives

This INT applies to all SSAPs with contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.

INT 20-01 Issue

1. This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of ASU 2020-04 – Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting, ~~and~~ ASU 2021-01, Reference Rate Reform (Topic 848), Scope, and ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848 for applicable statutory accounting principles. The Financial Accounting Standards Board (FASB) issued ~~both~~ ASU 2020-04, ~~and~~ ASU 2021-01, and ASU 2022-06 to provide optional, transitional and expedient guidance as a result of reference rate reform.

2. Reference rate reform typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR), and other interbank offered rates (IBORs), and moving toward alternative reference rates that are more *observable* or transaction based. In July 2017, the governing body responsible for regulating LIBOR announced it will no longer require banks to continue LIBOR submissions after 2021 – likely sunsetting both the use and publication of LIBOR. An important note is that while LIBOR is the primary interbank offering rate, other similar rates are potentially affected by reference rate reform.

3. With a significant number of financial contracts solely referencing IBORs, their discontinuance will require organizations to reevaluate and modify any contract that does not contain a substitute reference rate. A large *volume* of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will likely need to be modified to replace all references of interbank offering rates that are expected to be discontinued. While operational, logistical, and legal challenges exist due to the sheer volume of contracts that will require modification, accounting challenges were presented as contract modifications typically require an evaluation to determine whether the modifications result in the establishment of a new contract or the continuation of an existing contract. As is often the case, a change to the critical terms (including reference rate modifications) typically requires remeasurement of the contract, or in the case of a hedging relationship, a dedesignation of the transaction.

4. The overall guidance in ASU 2020-04 is that a qualifying modification (as a result of reference rate reform) should not be considered an event that requires contract remeasurement at the modification date or reassessment of a previous accounting determination. FASB concluded that as reference rate changes are a market-wide initiative, one that is required primarily due to the discontinuance of LIBOR, it is outside the control of an entity and is the sole reason compelling an entity to make modifications to contracts or hedging strategies. As such, FASB determined that the traditional financial reporting requirements of discontinuing

such contracts and treating the modified contract as an entirely new contract or hedging relationship would, 1) not provide decision-useful information to financial statement users, and 2) require a reporting entity to incur significant costs in the financial statement preparation and potentially reflect an adverse financial statement impact, one of which may not accurately reflect the intent or economics of a modification to a contract or hedging transaction.

5. Guidance in ASU 2020-04 allows a method to ensure that the financial reporting results would continue to reflect the intended continuation of contracts and hedging relationships during the period of the market-wide transition to alternative reference rates – thus, generally not requiring remeasurement or dedesignation if certain criteria are met.

6. Guidance in ASU 2021-01 expanded the scope of ASU 2020-04 by permitting the optional, transitional, expedient guidance to also include derivative contracts that undergo a similar transition but do not specifically reference a rate that is expected to be discontinued. While these contract modifications do not reference LIBOR (or another reference rate expected to be discontinued), the changes are the direct result of reference rate reform and were deemed to be eligible for similar exception treatment. ASU 2021-01 allows for modifications in interest rates indexes used for margining, discounting or contract price alignment, as a result of reference rate reform initiatives (commonly referred to as a “discounting transition”) to be accounted for as a continuation of the existing contract and hedge accounting. On August 13, 2023, the Working Group added the guidance in ASU 2022-06 which only acts to defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief from the prior ASUs.

7. The optional, expedient and exceptions guidance provided by the amendments in ASU 2020-04, ~~and~~ ASU 2010-01, and ASU 2022-04 are applicable for all entities. However, they are only effective as of March 12, 2020, through December 31, ~~2022~~2024. This is because the amendments are intended to provide relief related to the accounting requirements in generally accepted accounting principles (GAAP) due to the effects of the market-wide transition away from IBORs. The relief provided by the amendments is temporary in its application in alignment with the expected market transition period. However, the FASB will monitor the market-wide IBOR transition to determine whether future developments warrant any changes, including changes to the end date of the application of the amendments in this ASU. If such an update occurs, the Working Group may also consider similar action. It is not expected that the Working Group will take action prior to or in the absence of a FASB amendment.

8. The accounting issues are:

- a. Issue 1: Should a reporting entity interpret the guidance in ASU 2020-04 as broadly accepted for statutory accounting?
- b. Issue 2: Should the optional, expedient and exception guidance in ASU 2020-04 apply to debt and other service agreements addressed in SSAP No. 15?
- c. Issue 3: Should the optional, expedient and exception guidance in ASU 2020-04 apply to lease transactions addressed in SSAP No. 22R?
- d. Issue 4: Should the optional, expedient and exception guidance in ASU 2020-04 apply to derivative transactions addressed in SSAP No. 86?
- e. Issue 5: Should the optional, expedient and exception guidance in ASU 2021-01 apply to derivative transactions addressed in SSAP No. 86?

INT 20-01 Discussion

9. For Issue 1, the Working Group came to the consensus that ASU 2020-04 shall be adopted, to include the same scope of applicable contracts or transactions for statutory accounting with the only modification related to a concept not utilized by statutory accounting, as noted below. The Working Group

agreed the amendments provide appropriate temporary guidance that alleviate the following concerns due to reference rate reform:

- a. Simplifies accounting analyses under current GAAP and statutory accounting principles (SAP) for contract modifications.
 - i. All contracts within scope of ASU 2020-04, which allows for modifications due to reference rate reform and provides for the optional expedient to be accounted for as a continuation of the existing contract.
- b. Allows hedging relationships to continue without dedesignation upon a change in certain critical terms.
- c. Allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
- d. Suspends the assessment of certain qualifying conditions for fair value hedging relationships for which the shortcut method for assuming perfect hedge effectiveness is applied.
- e. Simplifies or temporarily suspends the assessment of hedge effectiveness for cash flow hedging relationships.
- f. The only SAP modification to this ASU is related to the option to sell debt currently classified held-to-maturity. This concept is not employed by statutory accounting and thus is not applicable.

10. For Issue 2, the Working Group came to the consensus that debt and service agreement modifications, as a result of reference rate reform, should not typically rise to the level of requiring a reversal and rebooking of the liability, as SSAP No. 15 states such liabilities should only be derecognized if extinguished. A reference rate modification should not generally require de-recognition and re-recognition under statutory accounting. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to the consensus that should an eligible contract be affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

11. For Issue 3, the Working Group came to the consensus that lease modifications, solely caused by reference rate reform and ones eligible for optional expedience, likely do not rise to the level of a modification requiring re-recognition as a new lease under statutory accounting. SSAP No. 22R, paragraph 17 states only modifications in which grant the lessee additional rights shall be accounted for as a new lease. These *changes* are outside the scope allowed for optional expedience in ASU 2020-04. Nonetheless, for clarity and consistency with ASU 2020-04, the Working Group came to a consensus that if an eligible lease affected by reference rate reform, then the temporary guidance in ASU 2020-04 shall apply.

12. For Issue 4, the Working Group came to the consensus that ASU 2020-04 shall be applied to derivative transactions as the following considerations provided in the ASU are appropriate for statutory accounting:

- a. For any hedging relationship, upon a change to the critical terms of the hedging relationship, allow a reporting entity to continue hedge accounting rather than dedesignate the hedging relationship.
- b. For any hedging relationship, upon a change to the terms of the designated hedging instrument, allow an entity to change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.
- c. For fair value hedges, allow a reporting entity to change the designated hedged benchmark interest rate and continue fair value hedge accounting.

- d. For cash flow hedges, adjust the guidance for assessment of hedge effectiveness to allow an entity to continue to apply cash flow hedge accounting.

13. For Issue 5, the Working Group came to a consensus on May 20, 2021, that ASU 2021-01 shall be applied to derivative transactions for statutory accounting. Accordingly, derivative instruments that are modified to change the reference rate used for margining, discounting, or contract price alignment that is a result of reference rate reform (regardless of whether the reference rate that is expected to be discontinued) are eligible for the exception guidance afforded in ASU 2020-04 in that such a modification is not considered a change in the critical terms that would require dedesignation of the hedging relationship. In addition, for all derivatives (those qualifying for hedge accounting, those that do not qualify for hedge accounting and replication (synthetic asset) transactions (RSAT)), a reporting entity may account for and report modifications (that are within the scope of INT 20-01) as a continuation of the existing contract even when the legal form of the modification is a termination of the original contract and its replacement with a new reference rate reform contract. This includes in-scope modifications of centrally cleared swap contracts whether they are automatically transitioned at a cessation date or voluntarily executed prior to cessation.

14. Additionally, for GAAP purposes, if an entity has not adopted the amendments in *ASU 2017-12, Derivatives and Hedging*, it is precluded from being able to utilize certain expedients for hedge accounting. For statutory accounting purposes, only the hedge documentation requirements were adopted from ASU 2017-12, while the remainder of the items are pending statutory accounting review. The Working Group concluded that all allowed expedient methods are permitted as elections for all reporting entities under statutory accounting. However, if a reporting entity is a U.S. GAAP filer, the reporting entity may only make elections under ASU 2017-12 if such elections were also made for their U.S. GAAP financials.

INT 20-01 Status

15. ~~No~~ Further discussion is planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 20-06: Participation in the 2020 TALF Program

INT 20-06 Dates Discussed

May 5, 2020; May 20, 2020

INT 20-06 References

SSAP No. 64—Offsetting and Netting of Liabilities

SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

INT 01-31: Assets Pledged as Collateral

INT 20-06 Issue

1. The Federal Reserve reestablished the Term Asset-Backed Securities Loan Facility (TALF) on March 23, 2020, to support the flow of credit to consumers and businesses. The TALF program will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets.
2. Under the TALF program, the Federal Reserve will lend on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The Federal Reserve will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS. Treasury, using the Exchange Stabilization Fund (ESF), will also make an equity investment in the special purpose vehicle (SPV) established by the Federal Reserve for this facility.
3. The TALF is established by the Federal Reserve under the authority of Section 13(3) of the Federal Reserve Act, with approval of the Treasury Secretary.
4. Per review of public data available from the prior 2009 TALF program, there were a limited number of insurance reporting entities that were the actual borrower (entity that directly received the loan) under the TALF program. Rather, in most instances, insurance reporting entities were a material investor to the actual borrower. Per the TALF data, a material investor reflects the entity or individual with 10 percent or greater beneficial ownership interest in any class of securities of a borrower. Such ownership interest may be a direct, intermediate or ultimate interest. Due to the different methods of participating in the TALF program, this interpretation focuses on both reporting entity borrowers and reporting entity investors.
5. For reporting entity borrowers (entity that directly received the loan), the accounting issues addressed in this interpretation include:
 - a. How the loan received, and collateral provided shall be reported within the statutory financial statements.
 - b. Whether the pledged assets shall be reported as admitted assets as the collateral pledged to the TALF program is not permitted to be substituted.

6. For reporting entities that are not the direct borrowers, but represent investors to the direct borrower, the accounting issues addressed in this interpretation include:

- a. How the reporting entity shall report their investment to a TALF borrower.
- b. Whether the reporting entity investor is permitted to pledge assets under the TALF program, and retain admittance, when the reporting entity is not the direct borrower under the TALF program.

7. The April 9, 2020, term sheet for the 2020 TALF program:

<https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a1.pdf>

Term Asset-Backed Securities Loan Facility

Effective April 9, 2020

(The Board of Governors of the Federal Reserve System ("Board") and Secretary of the Treasury may make adjustments to the terms and conditions described in this term sheet. Any changes will be announced on the Board's website.)

Facility:

The TALF is a credit facility authorized under section 13(3) of the Federal Reserve Act intended to help meet the credit needs of consumers and businesses by facilitating the issuance of asset-backed securities ("ABS") and improving the market conditions for ABS more generally.

The TALF will serve as a funding backstop to facilitate the issuance of eligible ABS on or after March 23, 2020. Under the TALF, the Federal Reserve Bank of New York ("Reserve Bank") will commit to lend to a special purpose vehicle ("SPV") on a recourse basis. The Department of the Treasury will make an equity investment of \$10 billion in the SPV, as described below.

The TALF SPV initially will make up to \$100 billion of loans available. The loans will have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS.

Eligible Borrowers:

All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. For the purpose of this document, a U.S. company is defined as a business that is created or organized in the United States or under the laws of the United States and that has significant operations in and a majority of its employees based in the United States.

Eligible Collateral:

Eligible collateral includes U.S. dollar denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or, in the case of non-mortgage backed ABS, the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations ("NRSROs") and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. All or substantially all of the credit exposures underlying eligible ABS must have been originated by a U.S. company, and the issuer of eligible collateral must be a U.S. company. With the exception of commercial mortgage-backed securities ("CMBS"), eligible ABS must be issued on or after March 23, 2020. CMBS issued on or after March 23, 2020, will not be eligible. For CMBS, the underlying credit exposures must be to real property located in the United States or one of its territories. Eligible collateral must be ABS where the underlying credit exposures are one of the following:

- 1) Auto loans and leases;
- 2) Student loans;
- 3) Credit card receivables (both consumer and corporate);
- 4) Equipment loans and leases;
- 5) Floorplan loans;

- 6) Insurance premium finance loans;
- 7) Certain small business loans that are guaranteed by the Small Business Administration;
- 8) Leveraged loans; or
- 9) Commercial mortgages.

Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates. In addition, the underlying credit exposures of eligible collateral must not include exposures that are themselves cash ABS or synthetic ABS.

To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued, except for legacy CMBS.

The feasibility of adding other asset classes to the facility or expanding the scope of existing asset classes will be considered in the future.

Conflicts of interest: Eligible borrowers and issuers of eligible collateral will be subject to the conflicts of interest requirements of section 4019 of the CARES Act.

Restriction on single-asset single-borrower ("SASB") CMBS and commercial real estate collateralized loan obligations ("CRE CLOs"): SASB CMBS and CRE CLOs will not be eligible collateral.

Restrictions on CLO loan substitution: Only static CLOs will be eligible collateral.

Collateral Valuation: Haircut schedule is below. The haircut schedule is consistent with the haircut scheduled used for the TALF established in 2008.

Pricing: For CLOs, the interest rate will be 150 basis points over the 30-day average secured overnight financing rate ("SOFR"). For SBA Pool Certificates (7(a) loans), the interest rate will be the top of the federal funds target range plus 75 basis points. For SBA Development Company Participation Certificates (504 loans), the interest rate will be 75 basis points over the 3-year fed funds overnight index swap ("OIS") rate. For all other eligible ABS with underlying credit exposures that do not have a government guarantee, the interest rate will be 125 basis points over the 2-year OIS rate for securities with a weighted average life less than two years, or 125 basis points over the 3-year OIS rate for securities with a weighted average life of two years or greater. The pricing for other eligible ABS will be set forth in the detailed terms and conditions. Fees: The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.

Maturity: Each loan provided under this facility will have a maturity of three years.

Investment by the Department of the Treasury: The Department of the Treasury, using the Exchange Stabilization Fund, will make an equity investment of \$10 billion in the SPV.

Non-Recourse: Loans made under the TALF are made without recourse to the borrower, provided the requirements of the TALF are met.

Prepayment: Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, **but substitution of collateral during the term of the loan generally will not be allowed.**

Program Termination: No new credit extensions will be made after September 30, 2020, unless the TALF is extended by the Board of Governors of the Federal Reserve System and the Department of the Treasury.

Other Terms and Conditions: More detailed terms and conditions will be provided at a later date, primarily based off of the terms and conditions used for the 2008 TALF. In addition, the Federal Reserve reserves the right to review and make adjustments to these terms and conditions –

including size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements – consistent with the policy objectives of the TALF.

INT 20-06 Discussion

For Reporting Entity Borrowers - Insurance Reporting Entity Received the Loan

8. Reporting entity borrowers shall report the cash received under the TALF program with a corresponding liability. The liability shall be captured in scope of *SSAP No. 15—Debt and Holding Company Obligations* and reported as “borrowed money.” The disclosures in *SSAP No. 15* shall be completed. Once the cash received has been reinvested, the reporting entity shall report the acquired asset in accordance with the applicable statement of statutory accounting principle.

9. Reporting entity borrowers shall report asset-backed securities pledged to the TALF program as restricted assets with the appropriate code in the investment schedules and disclosed in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*, and in General Interrogatory, Part 1: 25.30 – Pledged as Collateral. Assets pledged to the TALF program are subject to the underlying asset risk-based capital charge but are excluded from an additional “restricted asset” risk-based capital charge. (As a carryover from the 2009 TALF Program, existing provisions in the risk-based capital instructions instruct the removal of assets pledged to the TALF program reported as restricted assets in the General Interrogatories.)

10. Reporting entity borrowers are permitted to continue reporting pledged asset-backed securities as admitted assets in the statutory financial statements if the following two conditions are met:

- a. Asset qualified as an admitted asset before it was pledged to the TALF program.
- b. The reporting entity has not committed an uncured contract default.

11. As the TALF program specifically identifies that substitution of pledged collateral during the term of the loan will generally not be allowed, this interpretation provides an exception to existing statutory accounting requirements. Pursuant to *INT 01-31: Assets Pledged as Collateral*, a pledged asset shall be readily substitutable in order to be admitted in the statutory financial statements. With the exception in this interpretation, assets held by the insurance reporting entity (borrower) that are pledged to the TALF program can be admitted even though they are not generally substitutable.

12. Reporting entity borrowers shall not net the obligation to return the liability and the pledged collateral in the statutory financial statements. The criteria for a valid right of offset in *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* has not been met for these transactions. Specifically, the reporting entity does not have the right to offset the amount owed under the TALF program and the reporting entity does not intend to setoff the amount owed. Although the collateral pledged could be claimed under the TALF program in the event that the insurer reporting entity commits a loan repayment default, the ability to claim pledged collateral does not represent a “right of setoff” with the counterparty.

13. Although the transaction is similar to a repurchase agreement accounted for as a secured borrowing, the TALF transaction is not a repurchase transaction. As such, the provisions and disclosures for repurchase agreements are not applicable.

14. In the event that a reporting entity commits a contract default, and the pledged collateral is retained under the TALF program, the reporting entity shall follow the guidance in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, paragraph 20, in removing the pledged assets and liability from the statutory financial statements.

For Reporting Entity Investors - Insurance Reporting Entity Does Not Receive the Loan but is an “Investor” to an Entity that was the Direct TALF Borrower

15. Reporting entity investors shall report the investment in the borrower in accordance with the underlying nature of the investment and the relationship with the borrower. The underlying investments will be subject to the reporting and RBC requirements for the applicable SSAP and reporting schedule:

- a. If the borrower is a limited liability company (LLC), the investment shall be reported in accordance with *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.
- b. If the borrower is a private equity fund (e.g., joint venture), the investment shall be reported in accordance with *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.
- c. If the borrower is an affiliate, the investment shall be reported in accordance with *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

16. Reporting entity investors are not permitted to admit assets pledged to the TALF program if they are not the direct borrower. This is because the return of the assets would be contingent on the action of the actual borrower to the TALF program and not the reporting entity. This provision is consistent with *SSAP No. 4—Assets and Nonadmitted Assets*, footnote 2:

If assets of an insurance entity are pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, pursuant to *SSAP No. 4*, paragraph 2(c), such assets shall not be recognized as an admitted asset on the balance sheet. Additional guidance for assets pledged as collateral is included in INT 01-31.

INT 20-06 Consensus

17. The Working Group reached a consensus to prescribe statutory accounting guidance for insurance reporting entity involvement in the 2020 TALF Program. Pursuant to this consensus:

- a. Reporting entities borrowers who directly receive the TALF loan shall follow guidance in paragraphs 8-14 of this interpretation for the statutory accounting and reporting. As detailed in paragraph 11, this interpretation provides an exception to allow admitted asset reporting for the pledged securities although the TALF program does not permit the pledged assets to be generally substitutable.
- b. Reporting entities that do not directly receive the TALF loan, but are investors to borrowers that receive the TALF loan, shall follow the provisions in paragraphs 15-16 for the statutory accounting and reporting.

18. The provisions detailed in this interpretation are applicable for the duration of the 2020 TALF loan program.

INT 20-06 Status

19. No further discussion planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 20-09: Basis Swaps as a Result of the LIBOR Transition

INT 20-09 Dates Discussed

July 15, 2020; July 30, 2020

INT 20-09 References

Current:

SSAP No. 86—Derivatives

INT 20-09 Issue

1. This interpretation is to provide statutory accounting and reporting guidance for “basis swaps.” Basis swaps within the scope of this interpretation are defined as compulsory derivatives issued by Central Clearing Parties (CCP), for certain cleared derivatives, issued solely in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR) and toward the Secured Overnight Financing Rate (SOFR).

2. SOFR is a broad measure of the cost of borrowing cash overnight, generally collateralized by Treasury Securities. It represents nearly a risk-free rate that is correlated with other money market rates and is fully transaction based (thus ensuring full transparency), by reflecting a broad measure of overnight U.S. Treasury repurchase transactions. In conjunction with the transition from LIBOR, many alternative reference rates, such as the Effective Federal Funds Rate (EFFR), an interest rate typically utilized by banks representing a charge for overnight loans, used to meet regulatory reserve requirements, are also being transitioned to SOFR. Accordingly, under the general topic referred to as “Reference Rate Reform,” contracts which reference or utilize LIBOR or EFFR, are anticipated to be modified to reference SOFR.

3. The Statutory Accounting Principles (E) Working Group previously adopted *INT 20-01: Reference Rate Reform*, which substantially adopted *ASU 2020-04 – Reference Rate Reform* and applies to all SSAPs with contracts within scope of ASU 2020-04. INT 20-01 allows for contract modifications, due to reference rate reform, to be accounted for as a continuation of the existing contract and thus not requiring remeasurement. Among other things, INT 20-01 allows for 1) certain hedging relationships to continue without requiring dedesignation upon a change in certain critical terms (i.e., changing reference rates), and 2) changes in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship. INT 20-01 recognized that many of these contracts, as part of the discontinuance of LIBOR, will transition to SOFR, an industry recognized preferred benchmark rate.

4. CCPs will make a similar transition, converting open derivative end-of-day valuation calculations from EFFR to SOFR. This transition will occur in two steps, both of which are anticipated to occur on October 16. First, the CCPs will conduct a *standard end-of day valuation* cycle based on EFFR. Then, the CCP will conduct a *special valuation cycle* on those same positions, however utilizing SOFR as the new, ongoing discounting rate. Based on the differences between EFFR and SOFR, the CCP will issue cash adjustments to each account to offset the value adjustments arising from the change in discount rates and additionally will issue mandatory EFFR/SOFR basis swaps, thus restoring the account holder’s original risk profile.

5. *SSAP No. 86—Derivatives* addresses the recognition and measurement of derivatives used for hedging, income generation, and replication transactions. Additionally, guidance is provided for derivatives not utilized for one of these broad categories (known as “other derivatives”). Derivatives that are classified

as “other derivatives” are nonadmitted under SSAP No. 86, whereas derivatives in the other categories are admitted provided they conform to the requirements of the statement.

6. The accounting issues are:

- a. Issue 1: How should EFFR/SOFR basis swaps be classified and reported in the statutory financial statements?
- b. Issue 2: How should EFFR/SOFR basis swaps be valued in the statutory financial statements?

INT 20-09 Discussion

7. For Issue 1, the Working Group reached a consensus that mandatory basis swaps issued by CCPs, in response to reference rate reform, shall be classified as a derivative used for “hedging.” In collaboration with industry representatives, Working Group support staff has confirmed that a significant majority of the derivatives transacted through a CCP meet the definition of a hedging transaction. By using this “used for hedging” classification, instead of an “other derivative” classification, the basis swap derivative received will be admitted under SSAP No. 86.

8. For Issue 2, the Working Group reached a consensus that although the instrument shall be considered a hedging derivative, the instrument shall not be considered or reported as an “effective” hedging derivative (using the “hedge accounting” measurement approach permitted in SSAP No. 86), unless the instrument qualifies, with the required documentation, as a highly effective hedge under SSAP No. 86. Unless the effective hedge requirements are met, the instruments shall be reported on Schedule DB, utilizing the category of “Hedging Other.” Pursuant to the guidance in SSAP No. 86, if the basis swap derivative is not an effective hedge, the derivative shall be accounted for at fair value and the changes in fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting.)

INT 20-09 Status

8. No further discussion is planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 21-01: Accounting for Cryptocurrencies

INT 21-01 Dates Discussed

March 15, 2021, May 20, 2021

INT 21-01 References

SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments

INT 21-01 Issue

1. This interpretation is to address questions regarding statutory accounting treatment for cryptocurrencies, which are defined as a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority. Cryptocurrencies are purchased and exchanged using a limited number of unregulated digital currency exchanges and are not held or offered by major banks.
2. The most valuable cryptocurrency as of February 2021 is Bitcoin, which has been in circulation since 2009, and there are approximately 4,000 different cryptocurrencies available on 200 different cryptocurrency exchanges. Cryptocurrencies have seen significant price volatility and have experienced an extreme increase in value over the past year, with the value of the total outstanding cryptocurrencies nearing \$1 trillion as of February 2021. The total market value and increased popularity has led to increased interest in the market by traditional financial institutions and insurance companies.
3. No NAIC Committees or groups have taken any action or established a position on cryptocurrencies. Currently, auditors must rely on guidance provided by the American Institute of Certified Public Accountants through a nonauthoritative practice guide.
4. This Interpretation intends to clarify that directly held cryptocurrencies are nonadmitted assets for statutory accounting.

INT 21-01 Discussion

5. Directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual* (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the *Accounting Practices and Procedures Manual* as an admitted asset.
6. Cash is defined in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” Cryptocurrencies are currently not accepted by major banks and do not operate like a traditional currency, and as such do not meet the definition of cash in *SSAP No. 2R*.

INT 21-01 Consensus

7. The Statutory Accounting Principles (E) Working Group reached a consensus that directly held cryptocurrencies do not meet the definition of an admitted asset and are therefore considered to be a

nonadmitted asset for statutory accounting. The Working Group intends to rely on this interpretation for statutory accounting and will address cryptocurrencies further once FASB has provided definitive guidance.

INT 21-01 Status

8. No further discussion is planned.
9. The Statutory Accounting Principles (E) Working Group will continue to monitor the evolution of cryptocurrencies and subsequently review this interpretation as appropriate as part of the normal maintenance process.

Not for Distribution

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates

INT 22-01 Dates Discussed

April 4, 2022; May 24, 2022

INT 22-01 References

Current:

SSAP No. 43R—Loan-Backed and Structured Securities

SSAP No. 86—Derivatives

INT 22-01 Issue

1. This interpretation is to address questions on the accounting and reporting for Freddie Mac “When-Issued K-Deal (WI Trust) Certificates” (WI Program). Ultimately, the question is whether the structure should be initially captured in scope of *SSAP No. 43R—Loan-Backed and Structured Securities* or as a forward contract in scope of *SSAP No. 86—Derivatives*.
2. The design of the WI Program is summarized as follows:
 - a. Investor acquires WI Trust certificates, which are backed by cash held in the WI Trust and pay a fixed coupon amount funded from a Freddie Mac guarantee.
 - b. Within 90 days, the trust uses the cash to acquire newly issued K-Deal structured pass-through certificates (SPCs) meeting certain pooling parameters laid out in the respective WI Offering Circular Supplement. K-Deal SPC (s) are Freddie Mac-issued structured pass-through certificates backed by the corresponding class of certificates issued by a separate REMIC trust that holds multifamily fixed-rate mortgage loans. The cash flows from the mortgage loans held by the REMIC trust provide pass-through payments to holders of the K-Deal SPCs.
 - c. An investor can choose to continue to hold the WI Trust certificates or exchange dollar-for-dollar their WI-securities into the underlying K-Deal SPCs. In either case, the investor receives a pass-through of cash flows generated by the mortgages held in the REMIC trust and the performance of the K-Deal SPCs is guaranteed by Freddie Mac. If continuing to hold the WI Trust certificates – rather than convert the certificates to K-deal SPCs – the K-Deal SPCs are held by the WI Trust, who in turn passes the cashflows to WI Trust investors. The WI Trust certificates benefit from Freddie Mac payment guarantee which guarantees that any cashflows collected from the K-Deal SPCs will be paid to the WI certificate holders.
3. Additional characteristics on this program include the following:
 - a. The WI Trust certificates are public securities and tradeable shortly after pricing.
 - b. The WI Trust certificates are backed by a Freddie Mac guarantee from acquisition.
 - c. From acquisition of the WI Trust certificates, the investor receives fixed coupon amounts reflective of the investment terms of the K-Deal SPCs.

- d. The WI Trust is obligated to acquire, and Freddie Mac is required to sell, the K-Deal SPCs at the amount stated at the time of initial investment. Meaning, the investor is not at a risk of loss, nor will experience any variation in outcome due to underlying variables that occur from the time of initial investment in the WI Trust until the K-Deal SPCs are acquired. If market forces change the purchase price of the K-Deal SPCs during the 90-days after initial acquisition of the WI Trust certificates, then Freddie Mac is still required to sell the K-Deal certificates at the terms agreed to at original investment. Ultimately, the investor is guaranteed an investment in K-Deal SPCs that reflects the notional value of the WI Trust-certificates and coupon terms at initial acquisition. (For example, if the investor acquired \$100 million of WI Trust certificates at acquisition, when the K-Deals are subsequently acquired, the entity will receive \$100 million of K-Deal SPCs with the same payment terms regardless of any market impacts.)
 - e. In the event that Freddie Mac is unable to acquire the K-Deal SPCs within the 90-day period, Freddie Mac is required to return the principal to the investor as well as provide a yield maintenance payment calculated using the full coupon payments that would have been received over the course of the investment.
 - f. In the event that the investor elects to exchange the WI Trust certificates to the K-Deal SPCs, the investor receives an equivalent principal amount of the K-Deal SPCs of the same class. Although the investment will have a change in CUSIP, any such exchange is not deemed to be a taxable event as described in the respective Offering Circular Supplements for the WI Certificates. As such investors will not recognize a gain or loss on the exchange and investors will be treated as continuing to own the interests that were owned immediately prior to the exchange. Stated differently, any gains or losses on the exchanged WI-Certificates are “rolled into” the investors’ new K-Deal Certificate position.
4. The question of whether the structure is a loan-backed or structured security, or a derivative is primarily focused on the initial acquisition and the 90-day (or less) timeframe before the WI Trust acquires K-Deal certificates. The question is whether the initial 90-day acquisition of the WI Trust certificate, prior to the trust’s acquisition of the K-Deal certificates, represents a forward contract required to be accounted for under SSAP No. 86. Key excerpts from SSAP No. 86 are as follows:
- a. The definition of a derivative instrument from SSAP No. 86, paragraph 4:
 - 4. “Derivative instrument” means an agreement, option, instrument or a series or combination thereof:
 - a. To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or
 - b. That has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests.
 - b. The definition of a forward contract from SSAP No. 86, paragraph 5.d.:
 - 5.d. “Forwards” are agreements (other than futures) between two parties that commit one party to purchase and the other to sell the instrument or commodity underlying the contract at a specified future date. Forward contracts fix the price, quantity, quality, and date of the purchase and sale. Some forward contracts involve the initial payment of cash and may be settled in cash instead of by physical delivery of the underlying instrument.

5. This interpretation intends to clarify whether investments in the Freddie Mac WI Program shall be initially captured in scope of SSAP No. 86 or captured in scope of SSAP No. 43R.

INT 21-01 Discussion

6. This interpretation clarifies that investments in the Freddie Mac WI Program shall be captured in scope of SSAP No. 43R from initial acquisition, and not as a derivative forward contract, for the following reasons:

- a. The WI Program is fully guaranteed by Freddie Mac and ensures that the investor will receive pass-through certificates, backed by mortgage loans held in trust, that reflect the terms of the investment set at original acquisition. In the event that the K-Deal certificates cannot be acquired, Freddie Mac is guaranteed to provide payment to the investor that reflects the full principal and interest per the original terms of the agreement, which reflects the payments that would have been received overtime if K-Deal certificates had been acquired.
- b. The definition of a forward contract in SSAP No. 86 reflects an agreement between two parties that commit one party to purchase and another party to sell the instrument underlying the contract at a specified future date. With the WI Trust Program, the investor does not have a future commitment to acquire securities, as the investor acquires the WI Trust certificate on day one of the transaction and the investor is not required to convert the WI Trust certificates at any time. This WI Trust certificate is not a derivative instrument, as at the time of acquisition, the certificate reflects a tradeable investment in a trust structure backed by cash and a Freddie Mac guarantee of cash flows in accordance with terms established at original acquisition. In addition to having no variation to the investor as a result of an underlying interest, there is no requirement on the investor to take delivery of a different investment. The ability to convert the WI Trust certificate to a K-Deal certificate is strictly an election to the investor and is not a requirement to receive the pass-through cash flows per the terms of the initial investment.
- c. The WI Program, and resulting obligation of Freddie Mac, ultimately reflects an investment where the investor receives pass-through cash flows generated from mortgage loans acquired and held in trust. This investment dynamic is within the scope of SSAP No. 43R, paragraphs 2-4:
 2. Loan-backed securities are defined as securitized assets not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the payments received by the issuer from the underlying assets, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.
 3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to payments received by the issuer from the underlying assets.
 4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing

the underlying assets. Some sponsors do guarantee the performance of the underlying assets.

- d. The WI Program, and treatment as a SSAP No. 43R security, is consistent with the current guidance for TBA securities when an insurer intends to take possession of the resulting mortgage-backed security. A TBA security reflects the pre-purchase of mortgage-backed securities prior to the finalization of the security issuance. Pursuant to the annual statement instructions, TBA securities are to be reported on Schedule D-1: Long-Term Bonds unless the structure more closely resembles a derivative. This determination depends on how a company uses the TBA. (For example, if a company intended to assume the mortgage-backed security once issued, the TBA would be captured on Schedule D-1 at initial acquisition. If a reporting entity was to continually trade/roll TBA exposures, this would be more characteristics of a derivative and would be captured on Schedule DB as a derivative.)

INT 22-01 Consensus

5. The Statutory Accounting Principles (E) Working Group reached a consensus that investments in the WI Trust Program shall be captured in scope of SSAP No. 43R from initial acquisition.

6. If a reporting entity elects to convert WI Trust SPC securities into K-Deal SPC securities, the guidance in the Annual Statement Instructions, Schedule D, Part 3 and Part 4 shall be followed. Per that guidance, the transition from a WI Trust to a K-Deal shall not be reported as a disposal or acquisition. As the terms and cost basis of the SPC certificates would be identical, and the change would only reflect a CUSIP number change, a disposal and reacquisition shall not be recorded.

7. Excerpt from Annual Statement Instructions, Schedule D, Part 3 and 4:

This schedule should include a detailed listing of all securities that were purchased/acquired during the current reporting year that are still owned as of the end of the current reporting year (amounts purchased and sold during the current reporting year are reported in detail on Schedule D, Part 5 and only in subtotal in Schedule D, Part 3). This should include all transactions that adjust the cost basis of the securities. Thus, it should not be used for allocations of TBAs to specific pools subsequent to initial recording in Schedule D, Part 3 or other situations such as CUSIP number changes.

INT 22-01 Status

8. No further discussion is planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 22-02: Third Quarter 2022 through ~~First~~Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax

INT 22-02 Dates Discussed

October 6, 2022; October 24, 2022, November 16, 2022; December 13, 2022; [April 12, 2023](#); [May 16, 2023](#)

INT 22-02 References

Current:

SSAP No. 9—Subsequent Events

SSAP No. 101—Income Taxes

INT 22-02 Issue

Key Provisions of the Inflation Reduction Act

1. The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). The Act and the CAMT go into effect for tax years beginning after 2022. Reporting entities shall refer to the Act and the resulting regulations and other tax guidance to determine application, but a non-authoritative high-level summary based on information at the time of initial INT discussion regarding the CAMT is as follows:

- a. The CAMT is 15% of the corporation's "adjusted financial statement income" for the tax year, reduced by corporate alternative minimum foreign tax credit.
- b. The CAMT will only apply to "applicable corporations" (determined on an affiliated group basis) with average adjusted financial statement income in excess of \$1 billion for the three prior tax years. This threshold is reduced to \$100 million in the case of certain foreign-parented corporations. When a corporation becomes subject to the CAMT, it remains an applicable corporation for purposes of the CAMT, even if its average adjusted financial statement income is less than \$1 billion, unless an exception applies.
- c. A corporation's adjusted financial statement income is the amount of net income or loss the corporation reports on its applicable financial statement. The income is adjusted for various purposes including certain adjustments in the case of consolidated returns or for foreign income.
- d. The Act includes references to the tax codes which provides a hierarchy for determining the "applicable financial statement." At a high level, the first choice is U.S. generally accepted accounting principles (GAAP) financial statements; the second choice is international financial reporting standards (IFRS) financial statements. If GAAP and IFRS financial statements are not available, the financial statements filed by the taxpayer with any other regulatory or government body is acceptable. If the taxpayer is part of an affiliated group of corporations filing a consolidated return, the adjustable financial statement income for the group considers the group's applicable financial statement.
- e. To determine its U.S. federal income tax liability, an applicable corporation will need to compute taxes under both systems—the regular tax system and the CAMT system. The CAMT is payable to the extent the tentative CAMT exceeds the regular corporate income

tax. Any CAMT paid is available indefinitely as a credit carryover that could reduce future regular tax in future years if the regular tax liability is in excess of CAMT tax liability.

- f. The Act directs the Treasury to issue regulations and other guidance relate to implementing the CAMT, so several issues are pending detailed clarifications including clarifying the definition of an applicable corporation, and providing guidance on the starting point for, and adjustments to, adjusted financial statement income, as well as the handling of separate company tax returns when required under current tax law that are unique to the insurance industry.

Interpretation Issues

2. This interpretation is focused on addressing third quarter 2022 transition accounting and reporting aspects of the new CAMT. While most insurers will not be subject to the CAMT, for those that know that they are subject, and those that could be subject to the CAMT, there are a variety of reporting uncertainties, particularly regarding reporting for third quarter 2022.

3. The CAMT is effective for the tax years on or after 2023.

4. Both statutory accounting principles and U.S. GAAP require the effects of tax changes on deferred taxes, including the valuation allowance (future realizability of existing DTAs) in the period in which the legislation is enacted (third quarter 2022). *SSAP No. 101—Income Taxes*, paragraph 7.e. requires the statutory valuation allowance adjustment as a direct reduction in the gross DTA if, based on the weight of available evidence, it is more likely than not that some or all of the gross DTAs will not be realized. Gross DTA less the statutory valuation allowance results in adjusted gross DTAs. The statutory valuation allowance adjustment is not reported as a separate line in the statutory financial statements (it is an off-balance sheet item that reduces the gross DTAs). The statutory valuation allowance is disclosed.

5. The statutory accounting calculation for admissible DTAs is determined using adjusted gross DTAs (gross DTAs reduced by the valuation allowance). For statutory accounting, admittance of adjusted gross DTAs in *SSAP No. 101* depends on a three-component calculation, for which the second step limits admittance of adjusted gross DTAs to those that are expected to be realized in a timeframe that does not exceed three years. The actual number of years permitted depends on specifics for each reporting entity (type and other information about the reporting entity), but the maximum timeframe is three years. The last step admits DTAs which can be offset by DTLs.

6. Guidance in *SSAP No. 9—Subsequent Events* requires consideration of Type I and Type II¹ subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued. For subsequent events identified after the statutory financial statements are filed (example, March 1), but before the audited financial statements are issued (example, June 1), reporting entities are generally required by their domestic state to amend their filed statutory financial statements to ensure that the statutory financial statements and the audited financial statements are consistent. Under this guidance, as additional information is made available on the impact of the Act, or information becomes available to update estimates and assessments, under existing statutory accounting guidance in *SSAP No. 9*, reporting entities would need to identify updated estimates as a Type I subsequent event in the audited financial statements.

¹ A Type I subsequent event relates to an event or transaction that provides additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Under *SSAP No. 9*, entities shall recognize in the financial statements the effects of all material Type I subsequent events. A Type II subsequent event pertains to events or transactions that provide evidence to conditions that did not exist at the balance sheet date but arose after that date. Type II events are disclosed in the financial statements.

Issue 1 – Consideration of the Act for Third Quarter 2022 Financial Statements

7. During the period of enactment (third quarter 2022) reporting entities filing statutory financial statements would normally have to consider the applicability of the CAMT and if applicable, determine the impact on the statutory valuation allowance as well as assess DTAs for admissibility (e.g., realization timeframe). These elements will be collectively referred to as “calculations impacted by the Act” or “calculations impacted by the CAMT.”

8. This interpretation will address the issue for what reporting entities are required to report or disclose regarding the calculations impacted by the CAMT for September 30, 2022, financial statements.

Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

9. SSAP No. 9 requires consideration of subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued.

10. For reporting entities that materially revise or establish calculations impacted by the CAMT subsequent to September 30, 2022 (including the statutory valuation allowance, the timing of determination of net admitted DTAs, and the determination of the applicability of the CAMT), this interpretation will address the extent a Type I or Type II subsequent event assessment is required for third quarter 2022 financial reporting.

INT 22-02 Discussion

11. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Response: Issue 1 – Consideration of the Act for Third Quarter 2022 Financial Statements

12. Reporting entities that are aware they will be subject to the CAMT would normally reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for third quarter 2022. Because of the timing of the adoption of the Act and the considerable number of unknown variables for September 30, 2022, reporting, the Working Group has determined that a reasonable estimate is not determinable for third quarter 2022 interim financial statements for the calculations impacted by the CAMT.

13. Because reasonable estimates of calculations impacted by the CAMT are not determinable, reporting entities shall not recognize impacts related to CAMT for third quarter 2022 financial statements, but shall make the following disclosures regarding the CAMT and the Act:

- a. The Act was enacted during the reporting period on August 16, 2022.
- b. A statement regarding whether the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined if it expects to be liable for CAMT in 2023. For example:
 - i. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that it does not expect to be liable for CAMT in 2023.
 - ii. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has not determined as of the reporting date if it will be liable

for CAMT in 2023. The third quarter 2022 financial statements do not include an estimated impact of the CAMT because a reasonable estimate cannot be made.

- iii. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that it expects to be liable for CAMT in 2023. The third quarter 2022 financial statements do not include an estimated impact of the CAMT, because a reasonable estimate cannot be made.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2022 Financial Statements

14. For third quarter 2022 reporting, CAMT updated estimates or other calculations affected by the Act determined subsequent to third quarter statutory financial statement or filing date shall not be recognized as Type I subsequent events. Meaning, amended financial statements are not required to reflect updated estimates subsequent to the third quarter filing date and prior to the filing the third quarter financial statements. With the disclosure required under Issue 1, additional subsequent event disclosure (such as what would be required for Type II event) is not required.

15. Reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act.

INT 22-02 Status

16. The consensuses in this interpretation were adopted on October 24, 2022, to provide reporting guidance regarding the calculations impacted by the CAMT and provide limited-scope, limited-time exceptions to the valuation allowance and DTA calculations in response to legislation under SSAP No. 101 as well as Type I subsequent event requirements in SSAP No. 9 for September 30, 2022, statutory reporting. As detailed, the exceptions to SSAP No. 101 and SSAP No. 9 are effective for third quarter 2022.

17. On December 13, 2022, the Working Group adopted a consensus to extend this interpretation for December 31, 2022, and first quarter 2023 statutory financial statements. For application as of year-end 2022 and first quarter 2023:

- a. Consistent with paragraphs 12 and 13, the Working Group has concluded that a reasonable estimate is not determinable for December 31, 2022, and March 31, 2023, therefore impacts related to the CAMT in the year-end 2022 and March 31, 2023, financial statements are not required.
- ~~b. The reporting entity shall include disclosures in paragraph 13 in the year-end 2022 and March 31, 2023, financial statements. In addition, the reporting entity shall disclose the following:~~
 - ~~i. If, based on information regarding the projected adjusted financial statement income for 2023, the entity or the controlled group of corporations of which the reporting entity is a member has determined if it is an “applicable corporation” to determine if CAMT exceeds the regular federal income tax payable. That is, disclose if the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined if average “adjusted financial statement income” is above the thresholds for 2023 tax year that they expect to be required to perform the CAMT calculations. This disclosure is about being applicable corporation, not if the entity is required to pay.~~

- ~~e.b.~~ Consistent with paragraph 14, CAMT updated estimates or other calculations affected by the Act determined subsequent to filing the December 31, 2022, and March 31, 2023, financial statements shall not be recognized as Type I subsequent events.
- ~~d.c.~~ For year-end 2022 financial statements, the subsequent event exception is expanded to encompass events that occur prior to the issuance of statutory financial statements as well as events that occur before the date the audited financial statements are issued, or available to be issued. This provision intends to prevent reporting entities from having to amend statutory financial statements from material Type I subsequent events as a result of updated information / estimates received after the reporting date of year-end 2022 statutory financial statements pertaining to the accounting for the enactment of the Act.

18. On May 16, 2023, the Working Group adopted a consensus to extend this interpretation for the second quarter 2023 statutory financial statements. For application to the second quarter 2023 financial statements, reporting entities shall follow the guidance in this interpretation paragraphs 17.a. through 17.c.

~~18.~~19. With the extension, this interpretation will be automatically nullified on ~~June 15~~August 16, 2023.

~~19.~~20. No further discussion is planned.

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve

INT 23-01 Dates Discussed

April 10, 2023, June 28, 2023, August 13, 2023

INT 23-01 References

Current:

SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve
Annual Statement Instructions

INT 23-01 Issue

1. The statutory accounting guidance for interest maintenance reserve (IMR) and the asset valuation reserve (AVR) is within *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, but the guidance within *SSAP No. 7* is very limited. It provides a general description, identifies that IMR/AVR shall be calculated and reported per the guidance in the applicable *SSAP*, and if not explicit in the *SSAP*, in accordance with the annual statement instructions. The *SSAPs* most often simply direct allocation to (or between) IMR and AVR, with the bulk of the guidance residing within the annual statement instructions.
2. As detailed in *SSAP No. 7*, paragraph 2, the guidance for IMR and AVR applies to life and accident and health insurance companies and focuses on IMR and AVR liability recognition and distinguishing between IMR and AVR:
 2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.
3. The IMR guidance in the annual statement instructions provides information on the net balance. A positive IMR represents net interest rate realized gains and is reported as a liability on a dedicated reporting line. A negative disallowed IMR represents net interest rate realized losses and is reported as a miscellaneous other-than-invested write-in asset in the general account and nonadmitted.
4. IMR balances between the general account and separate accounts are separate and distinct. Meaning, a net negative IMR in the general account only represents activity that occurred in the general account that was allocated to IMR. However, the net positive or negative balance of the general account influences how the net positive or negative balances are reported in separate account statements (and vice versa). (A net negative IMR balance in the general account may not be disallowed if there is a covering net positive IMR in the separate account. Negative IMR that is not disallowed is reported as a contra-liability.) The instructions for reporting the net negative and positive balances are detailed in the annual statement instructions:

Line 6 – Reserve as of December 31, Current Year

Record any positive or allowable negative balance in the liability line captioned "Interest Maintenance Reserve" on Page 3, Line 9.4 of the General Account Statement and Line 3 of the Separate Accounts Statement. A negative IMR balance may be recorded as a negative liability in either the General Account or the Separate Accounts Statement of a company only to the extent that it is covered or offset by a positive IMR liability in the other statement.

If there is any disallowed negative IMR balance in the General Account Statement, include the change in the disallowed portion in Page 4, Line 41 so that the change will be appropriately charged or credited to the Capital and Surplus Account on Page 4. If there is any disallowed negative IMR balance in the Separate Accounts Statement, determine the change in the disallowed portion (prior year less current year disallowed portions), and make a direct charge or credit to the surplus account for the "Change in Disallowed Interest Maintenance Reserve" in the write-in line, in the Surplus Account on Page 4 of the Separate Accounts Statement. The following information is presented to assist in determining the proper accounting:

General Account IMR Balance	Separate Account IMR Balance	Net IMR Balance
Positive	Positive	Positive (See rule a)
Negative	Negative	Negative (See rule b)
Positive	Negative	Positive (See rule c)
Positive	Negative	Negative (See rule d)
Negative	Positive	Positive (See rule e)
Negative	Positive	Negative (See rule f)

Rules:

- a. If both balances are positive, then report each as a liability in its respective statement.
- b. If both balances are negative, then no portion of the negative balances is allowable as a negative liability in either statement. Report a zero for the IMR liability in each statement and follow the above instructions for handling disallowed negative IMR balances in each statement.
- c. If the general account balance is positive, the separate accounts balance is negative and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the Separate Accounts Statement.
- d. If the general account balance is positive, the separate account balance is negative, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the Separate Accounts Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the Separate Accounts Statement.
- e. If the general account balance is negative, the separate account balance is positive, and the combined net balance is positive, then all of the negative IMR balance is allowable as a negative liability in the General Account Statement.
- f. If the general account balance is negative, the separate account balance is positive, and the combined net balance is negative, then the negative amount not covered by the positive amount is not allowable. Report only the allowable portion as a negative liability in the General Account Statement and follow the above instructions for handling the disallowed portion of negative IMR balances in the General Account Statement.

5. In October 2022, the ACLI requested the Statutory Accounting Principles (E) Working Group to reassess the guidance for net negative (disallowed) IMR, with a request to consider admittance of those

amounts. The ACLI noted that the nonadmittance of disallowed negative IMR can have adverse negative ramifications for insurers with two key themes:

- a. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders. However, with negative IMR, there is an inappropriate perception of decreased financial strength through lower surplus and risk-based capital.
- b. Negative IMR could impact the rating agency view of the industry or incentivize companies to avoid prudent investment transactions that are necessary to avoid mismatches between assets and liabilities. In either scenario, negative IMR encourages short-term non-economic activity that is not in the best long-term interest of a reporting entity's financial health or its policyholders.

6. In considering the request, the Working Group concluded that, for year-end 2022, there would be no change to statutory accounting guidance and deviations from statutory accounting principles would need to be approved via a permitted or prescribed practice. The Working Group then held company-specific educational sessions in January 2023 to receive detailed information regarding negative IMR and received a subsequent comment letter from the ACLI.

7. During the 2023 Spring National Meeting, the Working Group further discussed the topic of negative IMR and directed NAIC staff to proceed with drafting guidance for a 2023 solution and to begin work towards a long-term solution.

INT 23-01 Discussion

8. This interpretation prescribes limited-time, optional, statutory accounting guidance, as an exception to the existing guidance detailed in SSAP No. 7 and the annual statement instructions that requires nonadmittance of net negative (disallowed) IMR as a short-term solution. Specifically, this interpretation impacts the annual statement instruction rules regarding disallowed negative IMR detailed in rules 'b,' 'd' and 'f' shown in paragraph 4.

9. Reporting entities are permitted to admit net negative (disallowed) IMR with the following restrictions:

- a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general account¹ capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted² net negative (disallowed) IMR.
- b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all

¹ The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

² As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.

- c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination³ unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.
10. Reporting entities that admit net negative (disallowed) IMR shall follow the following process:
 - a. All net negative (disallowed) IMR in the general account shall first be admitted until the capital and surplus percentage limit, as detailed in paragraph 9.a., is reached.
 - b. If all general account net negative (disallowed) IMR has been fully admitted, and the reporting entity is still below the paragraph 9.a. capital and surplus limit, then the reporting entity can report net negative (disallowed) IMR as an asset in the separate accounts. Reporting entities that have both insulated and non-insulated separate accounts shall recognize IMR assets proportionately between the insulated and non-insulated statements until the aggregated amount recognized as an admitted asset in the general account and as an asset in the insulated and non-insulated statements reaches the percentage limit of capital and surplus detailed in paragraph 9.a.
 11. Reporting entities that admit net negative (disallowed) IMR in the general account shall report the admittance in the balance sheet as follows:
 - a. Reporting entities shall report the net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 25) (named as “Admitted Disallowed IMR”) on the asset page. The net negative (disallowed) IMR shall be admitted to the extent permitted per paragraph 9.a., with the remaining net negative (disallowed) IMR balance nonadmitted.
 - b. Reporting entities shall allocate an amount equal to the general account admitted net negative (disallowed) IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as “Admitted Disallowed IMR”). Although dividends are

³ Reference to derivative termination throughout this interpretation includes all actions that close out a derivative, including, but not limited to, termination, expiration, settlement, or sale.

contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.

12. Reporting entities that record net negative (disallowed) IMR as an asset in the separate account shall report the recognition in the balance sheet as follows:

- a. Reporting entities shall report the permitted net negative (disallowed) IMR as an aggregate write-in to miscellaneous other-than-invested assets (line 15) (named as “Recognized Disallowed IMR”) on the asset page.
- b. Reporting entities shall allocate an amount from surplus equal to the asset recognized as disallowed IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR) on the liabilities and surplus page.

13. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the annual and quarterly financial statements for IMR:

- a. Reporting entities that have allocated gains/losses to IMR from derivatives that were reported at fair value prior to the termination of the derivative shall disclose the unamortized balances in IMR from these allocations separately between gains and losses.
- b. Reporting entities shall complete a note disclosure that details the following:
 - i. Net negative (disallowed) IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,
 - ii. Amounts of negative IMR admitted in the general account and reported as an asset in the separate account insulated and non-insulated blank,
 - iii. The calculated adjusted capital and surplus per paragraph 9.a., and
 - iv. Percentage of adjusted capital and surplus for which the admitted net negative (disallowed) IMR represents (including what is admitted in the general account and what is recognized as an asset in the separate account).
- c. Reporting entities shall include a note disclosure that attests to the following statements:
 - i. Fixed income investments generating IMR losses comply with the reporting entity’s documented investment or liability management policies,
 - ii. IMR losses for fixed income related derivatives are all in accordance with prudent and documented risk management procedures, in accordance with a reporting entity’s derivative use plans and reflect symmetry with historical treatment in which unrealized derivative gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.
 - iii. Any deviation to 13.c.i was either because of a temporary and transitory timing issue or related to a specific event, such as a reinsurance transaction, that mechanically made the cause of IMR losses not reflective of reinvestment activities.

- iv. Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

INT 23-01 Status

14. The consensuses in this interpretation were adopted on August 13, 2023, to provide limited-time exception guidance to SSAP No. 7 and the annual statement instruction for the reporting of net negative (disallowed) IMR. The provisions within this interpretation are permitted as a short-term solution until December 31, 2025, and will be automatically nullified on January 1, 2026.

15. The effective date of this interpretation may be adjusted (nullified earlier or with an extended effective date timeframe) in response to Statutory Accounting Principles (E) Working Group actions to establish statutory accounting guidance specific to net negative (disallowed) IMR.

16. No further discussion is planned.

Not for Distribution

Application Guidance for Admitting / Recognizing Net Negative (Disallowed) IMR**General Account:**

1. Net negative IMR in the general account that exceeds net positive IMR in the separate accounts is considered “disallowed” general account IMR. (Determination of the disallowed IMR in the general account shall be compared against the aggregate IMR balance in all separate accounts.)
2. Net negative disallowed IMR in the general account shall be reported as an aggregate write-in for other-than-invested assets as “Admitted Disallowed IMR” on line 25 of the asset page and nonadmitted. The change in nonadmittance shall be reported on line 41 in the summary of operations.
3. To the extent the reporting entity is permitted to admit net negative disallowed IMR pursuant to the provisions in this interpretation, the reporting entity shall admit the disallowed IMR reported on line 25 of the asset page to the extent permitted, with the change in nonadmittance reflected on line 41 in the summary of operations.
4. Reporting entities shall report an amount equal to the general account admitted net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 34 of the Liabilities, Surplus and Other Funds page) named as “Admitted Disallowed IMR.”
5. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

Separate Account:

6. Net negative IMR in the separate account (aggregated IMR in both insulated and non-insulated separate accounts) that exceeds net positive IMR in the general account is considered “disallowed” separate account IMR. If the aggregate separate account IMR is positive, with a negative IMR in the insulated separate account and positive IMR in non-insulated separate account (or vice versa), then the negative IMR in the insulated separate account is not permitted to be reported as an asset. In those situations, the separate account has an aggregate positive IMR balance.
7. Net negative (disallowed) IMR in the separate account permitted to be recognized as an asset, as the admittance in the general account did not utilize the full percentage of adjusted capital and surplus permitted within this interpretation, shall be proportionately divided between insulated and non-insulated separate accounts if both separate accounts are in a negative position. If the separate account IMR is an aggregate net negative, but only one separate account blank is in a negative position, then only the separate account blank with a net negative position can recognize disallowed IMR as an asset.
8. If negative IMR in the separate account has previously been recognized as a direct charge to surplus, the reporting entity shall recognize an asset as an aggregate write-in for other-than-invested assets as “Recognized Disallowed IMR” on line 15 of the separate account asset page, with an offsetting credit to surplus. This credit to surplus shall reverse the charge previously recognized. This process shall continue in subsequent quarters if additional separate account IMR is permitted as an asset to the extent IMR was previously taken as a direct charge to surplus. Once prior surplus impacts have been fully eliminated, then the entity shall follow the guidance for new net negative (disallowed) IMR as detailed in the following paragraph. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.

9. If the reporting entity enters a net negative (disallowed) IMR position (meaning, there has not been a prior charge to surplus for net negative (disallowed) IMR), then the entity shall recognize the asset as an aggregate write-in for other-than-invested assets as “Disallowed IMR” on line 15 of the separate account balance sheet, with an offsetting credit to IMR (line 3 of the liability page) until the IMR liability equals zero. This process shall continue in subsequent quarters if additional net negative IMR is generated from operations and is permitted as an asset under the provisions of this interpretation. If subsequent quarters result with a decline in the permitted IMR asset in the separate account, then the asset shall be credited with an offsetting charge to surplus.
10. Reporting entities shall report an amount equal to the asset recognized reflecting net negative (disallowed) IMR as an aggregate write-in for special surplus funds (line 19) (named as “Recognized Disallowed IMR.” This shall be included in each separate account statement (insulated and non-insulated) if net negative disallowed IMR is recognized as an asset in that statement.
11. Reporting entities shall include note disclosures in the quarterly and annual financial statements as required in paragraph 13 of the interpretation.

Not for Distribution

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-03: Inflation Reduction Act – Corporate Alternative Minimum Tax

INT 23-03 Dates Discussed

August 13, 2023; September 21, 2023

INT 23-03 References

Current:

SSAP No. 4—Assets and Nonadmitted Assets

SSAP No. 9—Subsequent Events

SSAP No. 101—Income Taxes

INT 23-03 Issue

Key Provisions of the Inflation Reduction Act

1. The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). The CAMT is effective for tax years beginning after 2022. Reporting entities shall refer to the Act and the resulting regulations and other tax guidance to determine application, but a high-level summary of the CAMT is below.

- a. The tentative CAMT is 15% of the corporation's "adjusted financial statement income" for the tax year, reduced by corporate alternative minimum foreign tax credit.
- b. The CAMT differs from the previous traditional alternative minimum tax that applied under pre-2018 tax law in that it starts at a financial statement measure (book income) – not an Internal Revenue Code taxable income calculation. Adjusted financial statement income does not include other comprehensive income including unrealized gains and losses on available for sale securities. The determination of whether the CAMT applies is made on a tax-controlled group basis (scope determination), the tentative CAMT is based on the group's adjusted financial statement income (not adjusted regular taxable income), and any tax due (liability determination) is based on a comparison of consolidated tentative CAMT to consolidated regular tax (non-CAMT).
- c. The CAMT applies only to corporations (determined on a tax-controlled group basis as defined for federal income tax purposes, this could include standalone unaffiliated entities which meet the specified income thresholds – see paragraph 3) with average annual adjusted financial statement income in excess of \$1 billion for three prior taxable years. The threshold is reduced to \$100 million in the case of certain foreign-owned corporations. A corporation that meets the applicable threshold is an "applicable corporation." Applicable corporations generally remain applicable corporations for subsequent taxable years unless certain limited exceptions apply. Applicable corporation status means that CAMT must be tentatively determined and compared to regular (non-CAMT) tax liability.
- d. A corporation's adjusted financial statement income is the amount of net income or loss the corporation reports on its applicable financial statement. The income is adjusted for various purposes including certain adjustments in the case of consolidated returns or for foreign income.

- e. The Act includes references to the tax code which provides a hierarchy for determining the applicable financial statement. At a high level, the first choice is U.S. generally accepted accounting principles (GAAP) financial statements; the second choice is international financial reporting standards (IFRS) financial statements. If GAAP and IFRS financial statements are not available, the financial statements filed by the taxpayer with any other regulatory or government body are acceptable. If the taxpayer is part of a tax-controlled group of corporations, the group's applicable financial statement is the applicable financial statement for each member of the group.
 - f. To determine its U.S. federal income tax liability, an applicable corporation will need to compute taxes under both systems – the regular tax system and the CAMT system. The CAMT is payable to the extent the tentative CAMT exceeds the sum of the regular corporate income tax plus base erosion and anti-abuse tax (BEAT) liability.
 - g. Any CAMT paid is available indefinitely as a credit carryover that would reduce future regular tax in future years when the regular tax liability is in excess of the tentative CAMT liability. That is, the CAMT credit can be used to reduce the regular tax but not below tentative CAMT liability.
 - h. A foreign tax credit (FTC) may reduce the tentative minimum CAMT. Note that unused FTCs may be carried forward for 5 years. General business credits can generally offset up to 75% of the sum of regular and minimum tax.
2. This interpretation is focused on addressing accounting and reporting aspects of the CAMT. As most reporting entities will not be above the applicable corporation threshold and will not be subject to the CAMT calculation, this guidance has been developed as an interpretation. While most insurers will not be applicable corporations, this interpretation provides comprehensive statutory accounting guidance for all reporting entities with respect to the CAMT. This interpretation incorporates a principles-based approach for purposes of statutory accounting for the CAMT.
3. Although it is likely that most insurers that are applicable corporations will be members of a tax-controlled group of corporations and included in a consolidated federal income tax return with other members of the group, this interpretation applies to all reporting entities subject to the CAMT, whether an unaffiliated corporation¹ that files a separate tax return, a member of a tax-controlled group not included in the common parent company's consolidated tax return that files a separate company tax return or a separate consolidated tax return with other members of the group, or as a member of the common parent's consolidated return group.
4. For reporting entities that are included in a consolidated tax return, the fundamental statutory tax accounting issue for the CAMT is how to reflect in the reporting entity's separate company financial statements a portion of what is essentially an add-on tax for a consolidated tax return group that is based on the group's financial statement income and group tax rate. Even if a member of a tax-controlled group of corporations files its own separate federal income tax return, the tax law does not provide for a separate company scope determination, but rather looks to the tax-controlled group for applicable corporation status and determination of the applicable financial statement.

INT 23-03 Discussion

5. The discussion along with the Statutory Accounting Principles (E) Working Group tentative consensuses are included below.

¹ As used herein, an "unaffiliated" corporation is one that is not a member of a tax-controlled group.

Categories of Reporting Entities

6. In an annual determination of applicable corporation status, all reporting entities are separated into one of the following categories:

- a. Nonapplicable reporting entities
- b. Applicable reporting entities
- c. Applicable reporting entities with tax allocation agreement (also called tax sharing agreements) exclusions

Nonapplicable Reporting Entities

7. Nonapplicable reporting entities are reporting entities that do not reasonably expect to be an applicable corporation either as a member of a tax-controlled group of corporations² or individually as an unaffiliated corporation, for the taxable year that includes the current reporting period. Nonapplicable reporting entities are not required to calculate or recognize a payable for CAMT. If a reporting entity is not subject to pay CAMT, then they will have no CAMT credit carryforward. For nonapplicable reporting entities, further assessment of the CAMT is not required for current or deferred tax computations, and the remaining accounting components of the interpretation do not apply. Applicable disclosures are required.

8. A reporting entity that was an applicable corporation for the preceding taxable year shall reasonably expect to be an applicable corporation for the current taxable year, unless one of the tax law exceptions to continued applicable corporation status applies.

Applicable Reporting Entities

9. Applicable reporting entities are reporting entities that reasonably expect to be applicable corporations for the taxable year that includes the current reporting period, either individually as an unaffiliated corporation or as a member of a tax-controlled group of corporations³. Applicable reporting entities are required to consider CAMT in current and deferred tax computations in the manner set forth in this interpretation.

10. Because CAMT is not payable by an applicable corporation unless it is in excess of regular tax liability, the CAMT calculations for applicable reporting entities within this interpretation may or may not result in different current and deferred income taxes than if the CAMT was not taken into account. (Applicable reporting entities with tax allocation agreement exclusions that meet the requirements of paragraph 11 of this interpretation shall follow the guidance in paragraph 12 of this interpretation.)

Applicable Reporting Entities with Tax Allocation Agreement Exclusions

11. Applicable reporting entities with tax allocation agreement exclusions are reporting entities that qualify as an applicable corporation as a member of a tax-controlled group of corporations pursuant to

² A reporting entity that is a member of a tax-controlled group that does not reasonably expect to be applicable corporation on a group basis is not required to make a separate company determination as the CAMT is determined on a group basis.

³ Determination of applicable reporting entity within a tax-controlled group is subject to the tax law. A reporting entity within a tax-controlled group is captured with the group's applicable corporation status regardless of if they were excluded from the consolidated tax return and filed their own separate return. For example, if the reporting entity is a life insurance company and i) the group has not made a "life-nonlife" consolidated return election, or ii) the reporting entity has been recently acquired and is excluded from the life-nonlife consolidated return for a period of 5 years.

paragraphs 9 and 10 of this interpretation, and is a party to a tax allocation agreement that is in effect for the reporting period that has all of the following terms:

- a. The reporting entity is excluded from charges for any portion of the group's CAMT, and
- b. The reporting entity is not allocated any portion of the group's CAMT credit carryover.

12. Reporting entities with tax allocation agreement exclusions which qualify under paragraph 11 of this interpretation, are not required to calculate, or recognize CAMT in their current or deferred tax computations. Even with the tax allocation agreement exclusions, the general current tax liability guidance pursuant to *SSAP No. 101—Income Taxes*, paragraph 3 continues to apply. This guidance requires the reporting entity to recognize the amount the reporting entity has paid or is payable, which includes any additional amount the reporting entity expects to pay on behalf of its co-obligors.

Accounting for Applicable Reporting Entities

Impact of Tax Allocation Agreements

13. This interpretation is based on the principle that the statutory accounting for the CAMT for reporting entities included in a consolidated tax return should be matched to the CAMT charges reasonably estimated to be paid by the reporting entity and the corresponding CAMT credits reasonably estimated to be received by the reporting entity. For such reporting entities, this interpretation applies the provisions of the intercompany tax allocation agreement⁴ (also referred to as a tax sharing agreement) that governs allocation of consolidated taxes to individual members of the group.

14. SSAP No. 101, paragraph 16 provides that in the case of a reporting entity that files a consolidated income tax return with one or more affiliates, income tax transactions between the affiliated parties shall be recognized if such transactions are economic transactions as defined in *SSAP No. 25—Affiliates and Other Related Parties*; are pursuant to a written tax allocation agreement; and income taxes incurred are accounted for in a manner consistent with the principles of FAS 109 the predecessor of what is now ASC 740, as modified by SSAP No. 101.

15. For a reporting entity that is included in a consolidated tax return and is subject to a qualifying tax allocation agreement which is consistent with paragraphs 16 and 17 of SSAP No. 101, the amount of CAMT payable (expense) or CAMT credit carryforward is recognized in accordance with the tax allocation agreement.

Recognition of CAMT Payable

16. Reporting entities that are applicable corporations, excluding those having qualifying tax allocation agreement exclusions per paragraph 11 of this interpretation, are required to take CAMT payable into account in the calculation of current income tax expense pursuant to SSAP No. 101. Reporting entities shall accrue the CAMT owed, reflecting the amount owed as a separate return filer or in accordance with the amount allocated through the consolidated tax return group's tax sharing agreement pursuant to paragraph 15 of this INT.

⁴ SSAP No. 101, paragraphs 16 and 17 provide requirements for tax allocation agreement recognition. Tax allocation agreements are also subject to internal revenue service requirements and are subject to domiciliary regulator review under the Insurance Holding Company System Regulatory Act (Model #440), which also requires that the terms of intercompany agreements be fair and reasonable. In assessing fair and reasonable, state insurance regulators are encouraged to assess the terms of the TSA for allocations to the insurance reporting entity for both CAMT payables and CAMT credit carryforwards.

17. Consistent with SSAP No. 101, paragraph 8, changes in deferred tax assets (DTAs) and deferred tax liabilities (DTLs), including changes attributable to changes in tax rates and changes in tax status, if any, shall be recognized as a separate component of gains and losses in unassigned funds (surplus) as “change in net deferred income tax,” excluding any change reflected in unrealized capital gains.

18. Paragraph 8.3 of SSAP No. 101 Exhibit A – Implementation Questions and Answers (Q&A) is not applicable to reporting entities subject to CAMT through a tax-controlled group structure. This exclusion is provided due to the consolidated nature of the CAMT calculation. Any theoretical separate entity calculation of the CAMT liability may be unrelated to the actual consolidated tax return computations and to the tax allocation agreement allocation of liability.

Recognition of CAMT Credit Deferred Tax Asset

19. Reporting entities shall recognize a corresponding DTA which represents the non-expiring tax credit carryforward equal and offsetting to the current CAMT accrued. The CAMT credit can be used to reduce regular tax in future years when the regular tax liability is in excess of the tentative CAMT liability as permitted under the tax law. The CAMT credit carryforward is a type of deferred tax asset.

Impact of CAMT to the Statutory Valuation Allowance

20. SSAP No. 101—Income Taxes, paragraph 7.e. requires the statutory valuation allowance adjustment as a direct reduction in the gross DTA if, based on the weight of available evidence, it is more likely than not that some or all of the gross DTAs will not be realized. Gross DTA less the statutory valuation allowance results in adjusted gross DTAs. The statutory valuation allowance adjustment is not reported as a separate line in the statutory financial statements (it is an off-balance sheet item that reduces the gross DTAs). The statutory valuation allowance is disclosed.

21. The determination of a statutory valuation allowance⁵ for CAMT credit deferred tax assets depends on whether the reporting entity is part of a consolidated tax return group or a separate tax return filer:

- a. Consolidated Tax Return Group: A reporting entity that is an applicable entity and a member of consolidated tax return group shall utilize the statutory valuation assessment for the CAMT credit deferred tax assets completed at the consolidated tax return group level. A reporting entity is not required to adjust the group statutory valuation allowance for CAMT credit deferred tax assets. Rather, the group determined statutory valuation allowance and the resulting credit deferred tax asset deemed to be more likely than not to be realized, is permitted to be allocated (consistent with tax allocation agreement) to the reporting entity and reflected as an CAMT credit adjusted gross DTA. The reporting entity shall continue to have a separate statutory valuation allowance calculation for non-CAMT deferred tax assets as required under SSAP No. 101. The combination of the CAMT credit adjusted gross deferred tax asset (as received from the group) and the adjusted gross deferred tax assets from non-CAMT deferred tax assets shall equal the total adjusted gross deferred tax assets reviewed for admittance within the scope of this interpretation.
- b. Separate Tax Return Filer: A reporting entity that is an applicable entity and files a separate tax return, is required to complete a statutory valuation allowance for all deferred tax assets, including CAMT credit deferred tax assets, in determining their total adjusted gross DTAs. (The CAMT credit deferred tax assets can be assessed separately from non-

⁵ Although reporting entities may conclude that the non-expiring CAMT DTA more likely than not will ultimately be realized, reporting entities will not be able to utilize the tax credit until the reporting entity if a separate tax return filer, or the tax consolidated group of corporations if the reporting entity is a member of such group, are no longer CAMT payors and have sufficient tax liability that permits the group the ability to use the CAMT credits.

CAMT deferred tax assets in determining whether the deferred tax asset is more likely than not to be realized.) The total adjusted gross deferred tax assets are then reviewed for admittance within the scope of this interpretation.

22. A reporting entity is allowed an accounting policy election to either consider or disregard CAMT when evaluating the need for a valuation allowance for its non CAMT deferred tax assets.⁶ The accounting policy election applies for valuation allowance purposes only – that is, in the determination of adjusted gross deferred tax assets other than the CAMT credit deferred tax assets. This accounting policy election cannot be used to avoid a valuation allowance analysis for CAMT credit DTAs. The accounting policy election must be disclosed in the notes to the financial statements and applied consistently in subsequent reporting periods.

Admissibility

Admittance - Implications of Group Tax Assessment (Related Parties)

23. For reporting entities that are applicable corporations as they are a member of a tax-controlled group of corporations, the reporting entity may be subject to the CAMT, or be hindered from utilizing the CAMT credit, through the actions of their consolidated tax return group related parties. (As noted in footnote 5, although a reporting entity may have earned a non-expiring tax credit through payment of CAMT, the reporting entity is not eligible to utilize that tax credit until the consolidated tax return group has sufficient tax liability that allows the members of the group to utilize their tax credit. This means that on a group basis they are no longer CAMT payors.) SSAP No. 4—*Assets and Nonadmitted Assets* requires assets that are restricted by the action of a related party to be nonadmitted assets.

SSAP No. 4, Footnote 2: If assets of an insurance entity are pledged **or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, pursuant to paragraph 2, such assets shall not be recognized as an admitted asset on the balance sheet.** Additional guidance for assets pledged as collateral is included in INT 01-31.

24. A key focus of this interpretation is the admittance of the CAMT deferred tax assets (credits). However, it is recognized that under the existing statutory accounting guidance in SSAP No. 4 a reporting entity recognizing CAMT credit deferred tax assets would not be permitted to admit those deferred tax assets if as part of a consolidated tax return group the ability to receive those CAMT credits is explicitly linked to the actions of other entities within the group. If the group on a collective basis does not incur enough tax to allow utilization of the tax credits, then the reporting entity cannot use the tax credits, regardless of the income or tax paid by the reporting entity. This aspect is not impacted by the tax sharing agreement. Although the tax sharing agreement may specify how the CAMT credits will be allocated among the group, such tax credits allocated to the reporting entity can only be realized when the group qualifies for the credit.

25. For the CAMT credit adjusted gross deferred tax assets allocated to the reporting entity to be eligible to be admitted, this interpretation provides an exception to the guidance in SSAP No. 4, footnote 2, recognizing that the impact to ultimately utilize the allocated tax credits is dependent on the actions of the other parties within the group.

⁶ SSAP No. 101, FAS 109 and ASC 740 do not specifically address whether future years' CAMT should be anticipated in a valuation allowance assessment for non-CAMT DTAs. Accordingly, an accounting policy election is allowed for GAAP purposes as to whether to consider or disregard CAMT when evaluating the need for a valuation allowance for non-CAMT DTAs.

Admittance – Adjusted Gross DTAs

26. The guidance in SSAP No. 101 allows admittance of adjusted gross DTAs (gross DTAs reduced by the statutory valuation allowance) pursuant to a three-component calculation, for which the second step limits admittance of adjusted gross DTAs to those that are expected to be realized in a timeframe that does not exceed three years. The actual number of years to realization permitted depends on specifics for each reporting entity (type and other information about the reporting entity), but the maximum timeframe is three years. The last step (SSAP No. 101, paragraph 11.c.) admits DTAs which can be offset by DTLs.

27. Due to the following aspects regarding the CAMT credits, specific admittance guidance for the CAMT credit DTAs has been established:

- a. The CAMT credit is a tax credit DTA that does not expire. As long as the reporting entity is a CAMT payor or is part of a tax-consolidated group that is a CAMT payor, the reporting entity cannot utilize the tax credit.
- b. The ability to utilize the CAMT credit is contingent on the actions and tax paying behaviors of the consolidated tax return group. Although the reporting entity may be paying sufficient tax above the CAMT threshold, if other parties within the group do not act in a similar manner, putting the group below the CAMT threshold, then the CAMT credit cannot be utilized by the reporting entity.

28. With these noted limitations in utilization of the earned tax credits, reporting entities are only permitted to admit CAMT credits if the reporting entity tax projections (if a separate tax return filer) or projections of the tax-consolidated group (if a member of such group) indicate that the CAMT credit will be realizable within the stated timeframes using the applicable SSAP No. 101, paragraph 11 realization table thresholds⁷. This means that the tax projections will have sufficient tax liability that permits utilization of the CAMT credits. For example, a reporting entity with greater than 300% ExDTA ACL RBC can only admit CAMT credits that are expected to be realized (consistent with the tax allocation agreement) in three years. Reporting entities that have ExDTA ACL RBC between 200-300% can only admit CAMT credits that are expected to be realized in one year. If a reporting entity cannot project (either on its own if a separate return filer or at the group if a consolidated tax return group member) sufficient tax liability that allows them to utilize the CAMT credit within the applicable realizable timeframes for admittance, then the portion of CAMT credits that cannot be utilized are required to be nonadmitted under SSAP No. 101, paragraph 11.b.

29. CAMT credits included in the SSAP No. 101, paragraphs 11 and 11.b. calculation as they are expected to be realized within the applicable 1 or 3 year permitted timeframes shall then be combined with non-CAMT adjusted gross deferred tax assets and admitted to the extent that the total DTAs admitted under paragraph 11.b. do not exceed the capital and surplus percentage limit for the company type. All references to SSAP No. 101, paragraph 11.b. include the modifications in this Interpretation.

30. Reporting entities shall use the Realization Threshold Limitations Tables in SSAP No. 101, paragraph 11.b. as applicable to the entity for determination of the admissibility of the CAMT credits. The percentage limitations of capital and surplus of and the projected realization periods continue to apply to admitted adjusted gross DTAs, including the adjusted gross DTA for any CAMT credit DTA.

31. A reporting entity which meets or exceeds the top line of the applicable of the Realization Threshold Limitation Table (Ex. 3 years and 15%) is **not required** to take the CAMT into account in calculating the

⁷ The examples in this paragraph reference Ex-DTA ACL RBC, however, SSAP No. 101, paragraph 11.b. also includes realization threshold tables which apply to non-RBC filers.

“with and without⁸” tax liability for purposes of determining the amount expected to be realized under SSAP No. 101, paragraph 11.b. for non-CAMT DTAs. Specifically, the reporting entity’s “with and without” regular tax liability is not reduced by CAMT, if any, reasonably expected to be incurred during the SSAP No. 101, paragraph 11.b. applicable period. In the case of a reporting entity included in a consolidated federal income tax return, the amount expected to be incurred refers to the portion of the consolidated CAMT, if any, reasonably expected to be allocable to the reporting entity pursuant to the group’s tax allocation agreement. However, any admitted CAMT credits in this step must be realizable within the applicable time period specified in the applicable Realization Threshold Limitation Table (Ex, top line - 3 years), determined consistent with the tax allocation agreement. The post-valuation allowance adjusted gross DTA for any CAMT credit DTA is admitted following the guidance in SSAP No. 101, paragraph 11.b.i. as modified by this Interpretation. The 15% limitation of capital and surplus which is provided in SSAP No. 101, paragraph 11.b.ii. continues to apply to admitted adjusted gross DTAs, including the adjusted gross DTA for any CAMT credit DTA.

32. A reporting entity which meets the second line of the applicable Realization Threshold Limitation Table (Ex. 1 year and 10%), the amount expected to be realized under SSAP No. 101, paragraph 11.b.i. within the applicable period determined under paragraph 11.b. **is based** on the reporting entity’s “with and without” regular tax liability reduced by CAMT, if any, reasonably expected to be incurred during the paragraph 11.b. applicable period. In the case of a reporting entity included in a consolidated federal income tax return, the amount expected to be realized is reduced by the portion of the consolidated CAMT, if any, reasonably expected to be allocable to the reporting entity pursuant to the group’s tax allocation agreement. CAMT credit utilization during the applicable period is recognized based on the same principles, – that is, as an admitted DTA. The purpose of these computations is to account for CAMT in deferred taxes in the same manner as CAMT would be reflected in current taxes.

33. A reporting entity which meets or is below the third line of the applicable Realization Threshold Limitation Table (Ex. 0 years and 0%), is not permitted to admit either CAMT credit DTAs or non-CAMT DTAs under SSAP No. 101, paragraph 11.b.

34. The adjusted gross DTA for any CAMT credit carryforward which does not qualify for admission under SSAP No. 101, paragraph 11.b. is permitted to be recognized as an offset against DTLs in accordance with SSAP No. 101, paragraph 11.c. The reporting entity shall admit the remaining amount of adjusted gross DTAs, after application of paragraphs 11.a. and 11.b. that can be offset against existing gross DTLs. The reporting entity shall consider the character (i.e., ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations.

Admittance - Projections

35. Projections of CAMT liability, if any, (and CAMT credit utilization) during the applicable period involve forward-looking data, groupings, of assets and liabilities, estimates and other adjustments for both the reporting entity and the group of which it is a member. The manner in which this is done shall be conducted in a reasonable and consistent manner. A reporting entity shall retain internal documentation to support these computations and the methodologies so employed. Modifications to the estimation methodology are permitted should events or circumstances change from a previous period – such as a change in materiality or administrative costs associated with the computations, or system changes that affect the level of detail available. Entities that make such modifications should be prepared to rationalize the

⁸ “With and without” is further described in SSAP No. 101.

changes. Disclosure of material modifications, and the general reason for such, should be made in the notes to the financial statements.⁹

Admittance - Tax Planning Strategies

36. SSAP No. 101 provides that tax-planning strategies are required to be considered in the valuation allowance analysis and may be considered in determining the admission of DTAs under SSAP No. 101, paragraph 11. For reporting entities that are part of a consolidated tax return group, tax planning strategies impacting the CAMT are determined at a group level, as long as the tax planning strategies at the group level do not conflict with tax planning strategies at the reporting level and vice versa. For reporting entities that are separate tax return filers, a reporting entity must consider tax-planning strategies in making the valuation allowance analysis required under this interpretation.

Transition Guidance

37. Even though the CAMT was enacted in 2022 and generally became effective January 1, 2023, the requirements for statutory tax accounting for the CAMT have effectively been deferred by INT 22-02. This paragraph provides the applicable transition rules for year-end 2023 statutory accounting for requests for a timely-filed tax allocation agreement amendment or a new tax allocation agreement for the 2023 taxable year.

- a. Because the CAMT was newly enacted effective for 2023, tax allocation agreements in effect for periods prior to the 2023 taxable year include no explicit provisions relating to the CAMT. Thus, applicable reporting entities (with and without tax allocation agreement exclusions) may need to amend tax allocation agreements to deal with the CAMT effective for the entire 2023 taxable year. A reporting entity would file a request for amendment to a tax allocation agreement or a new tax allocation agreement on Form D – Prior Notice of a Transaction as required under the *Insurance Holding Company System Regulatory Act* (Model #440) and the related regulation, (Model #450) with its applicable domiciliary regulator(s) and commercial domiciliary regulator(s).
- b. Time is of the essence in both requesting and approving tax allocation agreement amendments or a new tax allocation agreement relating to the CAMT for the 2023 taxable year to be applicable to the 2023 reporting period. Accordingly, if, a reporting entity files the applicable Form D request(s) for tax allocation agreement amendment or a new tax allocation agreement prior to the end of 2023 to address the CAMT for 2023 and subsequent taxable years, and the domiciliary regulator has confirmed in writing that they have no objections to using the new tax allocation agreement amendment or new tax allocation agreement, while under review. The reporting entity shall be allowed to account for the tax allocation agreement as applicable for the entire 2023 reporting period.
- c. If the final approved tax allocation agreement differs in its treatment of the CAMT allocation from the tax allocation agreement originally requested on the Form D, the difference shall be recorded as follows:
 - i. If Form D approval occurs subsequent to the balance sheet date, but before the issuance of the statutory financial statements and before the date the audited financial statements are issued, or available to be issued, such approval shall be considered a Type I subsequent event within the meaning of *SSAP No. 9—Subsequent Events*.

⁹ See paragraph 2.9 of the *SSAP No. 101 Q&A* for similar requirements in the context of grouping of assets and liabilities for measurement.

- ii. If the Form D approval occurs after the period which defines a subsequent event in SSAP No. 9, the difference created by such approval shall be recognized and disclosed in the period in which the approval is given.
 - d. The transition guidance in paragraph 37 does not apply to a reporting entity that does not file a Form D request for a CAMT-related tax allocation agreement amendment or a new tax allocation agreement prior to the end of 2023.
38. Consistent with *SSAP No. 3—Accounting Changes and Corrections of Errors*, paragraph 4, initial application of this interpretation shall not be considered a change in accounting principle, but instead application of a new principle for the first time.

Disclosures

39. The reporting entity shall disclose whether it is a nonapplicable reporting entity; an applicable reporting entity with tax allocation agreement exclusions or an applicable reporting entity.

40. Additionally, the following disclosures shall be made in the notes to the financial statements of applicable reporting entities (which do not have tax allocation agreement exclusions in accordance with paragraph 11 of this interpretation):

- a. If the reporting entity has made an accounting policy election to either consider or disregard CAMT when evaluating the need for a valuation allowance for its non-CAMT DTAs described in paragraph 22 of this interpretation.
 - b. Any disclosure of material modifications to the methodology used to project CAMT as required by paragraph 35 of this interpretation.
41. Relevant disclosures required by SSAP No. 101 also apply to, including but not limited to, the following:
- a. The disclosure of the statutory valuation allowance as required by SSAP No. 101, paragraph 21.
 - b. The disclosure of tax planning strategies is required by SSAP No. 101. In the disclosure required by SSAP No. 101, paragraph 28.b., a statement as to whether the reporting entity may be charged with a portion of CAMT incurred by the consolidated group (or credited with a portion of the consolidated group's CAMT credit utilization).
 - c. Inclusion of CAMT credit DTAs, if any, in the disclosure required by SSAP No. 101, paragraph 26.a. regarding the origination dates and expiration of tax credit carry forwards.
 - d. The impact of CAMT planning strategies, if any, in the disclosure required by SSAP No. 101, paragraph 22.f.

INT 23-03 Status

42. The consensuses in this interpretation are effective beginning with year-end 2023 financial statements and periods thereafter.
43. No further discussion is planned.

Examples

Basic Facts Used in All Examples

44. The reporting entity is a member of a tax-affiliated group of corporations that files consolidated federal income tax returns which reasonably expects to be an applicable corporation for 20X3.

- a. Reporting entity also has \$200x of non-CAMT adjusted gross DTAs (i.e., has already reduced by any required valuation allowance of \$40x). Of this \$200x of which \$150x reverses over the 3-year applicable period 20X4-20X6 and is expected to be realized.
- b. At the end of 20X3, reporting entity has a \$50x CAMT credit DTA (pursuant to the consolidated group's tax allocation agreement, reporting entity was allocated a portion of the group's expected 20X3 current CAMT expense, which reporting entity included in its 20X3 current tax expense).
- c. The consolidated group of which the reporting entity is a member establishes a \$20x valuation allowance against its \$50x CAMT credit DTA, resulting in a CAMT adjusted gross DTA of \$30x that is more likely than not to be realized.
- d. The reporting entity makes an accounting policy election to disregard CAMT when evaluating the need for a valuation allowance for its non-CAMT DTAs.
- e. Reporting entity's capital and surplus for purposes of calculating the limitation under SSAP No. 101, paragraph 11.b. ii. is \$2,000. Therefore, the 15% of surplus limitation is \$300 (based on the top line of the applicable SSAP No. 101 paragraph 11.b. realization threshold limitation table), the 10% limitation is \$200 (based on the second line of the applicable SSAP No. 101 paragraph 11.b. realization threshold limitation table).
- f. For the purposes of these examples any DTA admittance under SSAP No. 101, paragraphs 11.a. and 11.c. is ignored.

Example 1 – Applicable reporting entity meets or exceeds the top line of the relevant SSAP No. 101, paragraph 11.b. Realization Threshold Limitation table (Ex. 3 years, 15%).

45. The basic facts above apply with the following additional information:

- a. For 20x3, the reporting entity exceeds the first line of the applicable realization threshold limitation in SSAP No. 101, paragraph 11.b. for use of a 3-year applicable period and the limitation of capital and surplus is 15%. Pursuant to paragraph 31 of this interpretation, the reporting entity would not have to take the CAMT into account in calculating the “with and without” tax liability for purposes of determining the amount expected to be realized under SSAP No. 101, paragraph 11.b.i.
- b. The consolidated tax return group has assessed and determined that the CAMT credit DTA amounts after the valuation allowance of \$30x is expected to be utilized in 20x4 and 20x5 but \$15x of CAMT would be incurred in 20x6.

46. The reporting entity admits the \$30x adjusted gross DTA for its portion of the allocated CAMT credit DTA expected to be utilized within three years and admits the \$150x non-CAMT adjusted gross DTA after valuation allowance than can be utilized within three years. Therefore, the admitted non-CAMT DTA and admitted CAMT credit DTA would total \$180x (\$150 + \$30 = \$180).

47. Although the consolidated group is expecting to incur CAMT during the 3-year period, the reporting entity does not reduce its non-CAMT admitted DTAs by the \$15x the CAMT expected to be allocated under the tax allocation agreement to the reporting entity during the three years (pursuant to paragraph 31 of this Interpretation). Note that if the consolidated tax return group had assessed and determined that only a portion of the CAMT credit DTA after the valuation allowance was expected to be utilized in 20x4 20x5 and 20x6 then the reporting would only admit its allocation (per its tax allocation agreement) of the amount of CAMT credit DTA that will be utilized by the consolidated group during the 3 years.

48. The \$180 is less than the \$300 15% of surplus limitation in paragraph 11.b.ii., so it is not a limiting factor. (However, if reporting entity’s 15% of surplus limitation under paragraph 11.b.ii. was \$175x, the reporting entity’s admitted adjusted gross DTA would be further reduced to \$175).

	DTA	Valuation Allowance	Not Recoverable Within 3 Years	DTA Admitted Standalone	Impact of Consol. DTA	Admitted DTA under 11bi	15% surplus limitation under 11bii	Nonadmitted DTAs
DTAs	240	-40	-50	150		150		50
CAMT credit DTA	50	-20	0		30	30	-	-
totals	290	-60	-50	150	30	180	300	50

Example 2 – Applicable entity, that meets level 2 on the relevant SSAP No. 101, paragraph 11.b. Realization Threshold Limitation table (Ex.-1 year 10%).

49. The basic facts above apply with the following additional information:

- a. For 20x3, the reporting entity meets the second line of the applicable realization threshold limitation in SSAP No. 101, paragraph 11.b. for use of a 1-year applicable period and the limitation of capital and surplus is 10%. Pursuant to paragraph 32 of this interpretation, the reporting entity would have to also apply the with and without calculation of the determination of the impact of the CAMT on the realization of DTAs.
- b. The consolidated group of which the reporting entity is a member expects to incur CAMT in 20x4, of which \$10 is expected to be allocated under the tax allocation agreement to reporting entity. The reporting entity reduces its \$150x of non-CAMT admitted adjusted gross DTAs by its \$10x share of the consolidated CAMT expected to be incurred in 20x4.

50. The reporting entities admitted DTA would be \$140x. The result is an adjusted gross non-CAMT DTA of \$150x, minus the \$10 impact of the consolidated CAMT (with and without) equals 140 admitted DTA.

51. The resulting \$140x of DTA admitted under paragraph 11.b.i., which is less than the \$200x paragraph is less than the \$200 10% of surplus limitation in paragraph 11.b.ii., so it is not a limiting factor.

	DTA	Valuation Allowance	Not Recoverable Within 1 Year	DTA Admitted Standalone	Impact of Consol. DTA and VA	Admitted DTA under 11bi	10% surplus limitation under 11bii	Nonadmitted DTAs
DTAs	240	-40	-50	150	-10	140		60
CAMT credit DTA	<u>50</u>	<u>-20</u>	<u>-30</u>				-	<u>30</u>
totals	290	-60	-80	150	-10	140	200	90

Example 3 – Applicable entity with qualifying tax allocation agreement exclusions.

52. The basic facts situation applies.

- a. Similar to Example 1, the reporting entity meets the exceeds the first line of the applicable realization threshold limitation in SSAP No. 101, paragraph 11.b. for use of a 3-year applicable period and the limitation of capital and surplus is 15%.
- b. The reporting entity is excluded pursuant to the tax allocation agreement from any allocation of CAMT or CAMT credit utilization in a qualifying tax allocation agreement as described in paragraph 11 of this interpretation.

53. Accordingly, the reporting entity for 20x3, would be excluded from the CAMT calculations, and the reporting entity's admitted adjusted gross DTA would be \$150x. which is the amount after the valuation allowance of \$40 and the \$50 reduction for the amount not recoverable within 3 years.

54. The \$150 is less than the \$300 15% of surplus limitation in paragraph 11.b.ii., so it is not a limiting factor.

	DTA	Valuation Allowance	Not Recoverable Within 3 Years	DTA Admitted Standalone	Impact of Consol. DTA and VA	Admitted DTA under 11bi	15% surplus limitation under 11bii	Nonadmitted DTAs
DTAs	240	-40	-50	150		150		50
CAMT credit DTA	0						-	-
totals	240	-40	-50	150		150	300	50

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-04: Scottish Re Life Reinsurance Liquidation Questions

INT 23-04 Dates Discussed

October 23, 2023; October 24, 2023; December 1, 2023; January 10, 2024

INT 23-04 References

Current:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

INT 23-04 Issue

Background

1. Liquidations of U.S. licensed reinsurers are uncommon. Due to a 2023 liquidation order of a U.S.-based life reinsurer, life industry cedents have requested an interpretation to address the accounting and reporting for reinsurance receivables from the reinsurer's estate. This interpretation is intended to be applied generically; however, the following circumstances are relevant to the accounting issues identified.

- a. The recent liquidation order was for Scottish Re, a U.S. life reinsurance entity, which was in regulatory supervision for several years.
- b. The life reinsurer was not assuming new business but was receiving ongoing premium on yearly renewable contracts.
- c. The 2023 liquidation order cancelled reinsurance contracts on a cut-off basis, effective September 30, 2023.
- d. Settlement from the reinsurer's estate is expected to exceed one year.
- e. Settlement from the reinsurer's estate to the ceding entities is expected to be less than 100%. That is, cedents are expected to receive a portion of what they are owed.
- f. Some ceding insurers established trusts to hold assets backing the reserves under the reinsurance agreements.

Interpretation Discussion

2. This interpretation is applicable only to the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

3. If a liquidation order cancels a life reinsurance contract on a cut-off basis, should the life reinsurance commutation guidance in *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* be used as the primary accounting guidance for the commutation?

4. Yes. SSAP No. 61R, paragraph 58, provides the primary guidance for a life reinsurance commutation. The guidance provides that:

Recaptures and Commutations

58. A recapture or a commutation of a reinsurance agreement is a transaction which results in the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreement or a portion of the agreement. Commuted and recaptured balances shall be accounted for by writing them off through the accounts, exhibits and schedules in which they were originally recorded. The assumed reserves and reserve credits taken are eliminated by the reinsurer and ceding entity, respectively. The reinsurer and ceding entity must also make any required IMR liability adjustment changes. Any net gain or loss is reported in the summary of operations.

Issue 2 – Impairment of Reinsurance Recoverables

5. The reinsurer that was previously in regulatory supervision and is now in liquidation was known to have financial difficulties and many ceding entities have either established valuation allowances and/or written off reinsurance recoverables as impairment losses. Questions have been received in response to the diversity in practice on whether the ceding entities were reporting impairment losses or were reporting a valuation allowance on all categories of their expected reinsurance recoverables from the reinsurer which is now in liquidation.

6. Do reporting entities have the choice of setting up a valuation allowance or applying the impairment guidance in SSAP No. 61R to the reinsurance recoverables from the life reinsurer in liquidation?

7. No. Reporting entities do not have a choice of a valuation allowance or applying impairment analysis. SSAP No. 61R, paragraph 42, requires impairment analysis of uncollectible reinsurance amounts in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset*. The guidance requires that impaired amounts shall be written off through a charge to the Statement of Operations utilizing the same accounts which established the reinsurance recoverables. SSAP No. 5R and SSAP No. 61R do not permit a valuation allowance.

8. The liquidation order of a reinsurer should prompt an impairment analysis of all amounts recoverable from the reinsurer with a write-off of amounts not expected to be recovered.

9. The impairment analysis shall be updated at every reporting date.

Issue 3 – Reporting of Reinsurance Recoverables

10. The liquidation order results in a commutation and recapture of business for the ceding entity. A liquidation will determine the reinsurer's estate assets, then determine payments based on liquidation priority. This will result in a delay in settlement from the estate of the reinsurer. As previously detailed, the amounts paid by the estate shall be impaired to the amount expected to be received by the ceding entities.

11. Where shall the ceding entity report the remaining receivables for the reinsurer's estate?

12. In accordance with the recapture and commutation guidance in SSAP No. 61R, paragraph 58 (quoted above), the ceding entity shall remove balances through the schedules and exhibits originally reported. No reserve credit or contra-liabilities shall be reported. The reinsurance reserve credits shall be removed. Gains or losses are reported in the summary of operations.

13. Based on preliminary information received, it is expected that there will be an amount receivable for paid claims incurred before the reinsurance contract cancellation. This amount shall be reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers.

14. Amounts recoverable from the reinsurer's estate for claims incurred before the reinsurance contract cancellation and unpaid as of the reporting date shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.

15. If the ceding entity owes amounts to the reinsurer's estate, the amounts shall be reported as a liability on line 9.3 - Other Amounts Payable on Reinsurance.

16. After impairing the recoverables, any other amount expected to be recovered from the reinsurer's estate shall be reported on line 25 Aggregate Write-ins for Other Than Invested Assets.

Issue 4 – Admissibility of Reinsurance Recoverables

17. As noted above, quarterly impairment analysis of collectability is required. After evaluating for impairment, if there are remaining receivables from the reinsurer's estate, do those assets qualify as admitted reinsurance recoverable assets?

18. Reinsurance recoverables from Scottish Re in liquidation are admitted as follows:

- a. The reinsurance recoverable amount from Scottish Re from paid claims incurred prior to the reinsurance contract cancellation which are reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers which are not in dispute are admitted after impairment review.
- b. To the extent reinsurance amounts recoverable are secured by assets in an Appendix A-785 - Credit for Reinsurance compliant trust, such recoverable amounts may be admitted to the extent that the amounts are not in dispute and that the collateral in an Appendix A-785 compliant trust is sufficient.

19. Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust that is compliant with Appendix A-785.

Issue 5 – Disclosures

20. Do the relevant disclosures in SSAP No. 61R and other relevant SSAPs apply to a commuted life reinsurance contract which has not been fully settled due to a liquidation?

21. Yes. The relevant disclosures in SSAP No. 61R and other relevant SSAPs continue to apply to a life reinsurance contract which is commuted and recaptured due to a liquidation. These disclosures include but are not limited to the disclosures regarding commutation, uncollectible reinsurance and anything else that is required.

22. Disclosure in the reinsurance notes to the financial statements shall include additional information necessary to obtain an understanding of the impact of Scottish Re reinsurance counterparties in liquidation, including but not limited to, reinsurance payable liabilities, reinsurance recoverables by paid claims and other amounts, information regarding the status of any collateral and its fair value. Where applicable, reporting entities should disclose any individual components (e.g., unreimbursed claims or provisions for future losses) of recoverable amounts that are presented in the aggregate on the financial statements. The

disclosure shall include measurement, impairment and collectability of any reinsurance recoverables including timing of expected payments and nonadmitted amounts.

INT 23-04 Summary

23. Although readers should refer to the detailed guidance above, a summary of the key provisions is as follows:

- a. Issue 1 – Commutation or Recapture of a Life Reinsurance Contract: Follow SSAP No. 61R, paragraph 58, as it provides primary recapture and commutation guidance.
- b. Issue 2 – Impairment of Reinsurance Recoverables: SSAP No. 61R paragraph 42, requires impairment of uncollectible reinsurance in accordance with SSAP No. 5R.
- c. Issue 3 – Reporting of Reinsurance Recoverables: Follow the recapture and commutation guidance in SSAP No. 61R, then analyze for impairment. Report reinsurance payables separate from reinsurance recoverables. Amounts related to paid and unpaid claims incurred prior to reinsurance contract cancellation are reported on asset page line 16.1 - Amounts Recoverable from Reinsurers and asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts, respectively. Any remaining reinsurance recoverables from the reinsurance counterparty after impairment assessment shall be reported on the asset page line 25 Aggregate Write-ins for Other than Invested Assets.
- d. Issue 4 – Admissibility of Reinsurance Recoverables: Admit amounts related to claims incurred prior to contract cancellation which have been paid by the reporting entity as of the reporting date (reported on asset page line 16.1 - Amounts Recoverable from Reinsurers) which are not in dispute after impairment review. Admit reinsurance recoverables which are not in dispute, and which are secured by collateral in an A-785 compliant trust. Nonadmit all amounts recoverable from a life reinsurer in liquidation which are either in dispute or which are not secured by collateral in a trust compliant with Appendix A-785.
- e. Issue 5 – Disclosures: Follow existing applicable disclosures and provide additional information sufficient to understand the nature and impact of a reinsurance counterparty in liquidation as described in paragraph 22.

INT 23-04 Status

24. The consensuses in this interpretation were adopted on January 10, 2024, with an effective date of reporting periods on or after December 31, 2023.

25. No further discussion is planned.

Accounting Practices and Procedures Manual

As of March 2024

VOLUME II

APPENDIX C – ACTUARIAL GUIDELINES

APPENDIX D – GAAP CROSS-REFERENCE TO SAP

APPENDIX E – STATUTORY ISSUE PAPERS

APPENDIX F – POLICY STATEMENTS

**APPENDIX G – IMPLEMENTATION GUIDE FOR THE
ANNUAL FINANCIAL REPORTING MODEL REGULATION**

Appendix C Actuarial Guidelines

Introduction

The NAIC Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, formerly known as the Life and Health Actuarial Task Force, have been asked on many occasions to assist a particular state insurance department in interpreting a statute dealing with an actuarial topic relative to an unusual policy form or situation not contemplated at the time of original drafting of a particular statute. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force, in developing an interpretation or guideline, must often consider the intent of the statute, the reasons for initially adopting the statute and the current situation. The Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force feel that for those situations which are sufficiently common to all states, that the publishing of actuarial guidelines on these topics would be beneficial to the regulatory officials in each state and would promote uniformity in regulation which is beneficial to everyone. To this end, the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force have developed certain actuarial guidelines and will continue to do so as the need arises. The guidelines are not intended to be viewed as statutory revisions but merely a guide to be used in applying a statute to a specific circumstance.

TABLE OF CONTENTS

<u>No.</u>	<u>Title</u>	<u>Page</u>
	Actuarial Guidelines Contents	C-iv
I	Interpretation of The Standard Valuation Law With Respect to the Valuation of Policies Whose Valuation Net Premiums Exceed the Actual Gross Premium Collected	AG1-1
II	Reserve Requirements With Respect to Interest Rate Guidelines on Active Life Funds Held Relative to Group Annuity Contracts	AG2-1
III	Interpretation of Minimum Cash Surrender Benefit Under Standard Nonforfeiture Law For Individual Deferred Annuities.....	AG3-1
IV	Actuarial Interpretation Regarding Minimum Reserves For Certain Forms of Term Life Insurance.....	AG4-1
V	Interpretation Regarding Acceptable Approximations For Continuous Functions.....	AG5-1
VI	Interpretation Regarding Use of Single Life or Joint Life Mortality Tables 20 June 1983.....	AG6-1
VII	Interpretation Regarding Calculation of Equivalent Level Amounts	AG7-1
VIII	The Valuation of Individual Single Premium Deferred Annuities	AG8-1
IX	Form Classification of Individual Single Premium Immediate Annuities For Application of the Valuation and Nonforfeiture Laws	AG9-1
IX-A	Use of Substandard Annuity Mortality Tables In Valuing Impaired Lives Under Structured Settlements	AG9A-1
IX-B	Clarification of Methods Under Standard Valuation Law For Individual Single Premium Immediate Annuities, Any Deferred Payments Associated Therewith, Some Deferred Annuities, and Structured Settlements Contracts	AG9B-1
IX-C	Use of Substandard Annuity Mortality Tables in Valuing Impaired Lives Under Individual Single Premium Immediate Annuities.....	AG9C-1
X	Guideline For Interpretation of NAIC Standard Nonforfeiture Law For Individual Deferred Annuities	AG10-1
XI	Effect of an Early Election By an Insurance Company of an Operative Date Under Section 5-C of the Standard Nonforfeiture Law For Life Insurance	AG11-1
XII	Interpretation Regarding Valuation and Nonforfeiture Interest Rates.....	AG12-1

Appendix C

No.	Title	Page
XIII	Guideline Concerning the Commissioners' Annuity Reserve Valuation Method	AG13-1
XIV	Surveillance Procedure For Review of the Actuarial Opinion For Life and Health Insurers	AG14-1
XV	Illustrations Guideline For Variable Life Insurance Model Regulation	AG15-1
XVII	Calculation of CRVM Reserves When Death Benefits Are Not Level	AG17-1
XVIII	Calculation of CRVM Reserves On Semi-Continuous, Fully Continuous or Discounted Continuous Basis	AG18-1
XIX	1980 CSO Mortality Table With Ten-Year Select Mortality Factors	AG19-1
XX	Joint Life Functions For 1980 CSO Mortality Table	AG20-1
XXI	Calculation of CRVM Reserves When (B) Is Greater Than (A) and Some Rules For Determination of (A)	AG21-1
XXII	Interpretation Regarding Nonforfeiture Values For Policies With Indeterminate Premiums	AG22-1
XXIII	Guideline Concerning Variable Life Insurance Separate Account Investments	AG23-1
XXIV	Guidelines For Variable Life Nonforfeiture Values	AG24-1
XXV	Calculation of Minimum Reserves and Minimum Nonforfeiture Values For Policies With Guaranteed Increasing Death Benefits Based On an Index	AG25-1
XXVI	Election of Operative Dates Under Standard Valuation Law and Standard Nonforfeiture Law—June 3, 1989	AG26-1
XXVII	Accelerated Benefits	AG27-1
XXVIII	Statutory Claim Reserves For Group Long-Term Disability Contracts With A Survivor Income Benefit Provision	AG28-1
XXIX	Guideline Concerning Reserves of Companies in Rehabilitation	AG29-1
XXX	Guideline for the Application of Plan Type to Guaranteed Interest Contracts (GICs) With Benefit Responsive Payment Provisions Used to Fund Employee Benefit Plans	AG30-1
XXXI	Valuation Issues vs. Policy Form Approval	AG31-1
XXXII	Reserve for Immediate Payment of Claims	AG32-1
XXXIII	Determining CARVM Reserves For Annuity Contracts With Elective Benefits	AG33-1
XXXIV	Variable Annuity Minimum Guaranteed Death Benefit Reserves	AG34-1
XXXV	The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities	AG35-1
XXXVI	The Application of the Commissioners Reserve Valuation Method to Equity Indexed Life Insurance Policies	AG36-1
XXXVII	Variable Life Insurance Reserves For Guaranteed Minimum Death Benefits	AG37-1
XXXVIII	The Application of the Valuation of Life Insurance Policies Model Regulation	AG38-1
XXXIX	Reserves For Variable Annuities With Guaranteed Living Benefits	AG39-1
XL	Guideline For Valuation Rate of Interest For Funding Agreements and Guaranteed Interest Contracts (GICs) With Bail-Out Provisions	AG40-1
XLI	Projection of Guaranteed Nonforfeiture Benefits Under CARVM	AG41-1
XLII	The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables For Use In Determining Minimum Reserve Liabilities	AG42-1
XLIII	CARVM For Variable Annuities	AG43a-1
	<i>Valuations prior to January 1, 2020</i>	
XLIII	CARVM For Variable Annuities	AG43b-1
	<i>Valuations on or after January 1, 2020</i>	
XLIV	Group Term Life Waiver of Premium Disabled Life Reserves	AG44-1
XLV	The Application of the Standard Nonforfeiture Law For Life Insurance to Certain Policies Having Intermediate Cash Benefits	AG45-1

<u>No.</u>	<u>Title</u>	<u>Page</u>
XLVI	Interpretation of the Calculation of the Segment Length With Respect to the Life Insurance Policies Model Regulation Upon a Change in the Valuation Mortality Rates Subsequent to Issue.....	AG46-1
XLVII	The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table.....	AG47-1
XLVIII	Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model #830).....	AG48-1
XLIX	The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest	AG49-1
XLIX-A	The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold (On or After December 14, 2020)	AG49A-1
L	2013 Individual Disability Income Valuation Table Actuarial Guideline.....	AG50-1
LI	The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves	AG51-1
LII	Variable Annuity Early Adoption.....	AG52-1
LIII	Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves	AG53-1
LIV	Nonforfeiture Requirements for Index-Linked Variable Annuity Products	AG54-1
	Actuarial Guidelines – Appendices	C-1
C-1	Appendix to Guidelines—Maximum Reserve Valuation and Maximum Life Policy Nonforfeiture Interest Rates.....	C-3
C-2	Interpretations of the Emerging Actuarial Issues (E) Working Group with respect to <i>Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation</i>	C-41
Actuarial INT 01.....	C-42	Actuarial INT 27..... C-70
Actuarial INT 02.....	C-43	Actuarial INT 28..... C-71
Actuarial INT 03.....	C-44	Actuarial INT 29..... C-72
Actuarial INT 04.....	C-45	Actuarial INT 30..... C-74
Actuarial INT 05.....	C-46	Actuarial INT 31..... C-75
Actuarial INT 06.....	C-48	Actuarial INT 32..... C-76
Actuarial INT 07.....	C-49	Actuarial INT 33..... C-77
Actuarial INT 08.....	C-50	Actuarial INT 34..... C-78
Actuarial INT 09.....	C-51	Actuarial INT 35..... C-79
Actuarial INT 10.....	C-52	Actuarial INT 36..... C-80
Actuarial INT 11.....	C-53	Actuarial INT 37..... C-81
Actuarial INT 12.....	C-54	Actuarial INT 38..... C-82
Actuarial INT 13.....	C-55	Actuarial INT 39..... C-83
Actuarial INT 14.....	C-56	Actuarial INT 40..... C-85
Actuarial INT 15.....	C-57	Actuarial INT 41..... C-86
Actuarial INT 16.....	C-58	Actuarial INT 42..... C-88
Actuarial INT 17.....	C-59	
Actuarial INT 18.....	C-60	
Actuarial INT 19.....	C-61	
Actuarial INT 20.....	C-62	
Actuarial INT 21.....	C-63	
Actuarial INT 22.....	C-65	
Actuarial INT 23.....	C-66	
Actuarial INT 24.....	C-67	
Actuarial INT 25.....	C-68	
Actuarial INT 26.....	C-69	

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
I (AG 1)	Interpretation of The Standard Valuation Law With Respect to the Valuation of Policies Whose Valuation Net Premiums Exceed the Actual Gross Premium Collected	December 1978	Standard Valuation Law	No
II (AG 2)	Reserve Requirements With Respect to Interest Rate Guidelines on Active Life Funds Held Relative to Group Annuity Contracts	December 1978	Standard Valuation Law	No
III (AG 3)	Interpretation of Minimum Cash Surrender Benefit Under Standard Nonforfeiture Law For Individual Deferred Annuities	December 1978	Standard Nonforfeiture Law for Individual Deferred Annuities	No
IV (AG 4)	Actuarial Interpretation Regarding Minimum Reserves For Certain Forms of Term Life Insurance	December 1984	Standard Valuation Law	Yes
V (AG 5)	Interpretation Regarding Acceptable Approximations For Continuous Functions	December 1979	Standard Valuation and Nonforfeiture Laws	No
VI (AG 6)	Interpretation Regarding Use of Single Life or Joint Life Mortality Tables 20 June 1983	December 1979	Standard Valuation and Standard Nonforfeiture Law for Life Insurance	Yes
VII (AG 7)	Interpretation Regarding Calculation of Equivalent Level Amounts	December 1979	Standard Valuation and Nonforfeiture Laws	No
VIII (AG 8)	The Valuation of Individual Single Premium Deferred Annuities	December 1980	Standard Valuation Law	No
IX (AG 9)	Form Classification of Individual Single Premium Immediate Annuities For Application of the Valuation and Nonforfeiture Laws	June 1981	Standard Valuation Law and Standard Nonforfeiture Law for Individual Deferred Annuities	No
IX-A (AG 9-A)	Use of Substandard Annuity Mortality Tables In Valuing Impaired Lives Under Structured Settlements	June 1989	Standard Valuation Law	No

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
IX-B (AG 9-B)	Clarification of Methods Under Standard Valuation Law For Individual Single Premium Immediate Annuities, Any Deferred Payments Associated Therewith, Some Deferred Annuities, and Structured Settlements Contracts	December 1988	Standard Valuation Law	No
IX-C (AG 9-C)	Use of Substandard Annuity Mortality Tables in Valuing Impaired Lives Under Individual Single Premium Immediate Annuities	March 2001	Standard Valuation Law	No
X (AG 10)	Guideline For Interpretation of NAIC Standard Nonforfeiture Law For Individual Deferred Annuities	December 1981	Standard Nonforfeiture Law for Individual Deferred Annuities	No
XI (AG 11)	Effect of an Early Election By an Insurance Company of an Operative Date Under Section 5-C of the Standard Nonforfeiture Law For Life Insurance	December 1982	Standard Nonforfeiture Law for Life Insurance	No
XII (AG 12)	Interpretation Regarding Valuation and Nonforfeiture Interest Rates	June 1983 Withdrawn March 1993	Standard Valuation Law and Standard Nonforfeiture Law for Life Insurance	No
XIII (AG 13)	Guideline Concerning the Commissioners' Annuity Reserve Valuation Method	March 1985	Standard Valuation Law	No
XIV (AG 14)	Surveillance Procedure For Review of the Actuarial Opinion For Life and Health Insurers	December 1985	Instructions for Financial Examiners	No
XV (AG 15)	Illustrations Guideline For Variable Life Insurance Model Regulation	June 1986	Variable Life Insurance Model Regulation	No
XVI (AG 16)	Calculation of CRVM Reserves On Select Mortality and/or Split Interest	December 1986	Standard Valuation Law	No
XVII (AG 17)	Calculation of CRVM Reserves When Death Benefits Are Not Level	December 1986	Standard Nonforfeiture Law for Life Insurance	No

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XVIII (AG 18)	Calculation of CRVM Reserves On Semi-Continuous, Fully Continuous or Discounted Continuous Basis	December 1986	Standard Valuation Law	No
XIX (AG 19)	1980 CSO Mortality Table With Ten-Year Select Mortality Factors	December 1986	NAIC Procedure for Permitting Same Minimum Nonforfeiture Standards for Men and Women Insured Under 1980 CSO and 1980 CET Mortality Tables Model Regulation	No
XX (AG 20)	Joint Life Functions For 1980 CSO Mortality Table	December 1986	Standard Valuation Law	No
XXI (AG 21)	Calculation of CRVM Reserves When (B) Is Greater Than (A) and Some Rules For Determination of (A)	June 1987	Standard Valuation Law	No
XXII (AG 22)	Interpretation Regarding Nonforfeiture Values For Policies With Indeterminate Premiums	June 1987	Standard Nonforfeiture Law for Life Insurance	No
XXIII (AG 23)	Guideline Concerning Variable Life Insurance Separate Account Investments	June 1987	Variable Life Insurance Model Regulation	No
XXIV (AG 24)	Guidelines For Variable Life Nonforfeiture Values	June 1987	Standard Nonforfeiture Law For Life Insurance and Variable Life Insurance Model Regulation	No
XXV (AG 25)	Calculation of Minimum Reserves and Minimum Nonforfeiture Values For Policies With Guaranteed Increasing Death Benefits Based On an Index	October 2010	Standard Valuation Law	Yes
XXVI (AG 26)	Election of Operative Dates Under Standard Valuation Law and Standard Nonforfeiture Law—June 3, 1989	December 1989	Standard Valuation Law Standard Nonforfeiture Law	No
XXVII (AG 27)	Accelerated Benefits	June 1991	Standard Valuation Law Standard Nonforfeiture Law	No

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XXVIII (AG 28)	Statutory Claim Reserves For Group Long-Term Disability Contracts With A Survivor Income Benefit Provision	December 1991	Standard Valuation Law Minimum Reserve Standards for Individual and Group Health Insurance Contracts	No
XXIX (AG 29)	Guideline Concerning Reserves of Companies in Rehabilitation	December 1992	Standard Valuation Law	No
XXX (AG 30)	Guideline for the Application of Plan Type to Guaranteed Interest Contracts (GICs) With Benefit Responsive Payment Provisions Used to Fund Employee Benefit Plans	December 1992	Standard Valuation Law	No
XXXI (AG 31)	Valuation Issues vs. Policy Form Approval	December 1992	Standard Valuation Law	No
XXXII (AG 32)	Reserve for Immediate Payment of Claims	December 1993	Standard Valuation Law	No
XXXIII (AG 33)	Determining CARVM Reserves For Annuity Contracts With Elective Benefits	November 2015	Standard Valuation Law	Yes
XXXIV (AG 34)	Variable Annuity Minimum Guaranteed Death Benefit Reserves	December 2003 Repealed December 2009	Standard Valuation Law	Yes
XXXV (AG 35)	The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities	December 1998	Standard Valuation Law	No
XXXVI (AG 36)	The Application of the Commissioners Reserve Valuation Method to Equity Indexed Life Insurance Policies	June 2000	Standard Valuation Law	No
XXXVII (AG 37)	Variable Life Insurance Reserves For Guaranteed Minimum Death Benefits	October 2001	Standard Valuation Law	No
XXXVIII (AG 38)	The Application of the Valuation of Life Insurance Policies Model Regulation	August 2017	The Valuation of Life Insurance Policies Model Regulation	Yes

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XXXIX (AG 39)	Reserves For Variable Annuities With Guaranteed Living Benefits	September 2008 Sunset December 2009	Standard Valuation Law	Yes
XL (AG 40)	Guideline For Valuation Rate of Interest For Funding Agreements and Guaranteed Interest Contracts (GICs) With Bail-Out Provisions	September 2003	Standard Valuation Law	No
XLI (AG 41)	Projection of Guaranteed Nonforfeiture Benefits Under CARVM	June 2006	Standard Valuation Law and Standard Nonforfeiture Law for Individual Deferred Annuities	No
XLII (AG 42)	The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables For Use In Determining Minimum Reserve Liabilities	December 2018	Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities	Yes
XLIII (AG 43) <i>Applies for Valuations Prior to 1/1/2020</i>	CARVM For Variable Annuities	March 2010	Standard Valuation Law	Yes
XLIII (AG 43) <i>Applies for Valuations on or after 1/1/2020 with early adoption in 2019</i>	CARVM For Variable Annuities	August 2019	Standard Valuation Law	Yes
XLIV (AG 44)	Group Term Life Waiver of Premium Disabled Life Reserves	December 2022	Standard Valuation Law	Yes
XLV (AG 45)	The Application of the Standard Nonforfeiture Law For Life Insurance to Certain Policies Having Intermediate Cash Benefits	December 2008	Standard Nonforfeiture Law	No

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
XLVI (AG 46)	Interpretation of the Calculation of the Segment Length With Respect to the Life Insurance Policies Model Regulation Upon a Change in the Valuation Mortality Rates Subsequent to Issue	September 2009	The Valuation of Life Insurance Policies Model Regulation	No
XLVII (AG 47)	The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table	December 2016	The Health Insurance Reserves Model Regulation	Yes
XLVIII (AG 48)	Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model #830)	August 2017	The Valuation of Life Insurance Policies Model Regulation	Yes
XLIX (AG 49)	The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest	December 2020	The Life Insurance Illustrations Model Regulation	Yes
XLIX-A (AG 49-A)	The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold (On or After December 14, 2020)	March 2023	Life Insurance Illustrations Model Regulation	Yes
L (AG 50)	2013 Individual Disability Income Valuation Table Actuarial Guideline	August 2016	The Health Insurance Reserves Model Regulation (Model #10)	No
LI (AG 51)	The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves	August 2017	Asset Adequacy Analysis Required by the NAIC Valuation Manual (VM-30)	No
LII (AG 52)	Variable Annuity Early Adoption	December 2019	Variable Annuity Framework Requirements for 2020 Valuation Manual (VM-21)	No
LIII (AG 53)	Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves	August 2022	VM-30, Actuarial Opinion and Memorandum Requirements	No

Actuarial Guidelines

Guideline No.	Title	Date Adopted By NAIC	Interpretation of	Revision of Earlier Guideline
LIV (AG 54)	Nonforfeiture Requirements for Index-Linked Variable Annuity Products	March 2023	NAIC Model 805, <i>Standard Nonforfeiture Law for Individual Deferred Annuities</i>	No

Not for Distribution

Actuarial Guideline I

INTERPRETATION OF THE STANDARD VALUATION LAW WITH RESPECT TO THE VALUATION OF POLICIES WHOSE VALUATION NET PREMIUMS EXCEED THE ACTUAL GROSS PREMIUM COLLECTED

1. The purpose of this guideline (items 2 and 3 below) is to clarify the intent of the Standard Valuation Law.
2. The method of valuation promulgated by the model legislation adopted by the NAIC in December 1976 for the valuation of life insurance policies whose valuation net premiums exceeds the actual gross premiums collected is a change in method of reserve calculation and not a change in reserve standards.
3. For policies so valued the maximum permissible valuation interest rate and the applicable mortality basis specified is that in effect at the date of issue of such policies.

Not for Distribution

Actuarial Guideline II

RESERVE REQUIREMENTS WITH RESPECT TO INTEREST RATE GUIDELINES ON ACTIVE LIFE FUNDS HELD RELATIVE TO GROUP ANNUITY CONTRACTS

As part of the determination of the aggregate minimum group annuity reserves, a computation must be made of minimum reserves for deposit administration group annuity funds with interest rate guarantees including all such funds pertaining to possible purchase of group annuities whether such funds are held in a separate account or in a general account, whether shown as premiums, advance premiums, auxiliary funds, etc. and whether the liability is shown in Exhibit 8 or elsewhere. In making such computations, the procedure and minimum standards described below shall be applicable for the December 31 calendar year “y” valuation giving recognition to the dates deposits were made. Where appropriate and with the approval of the commissioner, recognition may be given to the extent and time of application of active life funds to purchase annuities, expense assessments against the funds, and excess of purchase price over minimum reserves. In no event shall the reserve be less than the transfer value, if any, of the fund. Approximate methods and averages may be employed with the approval of the commissioner.

To the extent that the application of these valuation procedures and standards would require a company to establish aggregate minimum reserves for group annuities and related funds in excess of reserves which it would not otherwise hold if these valuation procedures and standards did not apply, such company shall set up additional reserve liability shown in its general account or in a separate account, whether shown in Exhibit 8 or elsewhere.

The valuation procedures and standards specified in this guideline shall not be applicable to the extent that the valuation procedures and standards relating to reserves for deposit administration group annuity funds with interest rate guarantees (i.e., group annuity and guaranteed interest contracts) in the amendments to the Standard Valuation Law adopted by the National Association of Insurance Commissioners in December 1980, or in later NAIC amendments, have become applicable in a jurisdiction.

For funds receive:

- (1) Prior to calendar year 1976, follow the procedure used at that time.
- (2) In calendar year 1976 or later, follow the minimum standards described below:
 - (a) Contracts having no guaranteed interest rates in excess of 6% on future contributions to be received more than one year subsequent to the valuation date.

The minimum reserve shall be equal to the sum of the minimum reserves for funds attributable to contributions received in each calendar year.

Where V_y = Minimum reserve for funds attributable to contributes received in calendar year y.

$$V_y = [C_y \times (1 + i_{gy})^n] / (1 + i_{py})^n$$

C_y = Portion of guaranteed fund attributable to contributions received in calendar year y

i_{gy} = Interest rate guaranteed under the contract with respect to funds attributable to contributions received in calendar year y.

i_{py} = Lowest of:

- (1) The net new money rate credited by the company on group annuity funds attributable to contributions received in calendar year y less .005; or
- (2) i_{gy} ; or
- (3) i_{my} ; where
 - (i) $i_{my} =$ for calendar years $y + 1$ through $y + 10$, the values shown in the table of values of i_{my} distributed each year by the Central Office of the National Association of Insurance Commissioners;
 - (ii) $i_{my} =$ for calendar years $y + 11$ and later, .060.

$n =$ Number of guarantee years, and fractions thereof, remaining as of the December 31 valuation.

- (b) Contracts having guaranteed interest rates in excess of 6% on future contributions to be received more than one year subsequent to the valuation date.

The same procedures as set forth under (a) above shall be used except that the deduction under (1) of i_{py} shall be .01 instead of .005 and i_{my} for calendar years $y + 1$ through $y + 10$ shall be reduced by .005.

Table of Values of i_{my}

(Effective for the December 31, 1977 Valuation)

Calendar Year y in Which Contributions Were Received	Value of i_{my} for Calendar Years $y + 1$ Through $y + 10$
1976	.089
1977	.087
1978	.081
1979	.084
1980	.100
1981	.124
1982	.145

Actuarial Guideline III

INTERPRETATION OF MINIMUM CASH SURRENDER BENEFIT UNDER STANDARD NONFORFEITURE LAW FOR INDIVIDUAL DEFERRED ANNUITIES

Section 6 of the model bill as written does not require that cash surrender benefits to be paid; but where they are paid, it requires that such cash surrender benefits grade into maturity value using an interest rate not more than one percent higher than the rate specified in the contract for accumulating net considerations. While this method will be suited for contracts having a sales load at issue, it may create a problem for contracts having surrender charges for cash surrender.

For contracts providing cash surrender values, the cash surrender value at maturity shall be at least equal to the minimum nonforfeiture amount at maturity as defined in Section 4. For purposes of calculating cash surrender values prior to maturity, the term “maturity value” in the Standard Nonforfeiture Law for Individual Deferred Annuities shall mean the cash surrender value at maturity.

Not for Distribution

Actuarial Guideline IV

ACTUARIAL INTERPRETATION REGARDING MINIMUM RESERVES FOR CERTAIN FORMS OF TERM LIFE INSURANCE

Scope

This interpretation recommended by the NAIC Technical Task Force to Review Valuation and Nonforfeiture Value Regulation deals only with term life insurance without cash values which the owner has the unilateral right to maintain in force until its stated expiry date, subject only to the payment of required premiums which vary (generally increasing on a per \$1000 basis) during the term of the policy and under which premium rates are guaranteed to the stated final expiry. This interpretation applies only to such term plans valued on the 1958 CSO Mortality Table for the current term period.

Ten-year renewable term, five-year renewable term and one-year renewable term to a stated age with generally increasing premiums are titles commonly given to such policies, but this interpretation concerns itself with the actual coverage provided and is not controlled by the name given the coverage.

Background Information

Historically, reserves on one-year renewable term policies have consisted of a basic reserve for the current term period of one-half the cost of insurance for the current term period, plus a deficiency reserve, if any. The application of the Commissioners Reserve Valuation Method to determine basic reserves and deficiency reserves for such policies is subject to varying interpretations as noted in Walter O. Menge's paper, "Commissioners Reserve Valuation Method" written at the time of construction of the Standard Valuation Law.

...the adaptation of the commissioners reserve valuation method to fit policies for which the gross premium varies from year to year becomes a problem of generalization which, from a purely theoretical viewpoint, has an infinite number of possible solutions, some of which are practical and others of which are impractical.¹

and

For these reasons, it seems desirable not to formulate at this time any fixed rules for the valuation of these unusual types of policies and riders. The second paragraph of Section 4 of the Standard Valuation Law does not define the method of valuation of such contracts but requires that the method used, whatever it may be, must be consistent with that employed for uniform premium policies providing uniform insurance benefits, thus leaving open the possibility of a choice of several consistent methods.²

Acceptable Approaches

Two approaches to "consistent" reserves are suggested. The unitary policy approach considers such policies as variable premium policies up to the mandatory expiry date. Under this approach the valuation net premiums are a uniform percentage of gross premiums with the percentage fixed at issue date. If appropriate deficiency reserves are held, this approach has great appeal. However, it is susceptible to manipulation and illogical results. Reserves according to this approach should be acceptable only if the company can demonstrate that actual reserves, including deficiency reserves, for all renewable term business valued using this approach are of the same general magnitude as would occur using an approved method as defined below.

The other approach is to hold policy reserves for only the current period of years (not necessarily equal to the renewal period) during which the required premium per \$1000 remains level, including deficiency reserves if appropriate. Additional reserves are established where net premiums, calculated on a basis

which reflects current mortality, exceed gross premiums for future periods of level premiums. Although not speaking directly to valuation problems in this instance, the Hooker Committee report said:

The question was raised whether a policy providing term insurance for several years, automatically followed by permanent insurance, should be considered as two separate policies for the purpose of the Act. In the Committee's opinion, the respective portions may be treated separately if the portion providing permanent insurance takes the Company's regular rate at the then attained age. The rated age provision in the law appears to cover this point. However, the Committee draws a distinction between policies providing purely term insurance followed by permanent insurance at the company's published rate at the attained age of conversion, and the policies providing for an initial premium such that the increased premium at a subsequent duration differs from that for a new policy at the attained age. The latter case obviously constitutes a single policy to which the formula should be applied at the outset.³

The second sentence of the above quotation lends support to the approach of separating successive periods of level premiums.

Under this interpretation, an approved method is any method which produces reserves greater than or equal to the sum of policy reserves, including deficiency reserves, for the current period of level premiums calculated on the basis of the applicable mortality and interest standards and reserve method specified in the Standard Valuation Law plus additional reserves calculated according to the following applied uniformly to all such policies.

The present value of the excess of test premiums for future periods of level premiums for which gross premiums are guaranteed over the respective gross premiums, such test premiums and present values being calculated on the Commissioners' 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors and 4 1/2 percent interest. For each plan of insurance with separate rates for smokers and nonsmokers an insurer may substitute the 1980 CSO Smoker and Nonsmoker Mortality Tables with Ten-Year Select Mortality Factors for the Commissioners' 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors.

In case a future gross premium exceeds the test premium, the excess shall be considered zero and not a negative amount. This is in accordance with the principle of anticipating no future profits but providing for all future losses.

Reinsured Business

If reinsurance is assumed under an agreement in which the reinsurer reserves the right to raise premiums to a level at least as great as the net valuation premiums, the reinsurer is not required to establish deficiency reserves or additional reserves, and the ceding company is not permitted to take credit for such reserves on the portion of the business which is required.

If a reinsurance agreement guarantees future reinsurance premiums, the reinsurer should establish deficiency reserves and additional reserves as required by this interpretation for the period for which reinsurance premiums are guaranteed, and the ceding company may take credit for such reserves against its deficiency and additional reserves on the portion of the business which is reinsured to the extent permitted by law.

Adequacy of Reserves

Although the above alternative is acceptable as meeting the intent of the Standard Valuation Law, this does not in any way relieve the certifying actuary of the insurance company from exercising his own best judgment with respect to the appropriate reserves. In particular, the actuary should consider term contracts of this nature when he states his opinion that aggregate reserves “make a good and sufficient provision for all unmatured obligations of the company guaranteed under the terms of its policies” and “include provision for all actuarial reserves and related statement items which ought to be established.”⁴

References

1. The Record, American Institute of Actuaries, Vol. XXXV, 1946, p. 270.
2. Ibid., p. 300.
3. 1947 NAIC Proceedings, 257.
4. Instructions for Completing NAIC Life and Health Annual Statement Blank, 1976, p. 1.

Not for Distribution

Actuarial Guideline V

INTERPRETATION REGARDING ACCEPTABLE APPROXIMATIONS FOR CONTINUOUS FUNCTIONS

Text

For reserves and values using continuous functions:

$$(a) \quad \bar{D}_x = \int_0^1 D_{x+t} dt$$

By assuming that D_{x+t} is linear for $0 < t < 1$

$$\bar{D}_x = (D_x + D_{x+1})/2.$$

By assuming that the deaths in the year of age x to $x+1$ are uniformly distributed over that year of age,

$$\bar{D}_x = [(\delta-d)/\delta^2]D_x + [(i-\delta)/\delta^2]D_{x+1}$$

where: $d = iv = i/(1+i)$

δ = force of interest

i = interest rate

$$(b) \quad \bar{C}_x = \int_0^1 D_{x+t} \mu_{x+t} dt$$

By assuming that deaths in the year of age x to $x+1$ are uniformly distributed over that year of age,

$$\bar{C}_x = (i/\delta)C_x.$$

By assuming that the total deaths are concentrated at the middle of the year of age,

$$\bar{C}_x = (1+i)^{1/2}C_x \text{ or } (1+i/2)C_x.$$

Background Material

The actuarial mathematics used in calculating net premiums, reserves, and nonforfeiture values for life insurance policies was first developed using two basic assumptions. These basic assumptions are: (1) that all death benefits are payable at the end of the policy year of death and (2) that all gross premiums due under the policy are payable annually at the beginning of the policy year. Actuarial values which are calculated under these two basic assumptions are described as being calculated using curtate functions. For any specific mortality table and interest rate, all the necessary actuarial values are uniquely defined for a policy using curtate functions.

The Standard Valuation Law and the Standard Nonforfeiture Law define minimum reserves and minimum nonforfeiture values, respectively, for life insurance policies using curtate functions. These two model laws originated in the early 1940s when almost all insurance companies were using the two basic assumptions inherent in the curtate functions. However, the wording of the model laws does not prohibit

insurance companies from using other assumptions if the resulting reserves and nonforfeiture values will always be at least as large as the minimum amounts defined in these laws.

Nowadays, many insurance companies do prefer to use alternative assumptions in computing the reserves and nonforfeiture values for their life insurance policies. These companies consider the alternative assumptions more appropriate for their policies. These alternative assumptions are: (1) that all death benefits are payable immediately upon death and (2) that all gross premiums due under the policy are payable continuously throughout the policy year.

Actuarial values which are calculated under both of the alternative assumptions, pertaining to death benefits and gross premiums, are described as being calculated using continuous functions. However, the underlying mathematics for continuous functions involves two integrals, representing the actuarial functions C_x and D_x , which must be approximated. In the past, there has been some disagreement among actuaries as to which approximations for the two integrals are the most suitable. Because of the use of different approximations for these two integrals, actuaries have obtained different numerical amounts for the necessary actuarial values using continuous functions even though these actuaries were working with the same mortality table and interest rate.

Some insurance companies prefer to calculate their reserves and nonforfeiture values assuming: (1) that death benefits are payable immediately upon death and (2) that all gross premiums due under the policy are payable annually at the beginning of the policy year. Thus, these companies are using the alternative assumption pertaining to death benefits and the basic assumption pertaining to gross premiums. The underlying mathematics for the combination of these two assumptions involves the integral C_x , which must be approximated. Thus, the use of these two assumptions together gives rise to essentially the same problem as using continuous functions.

Actuarial Guideline VI

INTERPRETATION REGARDING USE OF SINGLE LIFE OR JOINT LIFE MORTALITY TABLES 20 JUNE 1983

The Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance apply to policies which provide joint life insurance benefits as well as to policies which provide single life insurance benefits. References in these laws to plans such as “nineteen-year premium whole life” or “a whole life policy...with uniform premiums for the whole of life” are to be interpreted as references to such plans based on the same life status(es) as the policy for which minimum reserves or nonforfeiture benefits are being determined. For example, if the net level annual premium on the nineteen-year premium whole life plan is needed to calculate the minimum reserve for a policy which insures two lives and pays a death benefit at the first death, the premium is to be that for a policy which insures two lives and pays a benefit at the first death. The same principle would apply to a policy which insures only one life, or a policy which pays a benefit at the first death of more than two lives. The principle also applies to a policy that pays a benefit on the death of t -th life of n lives (t is greater than 1 but less than or equal to n).

Background Material

The great majority of life insurance policies provide single life insurance benefits. These policies identify one specific individual as the named insured. A death benefit under the basic policy is payable if this named insured dies while the policy is in force. Usually, there are no further gross premiums due on and after the death of this named insured. The basic policy may provide endowment benefits which are conditional on the survival of this named insured. The policy does not contain any provisions whereby the amount of the death benefits, endowment benefits or gross premiums are affected by the survival or nonsurvival of any other persons besides the insured, except possibly in the settlement option provisions or in the provisions of an attached term insurance rider which requires an extra premium.

In contrast to policies which provide single life insurance benefits, policies which provide joint life insurance benefits depend on the survival or nonsurvival of two or more named insureds. Until quite recently, virtually all policies which provided joint life insurance benefits were written on the whole life insurance plan. Such policies paid the face amount as a death benefit on the death of the first of the named insureds to die, provided that the policy was then in full force. No further gross premiums were due after the death, and the policy terminated upon payment of the death benefit.

Recently, there has been increasing interest in plans providing joint life insurance benefits, and insurance companies have developed a variety of new life insurance plans. For example, some policies provide for payment of a death benefit only on the death of the last to die of the named insureds.

The Standard Valuation Law and the Standard Nonforfeiture Law clearly apply to policies which provide joint life insurance benefits as well as to policies which provide single life insurance benefits. Both of these model laws define an “expense allowance” which is added to the present value of the future guaranteed insurance benefits under the policy, and which affects the modified premiums used for computing minimum reserves and the adjusted premiums used for computing minimum nonforfeiture values. A different amount of “expense allowance” is defined for nonforfeiture values than that defined for reserves, but the principle is much the same.

Insurance companies are allowed to select “expense allowances” for use in computing their reserves and nonforfeiture values up to the level of the “expense allowances” defined in these model laws. A higher “expense allowance” would produce reserves or nonforfeiture values which are less than the minimum defined in the model laws, and therefore state insurance departments cannot permit companies to use a higher amount as an “expense allowance.”

The wording of these model laws is generally clear and precise in defining the “expense allowances” which are permitted for policies which provide single life benefits. However, the proper level of the

“expense allowances” for policies providing joint life insurance benefits is not so clear. The “expense allowance” defined in the Standard Valuation Law depends on the modified net premium for a policy on the 20-payment whole life insurance plan, and the “expense allowance” defined in the Standard Nonforfeiture Law depends on the adjusted premium for a policy on the ordinary life plan.

Actuaries have had different opinions as to how to apply the joint life insurance mortality tables in order to obtain the modified net premium and the adjusted premium required by model laws, so as to calculate the “expense allowances” which are appropriate under those laws. The question has become increasingly important with the development of the new plans providing joint life insurance benefits.

Not for Distribution

Actuarial Guideline VII

INTERPRETATION REGARDING CALCULATION OF EQUIVALENT LEVEL AMOUNTS

Text

Pure endowments will not be considered in the determination of equivalent level amounts for valuation and nonforfeiture purposes.

Background Material

The “Background Material” section relating to the previous actuarial guideline went into some detail concerning the “expense allowances” defined in the Standard Valuation Law and the Standard Nonforfeiture Law. See Actuarial Guideline VI, “Interpretation Regarding Use of Joint Life Insurance Tables.”

This Actuarial Guideline VII is also concerned with the level of these “expense allowances” defined in these model laws. The most common plans of life insurance provide a level face amount as the death benefit, during the period the policy is in full force. These plans do not provide for any benefit which is payable as a pure endowment. (A pure endowment benefit pays a specified amount of pure endowment to the policyholder if the insured is still alive on the specified maturity date and if the policy is still in full force on this maturity date.) However, policies which provide for a death benefit which varies with the duration and policies which provide one or more endowment benefits can be legally written in most states.

The Standard Valuation Law and the Standard Nonforfeiture Law do apply to such policies with varying death benefits or pure endowment benefits. In fact, the wording of the model laws shows that considerable thought was given to the treatment of these kinds of policies. In the case of both model laws, the present value of future guaranteed benefits under the policy clearly includes both the death benefits and the “expense allowances” defined under these model laws.

The Standard Nonforfeiture Law includes a paragraph which reads as follows:

In the case of a policy providing an amount of insurance varying with duration of the policy, the equivalent uniform amount thereof for the purpose of this Section shall be deemed to be the uniform amount of insurance provided by an otherwise similar policy, containing the same endowment benefit or benefits, if any, issued at the same age and for the same term, the amount of which does not vary with duration and the benefits under which have the same present value at the date of issue as the benefits under the policy; provided, however, that in the case of a policy providing a varying amount of insurance issued on the life of a child under age ten, the equivalent uniform amount may be computed as though the amount of insurance provided by the policy prior to the attainment of age ten were the amount provided by such policy at age ten.

While the wording of the above paragraph is rather complex, the meaning seems to be actuarially precise. The paragraph defines an “equivalent uniform amount” which affects the “expense allowance” defined in the law. The phrase “containing the same endowment benefit or benefits, if any” effectively means that pure endowment benefits are to be ignored in computing this “equivalent uniform amount.” This “equivalent uniform amount” or “equivalent level amount” becomes a sort of weighted average of the death benefits provided by the policy, an average which is not affected in any way by the pure endowment benefits which may be provided by the policy.

The Standard Valuation Law is not nearly so clear on this point. It contains wording as follows:

Reserves according to the Commissioners Reserve Valuation Method for (1) life insurance policies providing for a varying amount of insurance----shall be calculated by a method consistent with the principles of the preceding paragraph-----.

(Note that the quoted wording refers back to the preceding paragraph in the Standard Valuation Law. It does not intend to refer to the paragraph quoted from the Standard Nonforfeiture Law.)

Most actuaries have interpreted the Standard Valuation Law so as to use an “equivalent level amount” which is not affected by any pure endowments included in the policy. They would then use this “equivalent level amount” to calculate the “expense allowance” defined in the model law. This “equivalent level amount” is also a weighted average of the death benefits provided by the policy, in the same fashion as the “equivalent uniform amount” used in applying the Standard Nonforfeiture Law. Some insurance companies use the same “equivalent level amount,” for the purpose of the Standard Valuation Law, as the “equivalent uniform amount” defined in the Standard Nonforfeiture Law. Other companies use a very similar calculation to obtain a special “equivalent level amount,” for the purpose of the Standard Valuation Law, based only on the death benefits provided on and after the first policy anniversary.

Some actuaries have felt that the wording of the Standard Valuation Law permits an alternate calculation of the “equivalent level amount” which would be affected by pure endowment benefits. Such an “equivalent level amount” would be used to calculate an “expense allowance” under the Standard Valuation Law, even though the “equivalent level amount” no longer has the character of a weighted average of the death benefits provided by the policy.

The inclusion of the pure endowment benefits in the calculation of the “equivalent level amount” would affect the level of the “expense allowance” defined in the Standard Valuation Law, and therefore, it would affect the level of the minimum reserves required by the policy. Typically, the denominator of the fraction used in calculating the “equivalent level amount” would remain the same, but the numerator of this fraction would be increased because of this inclusion. Thus, the “equivalent level amount” itself and the resulting “expense allowance” defined in the Standard Valuation Law would also be increased with the inclusion. The end result of the inclusion would be lower minimum reserves at every duration.

If the amounts and maturity dates of the new pure endowment benefits were carefully selected, a considerable degree of reduction in the reserve factors would probably be possible.

This actuarial guideline would expressly prohibit including the pure endowment benefits in determining the “equivalent level amount” for either valuation or nonforfeiture purposes. As explained under “Background,” the need for this actuarial guideline arises primarily for valuation purposes under the Standard Valuation Law. The wording of the Standard Nonforfeiture Law is sufficiently precise that this actuarial guideline is virtually a truism for the purpose of calculating nonforfeiture values.

The purpose of this actuarial guideline is to assist state insurance departments and insurance company actuaries by identifying a method of calculating “equivalent uniform amounts” and “expense allowances” which is not considered proper and which will not be accepted.

Actuarial Guideline VIII

THE VALUATION OF INDIVIDUAL SINGLE PREMIUM DEFERRED ANNUITIES

Text

With respect to those states which have enacted the 1976 amendments to the Standard Valuation Law; individual single premium deferred annuity reserves shall at least equal the greatest of any of the discounted values of all guaranteed future benefits including cash surrender values available after the date of valuation, such benefits discounted to the valuation date at the maximum permissible statutory interest rate. This method applies to all individual single premium deferred annuities which are subject to the provisions of the Standard Valuation Law in those states which have enacted the 1976 amendments. For those states which have not yet enacted the 1976 amendments this interpretation is a method of valuing individual single premium deferred annuities.

Not for Distribution

Actuarial Guideline IX

FORM CLASSIFICATION OF INDIVIDUAL SINGLE PREMIUM IMMEDIATE ANNUITIES FOR APPLICATION OF THE VALUATION AND NONFORFEITURE LAWS

Text

Solely for the purposes of the applicable Valuation and Nonforfeiture Laws, an individual single premium annuity shall be considered to be immediate, as opposed to deferred, provided:

1. The first annuity payment is due not more than thirteen months from the annuity issue date;
2. succeeding payments under the annuity, after the initial payment, are due at regular intervals no less frequently than annually;
3. in the case of a fixed benefit annuity, the total guaranteed payments due in any contract year are not greater than 115% of the total guaranteed payments due in the immediately preceding contract year. In the case of variable annuities and indexed annuities, the same characteristic would be required for the underlying pattern of payments, before adjustments which are made solely because of the performance of the separate account associated with a variable annuity or the changes in the associated index. (This characteristic is not intended to prevent or reduce any lawful nonguaranteed payments under the annuity which are in the nature of dividends or excess interest credits.)

Not for Distribution

Actuarial Guideline IX–A

USE OF SUBSTANDARD ANNUITY MORTALITY TABLES IN VALUING IMPAIRED LIVES UNDER STRUCTURED SETTLEMENTS

Text

The Standard Valuation Law permits modifications of annuity mortality tables. Solely for the purpose of valuing:

1. Periodic benefits arising from settlements of various forms of claims pertaining to court settlements or out of court settlements from tort actions, such as arising from accidents or medical malpractice;
2. Settlements involving similar action such as workers' compensation; or
3. Settlements of long term disability claims where a temporary or life annuity has been used in lieu of continuing disability payments.

A substandard annuity mortality table may be used where the annuitant (or measuring life) is the injured party and there are relevant hospital records, treating physicians' reports, and/or independent medical evaluations from those medical doctors that are or have been involved in the care of the injured party, that have been used during the underwriting process and have been retained in the underwriting file of the company as proof of the individual's impaired health and shortened longevity.

In such case the insurer may modify the statutory annuity mortality table or tables cited in Section 3a of the Standard Valuation Law or in any regulation promulgated pursuant to such section so as to reflect the longevity based on a medical doctor's written evaluation or records as indicated above. The table may be modified by a percentage of standard mortality or by a specified number of extra deaths or by a combination thereof, provided that the mortality table so adjusted produces reserves that are at least as great as the minimum reserves indicated below. The percentage extra mortality or the specified number of extra deaths may vary by duration. A rated up age with the standard annuity table which is approximately equivalent to the actual age on the substandard annuity table may be used only if the procedure is modified to produce reserves that at each duration are at least as great as the minimum reserves indicated below.

The fact that a company has held minimum reserves as herein described shall in no way relieve the actuary from considering whether such reserves are adequate.

Minimum Reserves

The minimum reserves for applicable annuity contracts are the reserves obtained by making a constant addition to the mortality rate of the otherwise applicable valuation mortality table such that the expectation of life on the adjusted valuation table is greater than or equal to the average of the expectations of life indicated by or obtained from information given by the company's medical directors or underwriters during the underwriting and pricing process. The constant addition to the mortality table herein described shall be made as of the issue date and, once determined, held constant for the period of time that the contract remains in force. The addition of a constant to the valuation mortality rate produces a gradually declining percentage extra mortality such that reserves will grade into standard reserves at the end of the standard valuation mortality table thereby making the reserve more conservative (closer to standard) each year that the annuitant or measuring life lives.

For annuitants (measuring lives) other than the injured person in such settlements, the actual age and a standard annuity mortality table specified in Section 3A of the Standard Valuation Law or in any subsequent regulation promulgated thereto or any modification of such table which produces reserves at

least as high as those that would be produced under the standard table based on the actual age must be used.

For contracts not included in one of the three categories described in the first paragraph of the Guideline, standard reserves at the actual age shall be held.

Where an insurer uses a modified table with higher mortality rates or a rated age with an unmodified table for impaired lives under structured settlements, such insurer shall maintain records of actual to expected mortality to monitor the appropriateness of the substandard mortality.

Background

Structured settlements take their name from the fact that the settlements, which arise from tort action, including workers' compensation claims, are frequently structured to fit the circumstances of the injured party and/or the injured party's dependents. The injured party and/or dependents are apt to be much younger than normal retirement age such that the payments may well stretch out for 30, 40, and 50 years or more. Some payments are certain; others are contingent upon the measuring life being alive at the time of payment.

The volume of structured settlement business has boomed in recent years. Periodic and deferred payments have been encouraged and even mandated in some states as a means of controlling costs under malpractice claims and ensuring that the monies would be available in future years and not squandered as could happen with lump sum payments. Periodic and deferred payments may be a result of settlement of automobile claims, other accidents involving tort action, as well as workers' compensation claims and medical malpractice claims, where the individual(s) upon which the tort or other action was based may well be substandard.

At the time of the adoption of the NAIC 1980 revisions of the Standard Valuation Law (SVL), structured settlement business was relatively minor, and how to treat such business was not explicitly covered in the SVL.

The SVL allows for modification of the standard annuity mortality table specified in the minimum valuation standard. Any modification had traditionally been such as to result in higher reserves. If lower reserves were produced, it could render the minimum meaningless.

In case of structured settlements, the injured party may be highly substandard. If an insurance company had to set up reserves on a standard table, or on a basis that grades into standard mortality too rapidly, it could result in either an excessive price for the payments or it could result in such a level of surplus strain to the insurer. If the price reflects the actual expected mortality, that the coverage might not be offered at all. To encourage settlements involving periodic payments, it is recommended that, in the limited area involving the injured party, the table may be modified so as to reflect the expected mortality based on the relevant medical records, reports and/or evaluations described earlier.

Since this is an area with little experience, it is required that an insurer monitor the experience in order to be able to justify its choice of adjusted mortality assumption.

It is recognized that at issue the vast bulk of the liability normally pertains to payments that are certain and not contingent upon survival, since the vast majority of substandard contracts contain a certain period and most of the benefits either fall within that certain period or are guaranteed to be paid. It is also noted that the interest discount factor in the early durations is far more important than the mortality element. The selection of the interest discount factor is the subject of Guideline IX-B.

Because experience and methodology are still emerging for substandard annuities, it is expected that this whole subject will be reviewed again in the not too distant future, both as it applies to whether the criteria

herein established for settlement annuities are too conservative and also whether or how it might be acceptable to apply similar standards to substandard non-settlement annuities.

Effective Date

Where the requirements of this Guideline produce higher reserves than those calculated by an insurer, such insurer may continue its present procedures for the 1989 year end valuation, but must comply with this Guideline for 1990 and later issues for the 1990 and later valuations and for all of its business by the 1993 year end valuation.

Not for Distribution

Actuarial Guideline IX–B

CLARIFICATION OF METHODS UNDER STANDARD VALUATION LAW FOR INDIVIDUAL SINGLE PREMIUM IMMEDIATE ANNUITIES, ANY DEFERRED PAYMENTS ASSOCIATED THEREWITH, SOME DEFERRED ANNUITIES, AND STRUCTURED SETTLEMENTS CONTRACTS

Text

1. Solely for the purpose of applying the Standard Valuation Law, an annuity shall be considered as a series of payments not less frequently than annually over five years or more wherein the payments in any one contract or calendar year (at the option of the insurer) do not exceed 115% of the payments in the immediately preceding contract or calendar year. An immediate annuity is an annuity wherein the first payment begins in thirteen months or less from issue and a deferred annuity is an annuity wherein the first payment begins more than thirteen months after issue. A series of payments over less than five years otherwise qualifying as an annuity shall be considered equivalent to a lump sum. Any payments in a year in excess of 115% of the prior year's payments may be considered as a lump sum or equivalent thereto or may be considered as part of a new annuity depending on the circumstances. Some contracts may consist of combinations of annuities and of lump sums.
2. Where the deferred income payments are guaranteed and there are no cash settlement options, the reserve shall be based on the present value of the income payments based on an appropriate annuity mortality table and the valuation rate of interest in accordance with the Standard Valuation Law based on the issue year method and a guarantee duration equal to the number of years from the date of issue to the date the first payment begins.
3. At the time benefit payments begin, whether under single premium immediate annuity contracts, supplementary contracts providing for annuity payments or deferred annuity contracts (with the first payment deferred more than thirteen months), the insurer may use the valuation interest rate for the calendar year in which (a) the deferred contract was issued or (b) the consideration was received or (c) the payments begin, but must apply such procedure elected in a consistent manner.
4. Individual structured settlements vary considerably in payment pattern and duration. These contracts may provide for both level and/or increasing periodic payment schedules, as well as lump sum benefit payments. In valuing individual structured settlements, a split of all or a portion of the lump sum payments from the annuity payments may be appropriate. Such splits should be at the discretion of the valuation actuary. However, splits not in accordance with (5)(a) or (5)(b) and with (6)(a) below would require valuation in accordance with procedure (6)(b) or (6)(c) below.
5. For a block of single premium immediate annuities, deferred annuities without cash settlement options, structured settlement business with the annuity portion having no cash settlement options, or other contracts having some portion with periodic payments without cash settlement options, issued in a given calendar year, the calendar year valuation interest rate appropriate for single premium immediate annuities where the first payment begins in thirteen months or less after issue and for Plan Type A contracts without cash settlement options based on the date to first payment where the first payment begins more than thirteen months after issue may be used provided:
 - a. The guaranteed payment under each contract in the block due in any contract or calendar year (at the option of the insurer) after the first is not greater than 115% of the guaranteed payment due in the immediately preceding contract or calendar year, and once payments

begin such payments are not less frequent than annually and are payable over five years or more; or

- b. The total guaranteed payments under all contracts combined included in the block due in any calendar year after the first are not greater than 110% of the total guaranteed payments due in the immediately preceding calendar year but only contracts having payments not less frequent than annually for at least five years shall be included.

The year to year comparison of benefits may be made before or after considering the effect of mortality or any certain period, but the actuary should be prepared to indicate which method is used.

- 6. If a block of immediate annuities, deferred annuities without cash settlement options, structured settlement contracts with the annuity portion having no cash settlement options, or other contracts having some portion with periodic payments without cash settlement options fails the test described in (5) above, then one of the following procedures must be used:

- a. The block must be divided into components so that the contracts/payments satisfying the tests are included in one or more components and those not satisfying the tests are included in another component or other components. The Plan Type A valuation interest rate or rates may be used for the component or components which satisfies the test. The Plan Type A guarantee duration is the number of years from the date of issue or date of purchase to the date that the first annuity payment is due. The maximum valuation interest rate for any payment included in a component which does not satisfy the test shall be determined using the guarantee duration of the lump sum payment including installments over less than five years and on the assumption that the payment is made under a contract of Plan Type A. The Plan Type A guarantee duration of a lump sum payment is the number of years from the date of issue or date of purchase to the date that payment or the first installment payment is due. Year of issue valuation interest factors must be used. The actuary should be prepared to describe the components and justify the choice of valuation interest rate or rates for the component or components of the block which, if included, would cause the block to fail the test.
- b. The reserves for each contract for each valuation year shall be the greater of the “level interest rate reserves” and of the “graded interest rate reserves.” Graded interest rate reserve factors for each separate year of issue for all future payments of such year of issue, whether periodic or lump sum payments, shall be graded in a manner that produces reserves at least as great as the method described in the balance of this paragraph.
 - (i) Step one, calculate the present value of future benefits at issue for each contract using the appropriate level Plan Type A interest rate for contracts without cash settlement options for the guarantee duration corresponding to the number of years from the date of issue or date of purchase to the date that the first payment is due. Call this value PV (0), and call reserves at successive durations using the appropriate (level) Plan Type A interest rate “level interest rate reserves.”
 - (ii) Step two, solve for “X percent” such that the present value of future benefits at issue for each contract is equal to PV (0) (calculated in Step one), using “X percent” as the valuation interest rate for the first twenty contract years after issue and thereafter the Type A interest rate for contracts without cash settlement options for guarantee durations of more than twenty years. However, “X percent” shall not be greater than 115% of the appropriate Type A interest rate in step one; where such limit is effective, the present value at issue will be greater than PV (0).

- (iii) For each valuation year calculate “graded interest rate reserves” based on the assumption that the valuation interest rate during the first twenty contract years is “X percent” as calculated in step two and thereafter is the Plan Type A interest rate for contracts without cash settlement options for guarantee durations of more than twenty years.
 - (iv) In lieu of the individual contract valuation above, a group valuation may be made as for example on the assumption that all contracts issued during a given year are issued as a single contract on July 1, and once X% is determined for such year, it need not be redetermined; or
 - c. Any other method producing reserves at least as great as (a) or (b) and specifically approved by the Commissioner.
- 7. Where the requirements of this guideline produce higher reserves than those calculated by an insurer in good faith based on a more liberal interpretation, such insurer may continue its present procedures for the 1989 year end valuation but must comply with this guideline for 1990 and later issues for the 1990 and later year end valuations and for all its inforce, subject to the 1980 amendments to the NAIC Model Standard Valuation Law, by the 1993 year-end valuation.
- 8. The examiner should request that the insurer demonstrate that the assets are sufficient for the liabilities by cash flow projections of the supporting assets and the liabilities under various interest scenarios, in particular for declining interest rates.
- 9. The examiner should note that date of acquisition and the yields of the supporting assets and compare such with the date of issue of the structured settlements and the valuation interest rates. If such differ, the examiner may request a new valuation using the date of acquisition of the majority of the supporting assets as the date of issue of remaining payments. This is especially important where, for example, an insurer during 1986 exchanged high yielding assets originally acquired in 1982 for low yielding assets acquired in 1986. Also, many of the high yielding assets may have been called during 1986. Also, due to the long-term nature, often as many as 30, 40, and 50 years, the increasing nature of the payments and the lump sum payments, the value of future payments with a single fixed interest rate may actually increase after issue. The result is that there is a large reinvestment risk and large liabilities may exist after all the original supporting investments have matured and new investments acquired.
- 10. The procedures above are interim procedures pending a reconstitution of the valuation laws.

Background

Current Actuarial Guideline IX provides guidance for determining what is an immediate annuity but it does not advise how contracts failing to meet the test should be treated for valuation purposes. Three examples of failing contracts are: (1) annual payments increasing 120% each year, (2) level payments payable biannually, (3) level annual payments with extra lump sum payments equal to four times a regular annual payment payable every five years. These examples are not practical examples for annuity payments beginning at normal retirement ages such as 60, 65 or 70 under individual or group retirement programs, but combinations of irregular payments and increasing regular payments are practical under structured settlements.

At the time of the adoption of the NAIC 1980 revisions of the Standard Valuation Law, structured settlement business was relatively minor, and how to treat such business was not explicitly covered in the SVL. The volume of structured settlement business has boomed in recent years. Periodic and deferred payout was encouraged and even mandated in some states as a means of controlling costs under malpractice claims and ensuring that the monies would be available in future years and not squandered as

could happen with lump sum payments. Periodic and deferred payments may result in settlement on automobile claims, other accidents involving tort action as well as medical malpractice claims and workers' compensation claims such that the individuals may well be substandard.

Where payments are contingent on the individual being alive, under a related guideline, substandard annuity mortality tables may be recognized for valuation based on a written evaluation of the injured individual's longevity by a medical doctor. For all other annuitants, substandard annuity mortality tables should not be recognized as such is contrary to the establishment of minimum reserves for such annuitants. However, the vast bulk of reserves for structured settlements is based on certain payments, such that the valuation interest rate is by far the more important factor. This guideline covers valuation procedures and valuation interest rates leaving application of substandard annuity mortality table to Guideline IX-A.

Structured settlements take their name from the fact that the settlements are frequently structured to fit the circumstances of the injured party and/or the injured party's dependents. The injured party and/or dependents are apt to be much younger than normal retirement age such that the payments may well stretch out for 30, 40, and 50 years or more. Lump sum payments may be scheduled to coincide with particular events such as college for dependent children.

The 1980 changes in the SVL initiated a set of valuation interest factors for each year of issue so as to roughly have the factor correspond to the investment rates at the time at which monies are received and invested. In 1980 the emphasis in the dynamic valuation interest rate was on the valuation interest rates for group guaranteed interest contracts (GIC). Group GIC's generally have had a guaranteed interest period of 5-10 years with a lump sum available at the end of the period. Any renewal of an interest guarantee and period is generally considered as a new issue for valuation purposes, whether the year of issue or the change in fund method is used.

Most retirement annuities under individual or group programs had level or slightly increasing payments with payments beginning at age 60, 65 or 70, such that for annuities in course of payments, there should be little reinvestment risk and reserves should decrease.

There is a large reinvestment risk in case of structured settlements. There is also a risk that the original assets may be called or exchanged for lower yielding assets.

Guideline IX-B would split up the contract and treat that portion of the payments meeting the test as an annuity and any excess payments separately for purposes of determining the appropriate valuation interest factors based on the duration to first payment of such excess. The guideline also offers a new dual interest procedure as an alternative to splitting the payments.

The guideline recognizes that the use of the statutory formulae with the rates determined based on the date of purchase may be inappropriate where the assets have been exchanged or acquired in later years. It is suggested that the examiner may wish to adjust the issue year for selection of the valuation interest factors so as to make them consistent with the date of investment.

It is recognized that these procedures for determining statutory formulae reserves are only temporary while the Special Committee on Valuation is developing a new statutory formula to go along with a valuation of liabilities based on the supporting assets and the actuary's best judgment to account for reasonable deviations.

Actuarial Guideline IX–C

USE OF SUBSTANDARD ANNUITY MORTALITY TABLES IN VALUING IMPAIRED LIVES UNDER INDIVIDUAL SINGLE PREMIUM IMMEDIATE ANNUITIES

The NAIC model Standard Valuation Law, Section 4a, A(2), permits modifications of annuity mortality tables approved by the commissioner. In states which have adopted this or similar Standard Valuation Law language, this guideline provides for modifications of annuity mortality tables solely for the purpose of valuing:

Individual single premium immediate annuities not covered by Guideline IX-A, but for which medical records indicate the expectation of life has been reduced and for which the premium charged reflects such reduction,

A substandard annuity mortality table may be used where the annuitant (or measuring life) has relevant hospital records, treating physicians' reports, and/or independent medical evaluations from those medical doctors that have been used during the underwriting process and have been retained in the underwriting file of the company as proof of the individual's impaired health and shortened longevity. The medical assessment must support at least a 25% reduction in the expectation of life (based on either the current valuation table or the company's pricing table, consistently applied) compared to a normally healthy individual at the same age and gender.

In such case the insurer may modify the statutory annuity mortality table or tables cited in Section 3a of the Standard Valuation Law or in any regulation promulgated pursuant to such section so as to reflect the longevity based on a medical doctor's written evaluation or records as indicated above. The table may be modified by a percentage of standard mortality or by a specified number of extra deaths or by a combination thereof, provided that the mortality table so adjusted produces reserves that are at least as great as the minimum reserves indicated below. The percentage extra mortality or the specified number of extra deaths may vary by duration. A rated up age with the standard annuity table which is approximately equivalent to the actual age on the substandard annuity table may be used only if the procedure is modified to produce reserves that at each duration are at least as great as the minimum reserves indicated below.

The fact that a company has held minimum reserves as herein described shall in no way relieve the actuary from considering whether such reserves are adequate.

Minimum Reserves

The minimum reserves for applicable annuity contracts are the reserves obtained by making a constant addition to the mortality rate of the otherwise applicable valuation mortality table. The amount of the constant addition is determined as follows:

- 1) Calculate the present value of future benefits at issue for each contract using a rated up age, the applicable valuation mortality table, and the appropriate level Plan Type A interest rate for contracts without cash settlement options. The rated up age must produce an expectation of life under this valuation mortality table whose percent reduction from the actual age expectation of life under this table is not greater than the percent reduction in the expectation of life, supported by the medical assessment above, which qualified the contract to utilize the mortality adjustments provided by this actuarial guideline.
- 2) Solve for the constant addition to the true age mortality rates such that the present value of future benefits at issue is equal to or greater than the present value obtained in 1). The base mortality table and the valuation interest rate shall be the same as used in 1).

The constant addition to the mortality table herein described shall be made as of the issue date and, once determined, held constant for the period of time that the contract remains in force. The addition of a constant to the valuation mortality rate produces a gradually declining percentage extra mortality such that reserves will grade into standard reserves at the end of the standard valuation mortality table thereby making the reserve more conservative (closer to standard) each year that the annuitant or measuring life lives.

Where an insurer uses a modified table with higher mortality rates or a rated age with an unmodified table for impaired lives under individual single premium immediate annuities, such insurer shall maintain records of actual to expected mortality to monitor the appropriateness of the substandard mortality. The appointed actuary must comment on the appropriateness of the substandard mortality and report any material deviations. Such comments and report should be provided in the actuarial memorandum which supports the annual actuarial opinion.

Background

Guideline IX-A provides a methodology to allow less than a standard reserve to be held at issue for certain kinds of pay-out annuities and for grading the reserve toward standard reserves over the remaining lifetime of the annuitant using the “constant extra death” method (CED). The longer the annuitant lives, the closer reserves get to standard reserves.

Guideline IX-A says, “Because experience and methodology are still emerging for substandard annuities, it is expected that this whole subject will be reviewed again in the not too distant future, both as it applies to whether the criteria herein established for settlement annuities are too conservative and also whether or how it might be acceptable to apply similar standards to substandard non-settlement annuities”.

It has now been almost 11 years since Guideline IX-A was adopted and it appears the industry has done a responsible job of underwriting and valuing substandard annuities covered by Guideline IX-A. Structured settlement mortality studies done by the Society of Actuaries bear this out. (See the 1995-1996 Reports of the Society of Actuaries, starting on page 395.)

Guideline IX-A has been successful in allowing structured settlements to be priced fairly and has benefited injured parties and society in general. There is no evidence that there has been any strain to insurance companies from under reserving due to Guideline IX-A.

For some time, a number of companies have had a significant and increasing opportunity to provide immediate annuities at less than a standard price to a growing number of potential clients not covered by Guideline IX-A. However, the potential price reductions that the industry can give consumers, perhaps 15% to 25% of the single premium on some cases, depending on the benefit stream desired, are greatly reduced because of the current requirement to hold standard reserves. The initial statutory strain (loss) on highly substandard cases can easily exceed 50% or 100% of the single premium, which requires a significantly increased price to the customer over what could be charged if less than standard reserves were permitted. With Guideline IX-A type reserves, the strain might be reduced to something closer to 10%.

The population is aging and the need for fairly priced single premium immediate annuity benefits is substantially increasing. Forcing companies to hold standard reserves results in many people being overcharged (for the extra cost of capital associated with the higher reserve) at a time in their life when they may have the greatest need.

Since this is an area with little experience, it is required that an insurer monitor the experience in order to be able to justify its choice of an adjusted mortality assumption. It is recognized that the initial liability pertains to a large extent to payments that are certain and not contingent upon survival. This is because the majority of non-settlement substandard contracts contain a certain period and most of the benefits fall

within that certain period. It is also noted that the interest discount factor in the early durations is far more important than the mortality element. The selection of the interest discount factor is the subject of Guideline IX-B.

Because the standard annuity valuation table is an aggregate table, there is some concern that carving out the substandard lives may cause the table to be inadequate for the remaining lives. As a result, it is recommended that an individual life have a significant impairment before use of a substandard valuation table is allowed. For this purpose, significant has been defined as a medical condition that reduces the expectation of life of the individual by at least 25% compared to a normal, healthy life. The reasoning is that not very many lives that are significantly substandard (i.e. greater than a 25% reduction in the expectation of life) are contained in the underlying mortality of individual non-settlement annuity mortality tables. Thus, treating them separately will not diminish the adequacy of the standard table. For convenience, either the applicable individual annuity valuation table or the company's pricing table can be used to measure the change in the expectation of life.

A public policy issue was discussed wherein this actuarial guideline could be viewed as rewarding unhealthy behavior. However, this actuarial guideline would benefit others who were simply unfortunate to be in an impaired condition. It was noted that it would be difficult or impossible to carve out those with intentionally unhealthy behavior. Ultimately it was believed that this actuarial guideline provides for reasonable public policy to facilitate lower single premiums for substandard annuitants.

Effective Date

This Guideline will be effective for contracts issued on or after January 1, 2001.

Actuarial Guideline X

GUIDELINE FOR INTERPRETATION OF NAIC STANDARD NONFORFEITURE LAW FOR INDIVIDUAL DEFERRED ANNUITIES

Text

For contracts which provide cash surrender benefits, the NAIC Model Law prescribes a basis for determination of minimum cash surrender benefits. That law does not require that a company grant additional amounts in excess of the amounts guaranteed in the contract, either in the form of excess interest credits or otherwise. When such additional amounts have been credited to the contract, the question of how the Model Law applies to such amounts must be considered.

Under one interpretation the portion of the maturity values which would arise from such amounts may be discounted to the date of surrender at an interest rate 1% higher than the rate specified in the contract for accumulating such amounts. This interpretation would permit a surrender charge against such amounts on the same basis as the surrender charge which may be applied to the contractually guaranteed portion of the interest credited to the contract.

Under another interpretation such amounts could not be treated as providing a portion of the maturity value and, therefore, would be included in the phrase “any additional amounts credited by the company to the contract.” This interpretation would require that the cash surrender value be increased by 100% of the accrued value of such amounts.

By providing for a surrender charge to be made in determining the minimum cash surrender value, the Model Law enables a company to provide for recovery of all or part of any (1) excess first year expenses not yet recovered, and (2) potential investment losses at surrender. The reason for permitting surrender charges to be made against accumulated amounts of contractually guaranteed interest are equally valid reasons for permitting surrender charges against any non-guaranteed interest credited. If such surrender charges were not permitted, companies offering such contracts may be discouraged from crediting as much additional interest as they might if the additional interest were to contribute to the minimum cash surrender value in the same manner as do the interest amounts derived from the rates guaranteed in the contract.

In view of the above considerations, the following guidelines are recommended:

I. Treatment of Amounts of Excess Interest Credited to Deferred Annuity Contracts

The NAIC Standard Nonforfeiture Law for Individual Deferred Annuities shall be interpreted to permit the portion of the maturity value which would arise from the amounts of interest credited in excess of the minimum rates guaranteed in the contract to be discounted to the date of surrender at an interest rate 1% higher than the rate specified in the contract for accumulating such amounts, provided such excess interest is declared prior to the period for which it is to be effective, and provided such excess interest accrues over the effective period. Amounts of excess interest treated in accordance with the above interpretation shall not be included by the phrase “additional amounts credited by the company to the contract” in Section 6 of the Model Law.

II. Treatment of Dividends Credited to Deferred Annuity Contracts

No single rule can be given for the treatment of dividends credited to deferred annuity contracts. The contractual wording of the applicable dividend option must be taken into account together with the appropriate provisions of the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities.

If the dividend option in effect provides that dividends be left on deposit at interest, without any further qualification, then the cash surrender value should be increased by the full accumulated amount. In this

case, the phrase “increased by any additional amounts credited by the company to the contract” applies and no surrender charge may be made.

In other cases, the dividends may be added, directly or indirectly, to the contractual value and made subject to the surrender charge provision. This would be the case when dividends are applied to purchase additional paid-up benefits or applied as premiums.

Contracts may contain other provisions or variations of these provisions. In such cases, the terms of the contract and the provision of the NAIC Standard Nonforfeiture Law for Individual Deferred Annuities should be taken into account.

Not for Distribution

Actuarial Guideline XI

EFFECT OF AN EARLY ELECTION BY AN INSURANCE COMPANY OF AN OPERATIVE DATE UNDER SECTION 5-C OF THE STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

Section 5-C of the Standard Nonforfeiture Law for Life Insurance May be Made Operational for One or More Plans at a Time Provided That:

- A. Sales are discontinued in this state on all like plans using rates and values generated by past requirements;
- B. Sales are discontinued in all other states which have enacted the new legislation on all like plans using rates and values generated by past standards, provided the state of sale has allowed changes to 1980 requirements on a plan-by-plan basis;
- C. Once the new law has been made operational for one plan, the new law shall be operational for all subsequent new plans of the same generic form to be marketed in this state unless the insurer can demonstrate to the Commissioner's satisfaction the need to continue the prior set of requirements;

"Like plans," as mentioned in Sections A and B, refers to plans with the same benefits, including cash values, and with the same premium paying period and pattern of premiums;

"Generic form," as mentioned in Section C, refers to generic groups, such as ordinary vs. group, term vs. permanent, flexible cash value vs. fixed cash value, separate account vs. fixed account.

Actuarial Guideline XII

INTERPRETATION REGARDING VALUATION AND NONFORFEITURE INTEREST RATES

Actuarial Guideline XII was withdrawn on March 7, 1993.

Not for Distribution

Actuarial Guideline XIII

GUIDELINE CONCERNING THE COMMISSIONERS' ANNUITY RESERVE VALUATION METHOD

Preamble

At its December 1976 meeting, the NAIC adopted the Commissioners' Annuity Reserve Valuation Method (CARVM) and incorporated it in its Model Standard Valuation Law. CARVM is now included in the laws of nearly all of the states. Differences in interpretation of CARVM have developed in practice, particularly on whether and under what conditions surrender charges may be taken into account in determining CARVM reserves. This guideline is intended to clarify which surrender charge factors may be taken into account and which are to be disregarded under CARVM.

Reserves according to CARVM depend in part upon the present values of "future guaranteed benefits, including guaranteed nonforfeiture benefits." It has always been recognized that this phrase, as used in the NAIC Model Standard Valuation Law, includes cash surrender values based on contractual guarantees after reduction for any contractual surrender charges available to the insurer. This is illustrated in the Proceedings. See *Proceedings of the National Association of Insurance Commissioners*, Vol. 1 (1977), 538-45.

Guideline

The phrase, "future guaranteed benefits, including guaranteed nonforfeiture benefits," as used in CARVM include the cash surrender values based on contractual guarantees after reduction for any surrender charges available under the contract.

In recent years, annuity contracts with contingent surrender charges have become more prevalent. For example, a contract may provide the option to surrender without surrender charge if the rate at which interest is credited falls below a specified rate, referred to in this guideline as the "bail-out" rate. Contingent surrender charges may not be available upon cash surrender at future contract anniversaries, and it is not consistent with the conservative nature of CARVM to reduce the value of future guaranteed benefits on account of such contingent surrender charges.

The value of future guaranteed benefits under CARVM may not be reduced by contingent surrender charges which may not be available upon cash surrender.

There may be some contracts with contingent surrender charges with bail-out rates which are so low that it would not be contrary to the conservative intent of CARVM to treat such surrender charges as available. The calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years, which is used in the Standard Valuation Law in connection with the definition of guaranteed duration for most annuities and guaranteed interest contracts, provides an appropriate measure for this purpose. Whether or not such surrender charges should be treated as available should be determined as of December 31, 1984 for contracts in force at the date and as of the date of issue for contracts subsequently issued.

For contracts issued on and after January 1, 1985, contingent surrender charges with bail-out rates less than or equal to the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years issued in the same year may be treated as available. For contracts issued prior to January 1, 1985, contingent surrender charges with bail-out rates less than or equal to 6.00% (the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years issued in 1984) may be treated as available.

There are some contracts with contingent surrender charges with bail-out rates which are a function of an external index whose future values are not known. Judgment is required to determine whether or not such

surrender charges may be treated as available. Comparison to the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty years may be useful.

For contracts with contingent surrender charges with bail-out rates which are a function of an external index, a judgment as to the availability of the surrender charges may be made by comparing historical values of the function with corresponding values of the calendar year statutory valuation interest rate for life insurance with guarantee duration in excess of twenty years. If the values of the function have generally been less than or equal to the valuation rates, then the surrender charges may be treated as available.

For the purpose of this guideline, in the case of a variable annuity that offers the policyholder a choice of multiple investment options, a surrender charge that may be waived for all the accounts of the contract by reference to one or more of the accounts will be treated as a contingent surrender charge that may not be available upon cash surrender with respect to the entire contract. If no surrender charge is imposed on transfers among the accounts, and the surrender charge may be waived for one account, provided the formula for the availability of the waiver is set at the date of issuance, then the surrender charge will be treated as a contingent surrender charge that may not be available upon cash surrender with respect to the entire contract.

Since this guideline is intended to apply to all contracts in force that are subject to CARVM, its application may work an undue hardship on some insurers who have, on the basis of a good faith interpretation of CARVM, held reserves less than required by this guideline. In cases of severe hardship, state insurance commissioners may wish to permit insurers to conform on a gradual basis.

Not for Distribution

Actuarial Guideline XIV

SURVEILLANCE PROCEDURE FOR REVIEW OF THE ACTUARIAL OPINION FOR LIFE AND HEALTH INSURERS

To assist regulators in their responsibility for surveillance of life and health insurers, the NAIC adopts the following interim procedure for use of the Actuarial Opinion to be used until such time as model legislation and/or regulations are adopted and become effective.

1. The regulator should accept Actuarial Opinions only from qualified actuaries. The educational and experience standards established by the American Academy of Actuaries for this purpose offers evidence that an individual is so qualified.
2. The regulator should determine if an opinion is qualified in any respect, or omits items from the outline provided in the Instructions to the Blank. If so, a follow up with the actuary rendering the opinion as to the nature of the qualification or omission is appropriate if the opinion does not provide a satisfactory explanation.
3. The regulator should examine the circumstances where the actuary rendering the opinion differs from the prior actuary, and ascertain the reasons for the change. In some cases the regulator may wish to discuss the change with the current and prior actuaries.
4. The regulator should, if desired, obtain for reviews, documentation supporting the Actuarial Opinion. Except in matters of professional discipline, the regulator's use of these documents should be considered within the department's guidelines for confidential information.
5. The regulator may require that the actuary furnish an Actuarial Report supporting the Actuarial Opinion. The report should conform to the standards of the American Academy of Actuaries with respect to Actuarial Reports (Opinion 3 to the Guides to Professional Conduct). It should document the methodology and approach to assumptions used in making the opinions and, additionally, provide specific details in reference to items in 6 through 10 below if such details are required by the regulator.
6. In the Actuarial Report, the actuary providing the opinion should refer to the NAIC Insurance Regulatory Information System (IRIS) ratios, point out ratio values outside the prior year's range of usual values, and provide explanations for those which are significant.
7. In the Actuarial Report, the actuary providing the opinion should make specific reference to the extent to which the good and sufficient analysis considered all the unmatured obligations of the company, in aggregate, guaranteed under the terms of its policies. (Note: To the extent that the insurer declares guarantees more favorable than those in the policy, such declared guarantees shall be used in the calculation of all the unmatured obligations.)
8. In the Actuarial Report, the actuary providing the opinion should make specific reference as to whether the good and sufficient analysis, with respect to annuities and other products with benefits (guaranteed or non-guaranteed) sensitive to interest rates, considered future insurance and investment cash flows as they would emerge under a reasonable range of future interest rate scenarios, and, if so, what those considerations were.
9. In the Actuarial Report, the actuary providing the opinion should make specific reference as to whether the good and sufficient analysis considered the inter-relationships of assumptions with respect to guaranteed benefit payments, future expenses, policyowner dividends, and post-issue premium or benefit adjustments, especially among persistency, mortality, morbidity, inflation, and interest rates, and, if so, what those consideration were.

10. In the Actuarial Report, the actuary providing the opinion should document the extent to which the opinion is influenced by a continuing business assumption, and, if the impact is material, comment on the company's plan of operations with regard to this assumption as it affects assumed expenses and interest rates, and future reserve requirements.
11. A review of the documentation obtained in (4) above, undertaken or sponsored by the regulator, should:
 - a. Be done by a qualified reviewer;
 - b. Emphasize an examination of the appropriateness of the actuary's work process, methodology, and approach to assumptions.
12. If at any time during the review, the regulator requires more information deemed to be material to the development of the opinion, the company would be expected to comply with requests for such information.

Not for Distribution

Actuarial Guideline XV

ILLUSTRATIONS GUIDELINE FOR VARIABLE LIFE INSURANCE MODEL REGULATION

Any sales illustration shown or furnished in connection with the sale of variable life insurance must conform with the following requirements except that these requirements only apply to the variable portion of contracts with fixed and variable funding options. Item 9 specifically pertains to variable life insurance contracts offering both fixed and variable funding options.

1. The hypothetical interest rates used to illustrate accumulated policy values must be an annual effective gross rate after brokerage expenses and prior to any deduction for taxes, expenses and contract charges.
2. If illustrations of accumulated policy values are shown then for the highest interest rate used, one illustration must be based solely upon guarantees contained in the policy contract being illustrated. (For example, if the illustration includes the effect of mortality charges and administrative charges which are below the guaranteed maximums for such charges, an illustration must be prepared which involves the effect of the maximum charges.)
3. Except for illustrations contained in the prospectus, the pattern of premium payments used in an illustration should be the initial pattern requested by the proposed policyholder at inception or upon changes in face amount requested by the policyholder.
4. If the illustrated policy contract provides for a variety of investment options, the illustration may either use an asset charge which is reasonably representative or use the asset charge of a particular option. The illustration should clearly identify the asset charge and either label it "hypothetical" or identify the fund.
5. The illustration must disclose the transaction charges which will be levied against the contract because of transactions requested in accordance with rights and privileges specified in the policy contract. Any charge for the exercise of a right or privilege upon which the illustration is based must be reflected in the illustrated values. The nature of any other such charges must be disclosed in a clear statement accompanying such illustrations. (For example, a charge to switch from one investment option or death benefit option to another.)
6. A clear statement must be made following the Table of Illustrated Accumulated Policy Values that use of hypothetical investment results does not in any way represent actual results or suggest that such results will be achieved and must indicate that the policy values which actually arise will differ from those shown whenever the actual investment results differ from the hypothetical rates illustrated. Assumptions upon which illustrations are based must be clearly disclosed.
7. Any sales illustration to a prospective policyholder must reflect the policy being presented accurately. Misleading statements or captions or other misrepresentations are prohibited.
8. The requested sales illustration must be printed clearly and legibly on hard paper copy. An illustration displayed on a computer screen may be used in addition to, but not as a substitute for, hard paper copy.
9. In connection with variable life insurance contracts offering both fixed and variable funding options:
 - a. An illustration of the variable funding option must comply with these guidelines;

- b. If an illustration of the fixed funding option is shown, accumulated policy values must be shown on the basis of guaranteed rates. One or more additional rates may also be shown but such rates may not exceed current rates;
 - c. A summary illustration may be given in which results from comparable illustrated and hypothetical interest rates are combined. Such summary must cross-reference to the accompanying separate illustrations of the fixed and variable funding options.
10. Nothing herein shall prohibit the distribution to the prospective policyholder of illustrations in addition to those required by Article VII of the NAIC Model Variable Life Insurance Regulation provided that, except for Item 3 which shall only apply to required illustrations under Article VII, such additional illustrations comply with the standards set forth herein.

Not for Distribution

Actuarial Guideline XVI

CALCULATION OF CRVM RESERVES ON SELECT MORTALITY AND/OR SPLIT INTEREST

Text

When CRVM reserves are being calculated, it is necessary to determine the value of ${}_{19}P_{x+1}$. The Standard Valuation Law permits the use of Select Mortality Factors with the 1980 CSO Table. While the maximum valuation interest rate for any policy is level for all durations, the law permits the use of other interest rates as long as the resulting reserves are not less than those according to the minimum standard. Thus, it is possible to calculate reserves by the CRVM method using split interest rates, i.e., interest rates that are not the same at all durations.

When either Select Mortality Factors or split interest are involved, the “net level annual premium on the nineteen-year premium whole life plan” is the renewal net level premium for a 20-payment life valued on the full preliminary term basis. That is ${}_{19}P_{[x]+1}$ should be used instead of, for example, ${}_{19}P_{[x+1]}$.

Background Information

The Report of the Society of Actuaries Committee on Specifications for Monetary Values - 1980 CSO Tables recommended this approach. This Report was accepted by the Board of Governors of the Society and forwarded to the NAIC early in 1984. This approach is logical because it is consistent with the calculation of the “net level annual premium equal to the present value, at the date of issue, of such benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of such policy on which a premium falls due.....” (See Section 4 of the Standard Valuation Law, emphasis added.)

Actuarial Guideline XVII

CALCULATION OF CRVM RESERVES WHEN DEATH BENEFITS ARE NOT LEVEL

Text

In the definition of the Commissioners' Reserve Valuation Method, the Standard Valuation Law (Section 4) refers to the "net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount...." The law does not define "the same amount" for cases when death benefits are not level. For policies issued after the operative date of Section 5-c of the Standard Nonforfeiture Law for Life Insurance (Section 5-c provides for the use of the 1980 CSO Table, among other things) "the same amount" is to be taken as the renewal nine-year arithmetic average, i.e., the arithmetic average of the death benefit at the beginning of each of policy years 2 through 10, inclusive.

Background Information

The Report of the Society of Actuaries Committee recommended this approach. Walter O. Menge in his paper Commissioners Reserve Valuation Method, RAIA XXXV (see p 277ff, especially p 283), defined an "equivalent level renewal amount" which has been accepted and still is the appropriate function for policies issued before the operative date of Section 5-c of the Standard Nonforfeiture Law for Life Insurance. The Society Committee indicated that the strongest factor that weighed in its conclusion was the effect on reserves for such plans as jumping juvenile. Menge noted the similarity between his definition of "equivalent level renewal amount" and the definition of "equivalent uniform amount" in Section 5 of the Standard Nonforfeiture Law for Life Insurance. In the same way, the function prescribed above is consistent with the "average amount of insurance" in Section 5-c of the Standard Nonforfeiture Law for Life Insurance. A principal reason for the change in the Standard Nonforfeiture Law was to simplify calculations, and this guideline will also have that result.

Actuarial Guideline XVIII

CALCULATION OF CRVM RESERVES ON SEMI-CONTINUOUS, FULLY CONTINUOUS OR DISCOUNTED CONTINUOUS BASIS

Text

The Standard Valuation Law uses the “excess of (a) over (b)” in the definition of the modified net premiums in Section 4. If reserves are calculated on a basis other than curtate, i.e., using semi-continuous, fully continuous or discounted continuous functions, the excess of (a) over (b) may be calculated using the same basis (semi-continuous, etc.).

Background Information

The Report of the Society of Actuaries Committee recommended this approach. The excess of (a) over (b) is sometimes referred to as the initial expense allowance. Basing this expense allowance on curtate functions is conservative as this results in the smallest amount of expense allowance. Also, the expense allowance is the same regardless of which type of functions are used. On the other hand, the use of curtate functions when the basic calculation is based on other functions can result in complications in calculation. The difference in the resulting reserves does not justify the additional complication.

Not for Distribution

Actuarial Guideline XIX

1980 CSO MORTALITY TABLE WITH TEN-YEAR SELECT MORTALITY FACTORS

Text

The Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance make reference to the Commissioners' 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors. The Ten-Year Select Mortality Factors referred to are those developed by the Society of Actuaries Special Committee to Recommend New Mortality tables for Valuation (see Report on p. 617ff and table of Ten-Year Select Mortality Factors on p. 669 of TSA XXXIII).

The NAIC model regulation regarding mortality tables independent of sex refers to certain specific tables which are blends of the male and female mortality rates of the 1980 CSO Table and specifies that these tables may be used with or without Ten-Year Select Mortality Factors. The Ten-Year Select Mortality Factors to be used with these blended tables are to be determined by use of the formula in the letter from Robert J. Johansen to Ted Becker reproduced on p. 457 of NAIC Proceedings 1984 Vol. I.

Background Information

The published report of a committee of the Society of Actuaries contains two sets of alternative select mortality factors. While that committee recommended that the alternative factors not be adopted, their publication has caused some confusion.

Not for Distribution

Actuarial Guideline XX

JOINT LIFE FUNCTIONS FOR 1980 CSO MORTALITY TABLE

Text

The tables of uniform seniority and the “Ultimate 1xx Tables” in Appendix 5 of the Report of the Society of Actuaries Committee on Specifications for Monetary Values - 1980 CSO Tables are acceptable for use in calculating reserves or nonforfeiture values for joint life policies on the 1980 CSO basis. These tables from Appendix 5 of the report are reproduced on the following pages of this Actuarial Guideline. These tables are numbered A5-1, A5-6 and A5-7 to coincide with the page numbers of those tables in Appendix 5 of the Society Committee report. (These are the only tables considered necessary for the purpose of this guideline.)

Other methods of calculating joint life functions may also be acceptable. In particular, it is acceptable to calculate “exact” joint life functions using published 1980 CSO mortality rates for the actual ages and genders of the lives to be insured.

Not for Distribution

1980 CSO and 1980 CET TABLES

A5-1

Tables showing the deduction to be made from the age of the older of two lives in order to obtain the equivalent equal ages. The equivalent equal ages are then used to enter tables of functions derived from tables based on one male and one female of the same age.

MALE/MALE		FEMALE/FEMALE	
Difference in Ages	Deduct from Older Age	Difference in Ages	Deduct from Older Age
0-1 Years	-2	0-1 Years	3
2-3	-1	2-3	4
4-6	0	4-6	5
7-9	1	7-9	6
10-13	2	10-13	7
14-19	3	14-20	8
20-32	4	21-48	9
33-55	5	49-70	8
56 & Over	6	71 & Over	7

OLDER MALE/YOUNGER FEMALE		OLDER FEMALE/YOUNGER MALE	
Difference in Ages	Deduct from Older Age	Difference in Ages	Deduct from Older Age
0-1 Years	0	0 Years	0
2-4	1	1-2	1
5-8	2	3-4	2
9-14	3	5-6	3
15-27	4	7-8	4
28-54	5	9-11	5
55 & Over	6	12-14	6
		15-18	7
		19-25	8
		26-47	9
		48-70	8
		71 & Over	7

It is not appropriate to apply values from the FEMALE/FEMALE column so that a negative joint equal age results. In such situations equivalent equal age zero should be used.

1980 CSO AND 1980 CET TABLES

ULTIMATE 1_{XX} TABLES

A5-6

MALE/FEMALE - JOINT EQUAL AGES

Age	1980 CSO ANB	1980 CET ANB	Age	1980 CSO ANB	1980 CET ANB
0	60,560,928	16,765,573,343	50	50,059,381	12,731,016,815
1	60,133,368	16,611,833,035	51	49,476,690	12,538,651,151
2	60,016,709	16,554,688,329	52	48,854,768	12,334,020,364
3	59,908,679	16,500,057,858	53	48,189,855	12,115,954,884
4	59,802,641	16,446,102,669	54	47,476,163	11,882,965,072
5	59,699,780	16,393,146,218	55	46,711,322	11,634,492,272
6	59,600,678	16,341,343,876	56	45,894,341	11,370,389,297
7	59,505,913	16,290,849,123	57	45,025,102	11,090,791,424
8	59,415,464	16,241,650,759	58	44,105,689	10,796,774,543
9	59,328,717	16,193,575,473	59	43,138,010	10,489,174,436
10	59,243,877	16,146,128,297	60	42,120,816	10,168,205,698
11	59,160,343	16,099,143,064	61	41,050,947	9,833,163,320
12	59,073,969	16,051,489,601	62	39,922,456	9,482,414,384
13	58,981,223	16,002,211,528	63	38,727,178	9,114,117,409
14	58,878,596	15,950,364,363	64	37,455,765	8,726,038,290
15	58,763,783	15,895,335,606	65	36,104,361	8,317,746,958
16	58,635,678	15,836,840,771	66	34,673,184	7,890,297,942
17	58,494,366	15,774,918,724	67	33,168,368	7,446,389,780
18	58,341,111	15,709,926,059	68	31,598,177	6,989,702,695
19	58,180,090	15,643,001,774	69	29,974,031	6,524,328,290
20	58,012,531	15,574,485,426	70	28,301,780	6,052,945,571
21	57,841,394	15,505,178,968	71	26,582,447	5,577,062,990
22	57,669,027	15,435,715,764	72	24,815,246	5,097,324,032
23	57,497,173	15,366,563,757	73	22,997,777	4,614,505,500
24	57,326,406	15,297,875,217	74	21,131,047	4,130,490,018
25	57,156,720	15,229,646,694	75	19,226,083	3,649,618,370
26	56,989,251	15,162,179,359	76	17,303,859	3,178,781,104
27	56,822,842	15,095,162,526	77	15,392,302	2,726,027,311
28	56,656,351	15,028,290,956	78	13,522,753	2,299,540,338
29	56,488,648	14,961,264,778	79	11,725,985	1,906,364,931
30	56,318,617	14,893,789,474	80	10,025,717	1,551,018,508
31	56,145,156	14,825,724,856	81	8,438,546	1,235,758,486
32	55,966,614	14,756,488,721	82	6,977,243	961,383,029

ULTIMATE 1~~XX~~ TABLES (CONT'D)

Age	1980 CSO ANB	1980 CET ANB	Age	1980 CSO ANB	1980 CET ANB
33	55,783,044	14,686,100,270	83	5,651,637	727,555,449
34	55,592,824	14,614,138,379	84	4,470,897	533,319,971
35	55,393,802	14,540,044,697	85	3,444,826	377,233,215
36	55,185,521	14,463,709,462	86	2,579,176	256,609,122
37	54,964,779	14,384,303,697	87	1,872,714	167,383,564
38	54,728,980	14,301,162,422	88	1,316,256	104,405,498
39	54,476,679	14,213,496,296	89	893,896	62,098,302
40	54,204,296	14,119,829,355	90	585,350	35,106,033
41	53,909,967	14,019,719,765	91	368,642	18,789,100
42	53,590,820	13,911,767,923	92	222,531	9,470,646
43	53,246,767	13,795,743,779	93	128,118	4,461,337
44	52,876,702	13,671,168,213	94	69,801	1,940,503
45	52,480,127	13,537,874,323	95	35,420	760,483
46	52,055,563	13,395,455,885	96	16,202	255,127
47	51,602,680	13,243,953,279	97	6,225	65,264
48	51,120,195	13,083,039,247	98	1,699	9,381
49	50,606,437	12,912,305,585	99	200	200

ULTIMATE 1_{XX} TABLES

A5-7

MALE/FEMALE - JOINT EQUAL AGES

Age	1980 CSO ALB	1980 CET ALB	Age	1980 CSO ALB	1980 CET ALB
0	60,347,148	16,688,703,189	50	49,768,036	12,634,833,983
1	60,075,038	16,583,260,682	51	49,165,729	12,436,335,758
2	59,962,694	16,527,373,094	52	48,522,312	12,224,987,624
3	59,855,660	16,473,080,264	53	47,833,009	11,999,459,978
4	59,751,210	16,419,624,444	54	47,093,742	11,758,728,672
5	59,650,229	16,367,245,047	55	46,302,832	11,502,440,784
6	59,553,296	16,316,096,500	56	45,459,722	11,230,590,360
7	59,460,688	16,266,249,941	57	44,565,396	10,943,782,984
8	59,372,090	16,217,613,116	58	43,621,850	10,642,974,490
9	59,286,297	16,169,851,885	59	42,629,413	10,328,690,067
10	59,202,110	16,122,635,680	60	41,585,882	10,000,684,509
11	59,117,156	16,075,316,332	61	40,486,702	9,657,788,852
12	59,027,596	16,026,850,564	62	39,324,817	9,298,265,896
13	58,929,910	15,976,287,946	63	38,091,472	8,920,077,850
14	58,821,190	15,922,849,984	64	36,780,063	8,521,892,624
15	58,699,730	15,866,088,188	65	35,388,772	8,104,022,450
16	58,565,022	15,805,879,748	66	33,920,776	7,668,343,861
17	58,417,738	15,742,422,392	67	32,383,272	7,218,046,238
18	58,260,600	15,676,463,916	68	30,786,104	6,757,015,492
19	58,096,310	15,608,743,600	69	29,137,906	6,288,636,930
20	57,926,962	15,539,832,196	70	27,442,114	5,815,004,280
21	57,755,210	15,470,447,365	71	25,698,846	5,337,193,511
22	57,583,100	15,401,139,760	72	23,906,512	4,855,914,766
23	57,411,790	15,332,219,487	73	22,064,412	4,372,497,759
24	57,241,563	15,263,760,956	74	20,178,565	3,890,054,194
25	57,072,986	15,195,913,026	75	18,264,971	3,414,199,737
26	56,906,046	15,128,670,942	76	16,348,080	2,952,404,208
27	56,739,596	15,061,726,741	77	14,457,528	2,512,783,824
28	56,572,500	14,994,777,867	78	12,624,369	2,102,952,634
29	56,403,632	14,927,527,126	79	10,875,851	1,728,691,720
30	56,231,886	14,859,757,165	80	9,232,132	1,393,388,497
31	56,055,885	14,791,106,788	81	7,707,894	1,098,570,758
32	55,874,829	14,721,294,496	82	6,314,440	844,469,239
33	55,687,934	14,650,119,324	83	5,061,267	630,437,710
34	55,493,313	14,577,091,538	84	3,957,862	455,276,593

ULTIMATE 1_{XX} TABLES (CONT'D)

Age	1980 CSO ALB	1980 CET ALB	Age	1980 CSO ALB	1980 CET ALB
35	55,289,662	14,501,877,080	85	3,012,001	316,921,168
36	55,075,150	14,424,006,580	86	2,225,945	211,996,343
37	54,846,880	14,342,733,060	87	1,594,485	135,894,531
38	54,602,830	14,257,329,359	88	1,105,076	83,251,900
39	54,340,488	14,166,662,826	89	739,623	48,602,168
40	54,057,132	14,069,774,560	90	476,996	26,947,566
41	53,750,394	13,965,743,844	91	295,586	14,129,873
42	53,418,794	13,853,755,851	92	175,324	6,965,992
43	53,061,734	13,733,455,996	93	98,960	3,200,920
44	52,678,414	13,604,521,268	94	52,610	1,350,493
45	52,267,845	13,466,665,104	95	25,811	507,805
46	51,829,122	13,319,704,582	96	11,214	160,196
47	51,361,438	13,163,496,263	97	3,962	37,322
48	50,863,316	12,997,672,416	98	950	4,790
49	50,332,909	12,821,661,200	99	100	100

Actuarial Guideline XXI

CALCULATION OF CRVM RESERVES WHEN (B) IS GREATER THAN (A) AND SOME RULES FOR DETERMINATION OF (A)

Text

The Standard Valuation Law used the “excess of (a) over (b)” in the definition of the modified net premiums in Sec. 4. If the excess of (a) over (b) is negative, and the policy is issued on or after January 1, 1987, the excess is to be taken as zero.

The Standard Valuation Law defines (a) as a net level premium, subject to a maximum. The net level premiums for the policy are a uniform percentage of the respective gross premiums such that the present value at issue of the net level premiums payable on and after the first anniversary is equal to the present value at issue of the benefits provided for by the policy after the first anniversary. The net level premium used in determining (a) is the net level premium payable on the first anniversary. The maximum for (a) is the net level premium on the 19-year premium whole life plan for a policy with level premiums issued at an age one year higher than the age at issue of the policy.

The value of (a) is to be calculated as defined in the Standard Valuation Law, even if the resulting reserves are not equal to reserves according to the full preliminary term method.

Background Information

The Report of the Society of Actuaries Committee on Specifications for Monetary Values—1980 CSO Tables recommended that a negative excess of (a) over (b) be taken as zero. Walter O. Menge in his paper Commissioners Reserve Valuation Method, RAIA XXXV (see pp. 260 and 261) pointed out the illogic of a negative excess of (a) over (b). A negative excess, if used, would result in CRVM reserves that are greater than net level premium reserves. This principle has been recognized since Menge wrote his paper, but some actuaries are not aware of the paper.

Defining the net level premiums as being a uniform percentage of the respective gross premiums is consistent with the definition in Menge’s paper. Since the denominator of (a) is the present value of an annuity commencing on the first anniversary, the logical value for (a) is the net level premium (as defined) payable on the first anniversary.

In his paper, Menge indicates that CRVM reserves are equal to full preliminary term reserves unless the value of (a) is the maximum defined in the Standard Valuation Law, or unless the excess of (a) over (b) is negative. Menge does not appear to have considered the case where the gross premium for the first policy year does not equal the gross premium for the second policy year. For such policies a literal application of the Standard Valuation Law does not result in full preliminary term reserves.

Actuarial Guideline XXII

INTERPRETATION REGARDING NONFORFEITURE VALUES FOR POLICIES WITH INDETERMINATE PREMIUMS

Text

Indeterminate premium policies provide that premiums after issue will be determined by the insurer based on then current assumptions as to future experience. The policies also provide a schedule of maximum premiums which the premiums actually charged will not exceed.

The minimum nonforfeiture values for an indeterminate premium policy are the greater of those assuming that the gross premiums for the policy are (i) those according to the schedule of gross premiums based on current assumptions at issue and illustrated to prospective policyholders, or (ii) those according to the schedule of maximum gross premiums included in the policy:

Background Information

Indeterminate premium policies are a fairly recent development in life insurance. They can serve a legitimate function by enabling a nonparticipating policy to include a safety margin that need not be called upon unless it is needed. Indeterminate premiums are sometimes used to avoid deficiency reserve requirements. In general, regulators have not objected to this.

Section 6 of the Standard Nonforfeiture Law for Life Insurance refers to “any plan of life insurance which provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience...” This is a direct reference to the types of life insurance policies commonly known as indeterminate premium plans (see “Detailed Analysis of Recommended Changes in the Standard Valuation Law and the Standard Nonforfeiture Law for Life Insurance; NAIC Proceedings - 1981 Vol. II, p. 831). The Standard Nonforfeiture Law for Life Insurance provides that minimum nonforfeiture values for such policies are to be computed by a method consistent with the principles of the Law as determined by regulations promulgated by the commissioner.

Section 5 and Section 5-c of the Standard Nonforfeiture Law for Life Insurance each provide that “the adjusted premiums for any policy shall be calculated on an annual basis and shall be...(a) uniform percentage of the respective premiums specified in the policy for each policy year...” Indeterminate premium policies provide for two amounts of premiums for each year: the actual premium to be charged and the maximum amount of the actual premium. This raises the question of which premium is to be used in setting adjusted premiums as a uniform percentage of the gross premiums.

The maximum premiums have the advantage that they are known at the time the policy is issued. However, use of maximum premiums to determine minimum values can lead to manipulation. A level premium whole life policy has a readily determined set of minimum values in accordance with the Standard Nonforfeiture Law for Life Insurance. If the policy has indeterminate premiums and the premiums illustrated to the customer (with proper disclosure of their indeterminate nature) are level for life, there should be no change in the minimum values. If the minimum values were determined by reference to the maximum premiums and not to the schedule of premiums on the current assumptions, introduction of maximum premiums that increase by duration would result in lower minimum values.

This guideline was written with policies other than universal life insurance in mind. However, it is possible to design a fixed premium universal life insurance policy to which this guideline would be applicable.

Actuarial Guideline XXIII

GUIDELINE CONCERNING VARIABLE LIFE INSURANCE SEPARATE ACCOUNT INVESTMENTS

A variable life insurance separate account shall be deemed to have sufficient net investment income and readily marketable assets to meet anticipated obligations under policies funded by the account, as required by [statutory reference for state], if, and only if, it can be demonstrated to the satisfaction of the Commissioner that the sum of the market value of readily marketable assets in the account at the date of valuation, plus the anticipated net investment income for the calendar year following the date of valuation exceeds by at least 15% the anticipated death benefits, surrenders, withdrawals and other such obligations payable from current account values during the same period. For the purposes of this demonstration, readily marketable assets means cash or those investments which have readily ascertainable market value and which can be marketed before the close of the next business day; net investment income excludes capital gains or losses; and the value of the anticipated death benefits, surrenders, withdrawals and other such obligations payable during the calendar year following the date of the valuation shall not be estimated at less than 10% of the market value of the account assets at the date of valuation.

If a variable life insurance separate account is divided into separate series, portfolios or other investment subdivisions, each series, portfolio or investment subdivision shall comply with this subsection.

Not for Distribution

Actuarial Guideline XXIV

GUIDELINES FOR VARIABLE LIFE NONFORFEITURE VALUES

Minimum cash surrender values for variable life insurance policies shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The methods pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

Minimum cash surrender values for variable life policies may be determined using option B (Retrospective Method), C (Prospective Method), or D (Maximum Charge Method).

A. Definitions

- (1) “Valuation Rate” as used in this guideline means the higher of the Assumed Investment Rate (AIR) or guaranteed interest rate included in the policy, if any, otherwise the highest valuation interest rate allowed under the Standard Nonforfeiture Law.
- (2) “Net Cash Surrender Value” means the maximum amount payable to the policyowner upon surrender.
- (3) “Cash Surrender Value” means the Net Cash Surrender Value plus any amounts outstanding as policy loans.
- (4) “Policy Value” means the amount to which separately identified interest credits and or investment return and mortality, expense, or other charges are made under a variable life insurance policy.
- (5) “Accumulation Rate” means the net investment return and/or any interest credits applied towards the policy value.

B. Retrospective Method

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a valuation date shall be equal to the value using the Accumulation Rate through that date of the premiums paid minus the accumulation through that date of (i) the benefit charges, (ii) the averaged administrative expense charges for the first policy year and any insurance-increase years, (iii) actual administrative expense charges for other years, (iv) initial and additional acquisition expense charges not exceeding the initial or additional expense allowances, respectively, (v) any service charges actually made (excluding charges for cash surrender or election of a paid-up nonforfeiture benefit) and (vi) any deductions made for partial withdrawals; all accumulations being at the Accumulation Rate at which changes in policy values have been made unconditionally to the policy (or has been made conditionally, but for which the conditions have since been met), and minus any unamortized unused initial and additional expense allowance.

Accumulation for the premiums and for all charges referred to in items (i)-(vi) above shall be based on the Accumulation Rate for the applicable account(s) from and to such dates as are consistent with the manner in which such Accumulation Rate is credited in determining the policy value.

The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the Commissioner shall have the right to require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy’s other characteristics.

The administrative expense charges shall include charges per premium payment, charges per dollar of premium paid, periodic charges per thousand dollars of insurance, periodic per policy charges, and any other charges permitted by the policy to be imposed without regard to the policyowner's request for services. The averaged administrative expense charges for any year shall be those which would have been imposed in the year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates which the policy states will be imposed in policy years through twenty in determining the policy value.

The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance-increase year over the averaged administrative expense charges for that year. An insurance-increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request (or by the terms of the policy).

Service charges shall include charges permitted by the policy to be imposed as a result of a policyowner's request for a service by the insurer (such as the furnishing of future benefit illustrations) or of special transactions.

The initial expense allowance shall be the allowance provided by Items (ii), (iii), (iv) of Section 5, or by Items (ii) and (iii) of Section 5c(1), as applicable, of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the variable life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the variable life insurance policy, and maturing on the latest date permitted under the policy, if any, otherwise at the highest age in the valuation mortality table. The unused initial expense allowance shall be the excess, if any, of the initial expense allowance over the initial acquisition expense charges as defined above.

If the amount of insurance is subsequently increased upon request of the policyowner (or by the terms of the policy), an additional expense allowance and an unused additional expense allowance shall be determined on a basis consistent with the above and with Section 5c(5) of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, using the face amount and the latest maturity date permitted at that time under the policy.

The unamortized unused initial expense allowance during the policy year beginning on the policy anniversary at age $x + t$ (where "x" is the issue age) shall be the unused initial expense allowance multiplied by $\ddot{a}_{x+t}/\ddot{a}_x$ where $\ddot{a}_{x+t}$ and $\ddot{a}_x$ are present value of an annuity of one per year payable on policy anniversaries beginning at ages $x + t$ and x , respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality guaranteed in the policy and the Valuation Rate for the policy. An unamortized unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with $\ddot{a}_x$ replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(Note: The drafters chose a whole life initial expense allowance for several reasons. Variable life insurance is generally considered a permanent life insurance plan and most companies encourage a premium level which will provide lifetime insurance protection. Every variable life insurance policy of which the drafters are aware has a "net level premium" that could be computed which would guarantee permanent protection using some suitable interest assumption. As a result, it is expected that most variable life insurance policies will be sold as permanent plans.

Traditional whole life insurance, which is accorded a permanent plan expense allowance by the Standard Nonforfeiture Law (SNFL), is much more flexible than is often realized. Premiums may be stopped with term coverage resulting, policy loans can result in "stop and go" premiums, or a vanishing premium arrangement can be effected, all without the permanent plan expense allowance being affected. The SNFL

does not require cash values for many forms of term insurance. All other permanent plans develop an expense allowance greater than that for whole life insurance under the SNFL.

The alternative of basing the initial expense allowance on a policyowner's "planned premium" was considered but rejected as artificial and subject to substantial manipulation by agents and/or insurers.)

C. Prospective Method

The minimum cash surrender value (before adjustment for indebtedness and dividend credits) available on a date as of which interest is credited to the policy shall be equal to [(1) - (2) - (3) - (4)] where:

- (1) is the present value of all future benefits;
- (2) is the present value of future adjusted premiums. The adjusted premiums are calculated as described in Sections 5 and 5a or in Section 5c(1), as applicable, of the Standard Nonforfeiture Law for Life Insurance, as amended in 1980. If Section 5c(1) is applicable, the nonforfeiture net level premium is equal to the quantity $PVFB/\ddot{a}_x$, where PVFB is the present value of all benefits at issue assuming future premiums are paid by the policyowner and all guarantees contained in the policy or declared by the insurer, and using the Valuation Rate.

$\ddot{a}_x$ is the present value of an annuity of one per year payable on policy anniversaries beginning at age x and continuing until the highest attained age at which a premium may be paid under the policy.

- (3) is the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy. $\ddot{a}_x$ shall be replaced by an annuity beginning on the date as of which the declaration became effective and payable until the end of the period covered by the declaration.
- (4) is the sum of any quantities analogous to (2) which arise because of structural changes in the policy.

(Note: Structural changes are those changes which are separate from the automatic workings of the policy. Such changes usually would be initiated by the policyowner and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period.)

Future benefits are determined by (1) projecting the policy value, taking into account future premiums, if any, and using the guaranteed interest rate, if any; otherwise, the lesser of the AIR, if any, or the highest state approved nonforfeiture interest rate, and using the mortality, expense deductions, etc. contained in the policy or declared by the insurer; and (2) taking into account any benefits guaranteed in the policy or by declaration which do not depend on the policy value.

All present values shall be determined using (i) an interest rate (or rates) specified by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for policies issued in the same year and (ii) the mortality rates specified by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980, for policies issued in the same year or contained in such other table as may be approved by the Commissioner for this purpose.

(Note: The types of quantities included in (3) are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period.)

D. Maximum Charge Method

- (1) Definitions: Wherever used in this Section, the terms have the respective meanings set forth or indicated in this paragraph.
- (a) Policy Value is equal to gross premiums paid (excluding separate identified premiums for riders or supplementary benefits which are not credited to policy value) plus net investment income (which may be positive or negative and may vary based on policy loans) less the following as specified in the policy: (i) administrative charges (which may be taken in part from premiums and in part from policy value), (ii) acquisition and other charges, (iii) deferred acquisition and other charges, (iv) benefit charges, (v) service charges, (vi) partial withdrawals, and (vii) partial surrender charges.
 - (b) Benefit Charges made to the Policy Value are mortality charges made for life insurance on the insured person or persons and any charge made for riders and supplementary benefits.
 - (c) Service Charges made to the Policy Value are charges for transactional costs such as partial withdrawals, reallocations of policy values and benefit illustrations. Transactional charges shall not be assessed unless specifically permitted by law or regulation for transactions made under mandatory policy provisions.
 - (d) Administrative Charges is a per policy charge made regularly to the Policy Value (or deducted from premiums on scheduled premium policies) for the cost of administration. This charge may not exceed \$5.00 per month in 1986. In subsequent years the limit for any new or in force policy shall be the product of \$5.00 and the ratio (not to exceed 2.00) of (1) the Consumer Price Index (for all urban households) for the September preceding the year for which the determination is being made to (2) the Consumer Price Index for September 1986. The Commissioner may allow a higher charge upon an insurer demonstrating a justification.
 - (e) Acquisition and Other Charges are deducted from gross premiums before they are credited to Policy Value and/or made to the Policy Value. They may be expressed as a percentage of premium or a dollar amount per \$1,000 of insurance or a dollar amount per premium payment or a per policy charge (other than the Administrative Charge). They do not include charges made as a reduction in investment return. These charges may vary by premium size, policy size and by policy year.
 - (f) Excess First Year Acquisition and Other Charges shall be the maximum excess of (A) over (B) based on the assumption that any premium (other than a single premium) payable in the first policy year is also payable during the entire premium paying period. (A) is the Acquisition and Other Charge made in the first policy year and (B) is the arithmetic average of the corresponding charges which the policy states would be made in policy years two through twenty.
 - (g) Excess Acquisition and Other Charges for a Face Amount Increase shall be the maximum excess of (A) over (B) based on the assumption that the net level whole life annual premium for the increase (as defined in (j) below) applies throughout the remaining premium paying period. (A) is the Acquisition and Other Charge for the increase, and (B) is the arithmetic average of the

corresponding charges which the policy states would be made in the nineteen policy years following the increase.

- (h) Net Investment Return is the actual amount credited to Policy Value net of investment expenses and/or other charges made as a reduction in investment return.
 - (i) The net level whole life annual premium at issue is based on the assumption of level insurance and level annual premium for life, the mortality table rate used to calculate the maximum mortality charges and an interest rate based on the higher of 4% or that specified in the policy.
 - (j) The net level whole life annual premium for an increase in the face amount of insurance shall be determined as of the date of the increases as though such increase were a separate policy under (i) above. Only increases in the face amount requested by the policyowner and increases in the face amount pursuant to the terms of the policy (e.g. an option to purchase or a cost of living increase) shall give rise to such a premium and the associated Excess Acquisition and Other Charges for a Face Amount Increase. Increases for this purpose shall not include increases in face amount resulting from a change in the death benefit option or changes in death benefit pursuant to policy terms that do not affect the face amount. Increases for this purpose shall be reduced by the amounts of any earlier decrease by reason of a partial withdrawal, but not a decrease resulting from a change in the death benefit option.
 - (k) Surrender Charge is a deferred charge made to the Policy Value in the event of a full or partial surrender of the policy, reduction in the face amount of insurance or premium, or a lapse.
 - (l) Cash Surrender Value is the Policy Value less any Surrender Charge, before reduction for outstanding loans or other amounts due under the policy.
 - (m) Deferred Acquisition and Other Charges are Acquisition and Other Charges deducted from the Policy Value after the first policy year.
- (2) Cash Surrender Values determined in accordance with this subparagraph shall meet minimum requirements.
- (a) If Acquisition and Other Charges do not exceed the sum of:
 - (1) 90% of premiums received up to the net level whole life annual premium at issue (regardless of when received).
 - (2) 10% of all other premiums received.
 - (3) 90% of the net level whole life annual premium for increases in the face amount of insurance as defined in 1(j).
 - (4) \$10 per \$1,000 of initial face amount in the first policy year.
 - (5) \$1 per \$1,000 of face amount in subsequent policy years.
 - (6) \$10 per \$1,000 of any increase in the face amount of insurance other than an increase resulting from a change in the death benefit option. Increases

up to the amount of earlier decreases are included here but not in (3) above.

(7) \$200 per policy in the first year.

- (b) A surrender charge may be established provided that the initial surrender charge together with the actual Acquisition and Other Charges made in the first policy year (and on premiums up to the net level whole life annual premium if received after the first year) do not exceed the sum of (1), (2) in the first year, (4) and (7) in (a) above. Additional surrender charges may be established after issue in connection with an increase in face amount provided that any such additional surrender charge and any Acquisition and Other Charges made in connection with such increase do not exceed the sum of (3) and (6) in (a) above.
- (c) A Deferred Acquisition and Other Charge may be charged against the Policy Value in any policy year after the first, such that the total of all such charges imposed to date plus the surrender charge for that year does not exceed the maximum initial surrender charge. The Deferred Acquisition and Other Charges in any one year may not exceed the maximum allowable surrender charge for that year. Similar Deferred Acquisition and Other Charges may be imposed with respect to an increase in face amount.
- (d) The maximum allowable surrender charge for any year shall be the maximum initial surrender charge multiplied by $\ddot{a}_{x+t}/\ddot{a}_x$, where “x” is the issue age and “t” is the number of years since issue. Similar maximums shall be determined with respect to any additional surrender charges, with x and t based on the date of increase.

(Note: The minimum cash value methods B, C, or D are not intended to prohibit the current practice of allowing the imposition of additional surrender charges defined as follows. In the case of combination general account and separate account variable life products, additions or amounts derived from more favorable interest, mortality, and expense than those guaranteed in the policy on the general account fund and credited within 12 months prior to surrender may be subject to forfeiture upon surrender.)

E. Minimum Paid-Up Nonforfeiture Benefits

If a variable life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policyowner as (1) the mortality and interest basis, if any, specified in the policy for determining the policy value, or (2) the mortality and interest standards permitted for paid-up nonforfeiture benefits by the Standard Nonforfeiture Law for Life Insurance, as amended in 1980. In lieu of the paid-up nonforfeiture benefit, the insurer may substitute, upon proper request not later than sixty days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit which provides a greater amount or longer period of death benefits, or, if applicable, a greater amount or earlier payment of endowment benefits.

(Note: It is possible that policies will have secondary guarantees. Such guarantees should be taken into consideration when computing minimum paid-up nonforfeiture benefits.)

Ever since the adoption of the original Standard Nonforfeiture Law (SNFL) in 1942, provision has been made for nonforfeiture calculations on the basis of substandard mortality. (See Sections 5.5a. and 5c, Paragraph 8(e) of SNFL.)

While this provision has been used infrequently in the past, it is anticipated the substandard mortality will be more frequently utilized in variable life insurance, given its flexible nature, to reflect the mortality classification assigned to the policy by the insurer.

A charge may be made at the surrender of the policy provided that the result after the deduction of the charge is not less than the minimum cash surrender value required by this guideline.

Not for Distribution

Actuarial Guideline XXV

CALCULATION OF MINIMUM RESERVES AND MINIMUM NONFORFEITURE VALUES FOR POLICIES WITH GUARANTEED INCREASING DEATH BENEFITS BASED ON AN INDEX

A. Valuation - Text

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the value of the minimum reserve at any time shall be based on the maximum valuation interest rate for the year of issue and an acceptable mortality table for life insurance statutory reserves and based on the death benefit and premium pattern adjusted as provided in the policy by reasonable annual increases based on the index. The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. The assumption as to what is a reasonable annual increase in death benefits based on the index must not be less than the maximum valuation interest rate for the year of issue less:

1. 2.0% If the annual increase is limited to an annual and non-cumulative maximum of 0% through 5.0%
2. 1.5% If the annual increase is limited to an annual and cumulative maximum of 0% through 5.0%.
3. 1.5% If the annual increase is limited to an annual and non-cumulative maximum of 5.01% through 10.0%.
4. 1.25% If the annual increase is limited to an annual and cumulative maximum of 5.01% through 10.0%.
5. 1.0% For all other plans.

The term “annual and non-cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index without carry forward of excess index increases.

The term “annual and cumulative maximum” refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index with carry forward of excess index increases.

In no event shall the assumption as to an annual increase based on the index be less than 1.0%.

This guideline for valuation shall be effective immediately for policies issued on or after January 1, 1991.

B. Nonforfeiture – Text

The threshold amount shall be \$10,000 until December 31, 2009. For years beginning after December 31, 2009, the threshold amount for a calendar year shall be the product of \$10,000 and the ratio of 1) the index for June of the prior year to 2) 136.0 (the index as of June 30, 1991), rounded to the nearest \$25. If this calculation would result in an increase in the threshold amount of less than \$500, the unadjusted

threshold amount from the prior year shall continue in effect for the next calendar year. In no calendar year shall the increase in threshold amount exceed 5% of the prior calendar year threshold amount.

The index used to determine the threshold amount for years beginning after December 31, 2009, shall be the Consumer Price Index for All Urban Consumers (CPI-U) as of June 30 of that year. If this index is no longer available, another index which, in the actuary's opinion, reflects the change in general consumer prices for the year should be substituted.

I. FOR POLICIES WHERE ANY DEATH BENEFIT FOR ANY POLICY YEAR WOULD EXCEED THE THRESHOLD AMOUNT EVEN IN ABSENCE OF ANY ANNUAL INCREASES BASED ON THE INDEX

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the value of the minimum nonforfeiture benefit at any time shall be based on the maximum nonforfeiture interest rate for the year of issue and an acceptable mortality table for life insurance nonforfeiture and based on the death benefit and premium pattern adjusted as provided in the policy by reasonable annual increases based on the index. The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. The assumption as to what is a reasonable annual increase in death benefits based on the index must not be less than the maximum valuation interest rate for the year of issue less:

1. 2.0% If the annual increase is limited to an annual and non-cumulative maximum of 0% through 5.0%.
2. 1.5% If the annual increase is limited to an annual and cumulative maximum of 0% through 5.0%.
3. 1.5% If the annual increase is limited to an annual and non-cumulative maximum of 5.01% through 10.0%.
4. 1.25% If the annual increase is limited to an annual and cumulative maximum of 5.01% through 10.0%.
5. 1.0% For all other plans.

The term "annual and non-cumulative maximum" refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index without carry forward of excess index increases.

The term "annual and cumulative maximum" refers to a maximum where each annual increase is limited to the lower of the maximum or the increase in the index with carry forward of excess index increases.

In no event shall the assumption as to an annual increase based on the index be less than 1.0%.

II. FOR POLICIES WHERE ANY DEATH BENEFIT FOR ANY POLICY YEAR WOULD NOT EXCEED THE THRESHOLD AMOUNT IN ABSENCE OF ANY ANNUAL INCREASES BASED ON THE INDEX

For a policy where premiums are fixed in amount at issue which provides for whole life insurance with the amount of death benefit adjusted periodically with the Consumer Price Index or another cost of living index, the unadjusted value of the minimum nonforfeiture benefit at any time shall be based on a level death benefit, an acceptable mortality table for life insurance nonforfeiture and a nonforfeiture interest rate equal to the greater of (a) and (b):

(a) The nonforfeiture interest rate defined in Section 3 of VM-02, Minimum Nonforfeiture Mortality and Interest, less:

1. 0bp If the annual increase based on the index is limited to a maximum of 0% through 5.0%.
2. 25bp If the annual increase based on the index is limited to a maximum of 5.01% through 10.0%.
3. 50bp For all other plans.

(b) The Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under IRS Section 7702 (*Life Insurance Contract Defined*) of the U.S. Internal Revenue Code.

The present value of future benefits component shall be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit. If the policy provides for future premiums and such premiums are also adjusted periodically with the Consumer Price Index or another cost of living index, the present value of future premiums component shall likewise be further adjusted each year by the ratio of the then current amount of death benefit to the initially projected amount of death benefit.

For purposes of this guideline multiple policies on a single life shall be aggregated and only those policies aggregating not more than \$10,000 (or the threshold amount¹ after December 31, 2009), shall be considered under B.II.

This guideline for nonforfeiture shall be effective immediately for policies issued on or after January 1, 1991.

BACKGROUND

A number of companies are marketing individual life insurance policies with guaranteed increasing death benefits tied in to a consumer price index or another cost of living index and are for low initial amounts of insurance sold through funeral directors to provide for burial expenses. Some of the policies provide for graded death benefits such as the return of premium with or without interest for the early policy years or for a fixed scheduled increase in death benefits prior to the operation of the index. In some cases there is a maximum on the increase for any year. The vast majority of such policies are single premium policies but some are annual premium policies (generally limited payment). The annual premium may or may not be subject to adjustment with the index.

Since the changes in the index are not known at issue, but from past experience, increases within a given range can be expected with a high probability, it is necessary to assume some increases and then to

¹ In 2010, the actuarial guideline was modified to substitute a threshold amount for 10,000, such threshold being increased by the change in the CPI-U, the CPI for All Urban Consumers.

continually adjust the present value of future benefits component and, if appropriate, the present value of future premiums component in the reserve and nonforfeiture calculation.

Theoretically the same assumed increases in the death benefits should be used for both valuation and nonforfeiture. This guideline so provides for policies where the amount of death benefit in any given policy year would exceed \$10,000 (or the threshold amount¹ after December 31, 2009), even if there were no increases based on the index. For practical purposes this may mean that such policies are not marketable for higher amounts as it is most likely that such policies will not qualify under the IRS Section 7702. The cash value accumulation test to qualify thereunder requires a minimum interest rate and an assumed level amount of death benefits.

In the case of policies for an initial amount of insurance of \$5,000 or less, the IRS rules provide an exception to the prohibition of assuming increasing death benefits. However, since many of the policies for very low amounts of initial face amount of insurance would require relatively high expenses if underwritten, many of the policies are issued with simplified underwriting or on a guaranteed issue basis with lower amounts of death benefits in the early policy years, some of the resulting annual increases are such as would disqualify many of the policies for the exception. Therefore it is recommended that policies for low amounts of insurance be allowed to qualify under the cash value accumulation test by permitting the nonforfeiture values to be based on a level death benefit and an interest rate not less than the Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under IRS Section 7702 and requiring such values to be updated as increases based on the index take place. The amount in this guideline is set at \$10,000 (or the threshold amount¹ after December 31, 2009), to allow for future adjustments and for different patterns of benefits for low amounts.

For single premium policies, the value of nonforfeiture benefits based on a level death benefit and a net assumed nonforfeiture interest rate equal to the maximum nonforfeiture interest rate less an assumed increase based on the index and such factors then adjusted by the projected increases will approximate factors based on assumed increases and the maximum nonforfeiture interest rate. The procedure of assuming a level death benefit and a net assumed rate of not less than the Applicable Accumulation Test Minimum Rate in the Cash Value Accumulation Test under IRS Section 7702 for policies of low amounts of insurance is apt to produce lower cash values than the procedure for large amounts of insurance. Such lower values can be justified based upon the fact that the highly specialized market is prearranged funeral expenses for very small amounts of insurance per policy.

To emphasize the qualification with the IRS rules for the very low amounts of insurance, the nonforfeiture guideline for small amount policies is stated in terms of the net rate, a level death benefit and continual adjustment.

For solvency purposes, reserves should be conservative. The same rules apply for reserve regardless of the size of the policy. That is, lower reserves are not permitted for policies with very low amounts of insurance per policy.

Paragraph 5c(3) of the Model Standard Nonforfeiture Law states that unscheduled changes do not need to be taken into account until the time of the change. The changes guaranteed according to an index are a hybrid, i.e. the changes are scheduled but the amount of the change is not known until the index is determined. Thus the changes must be recognized at issue. This guideline is a hybrid with increases assumed at issue either explicitly or implicitly but with further adjustments made at the time the increase based on the index is determined.

Actuarial Guideline XXVI

ELECTION OF OPERATIVE DATES UNDER STANDARD VALUATION LAW AND STANDARD NONFORFEITURE LAW

June 3, 1989

Preamble

The model Standard Nonforfeiture Law for Life Insurance contains Section 5-C, which defines new mortality and interest rate components to be used as the minimum standard for nonforfeiture values for life insurance policies. The Commissioners 1980 Standard Ordinary Table, or that table with Ten-Year Select Factors, is identified in Section 5-C as the applicable mortality table component for ordinary life insurance policies (although there is a provision for other alternate mortality tables to be permitted by regulation). Section 5-C also incorporates “dynamic” interest rates, as the applicable interest rate component. In addition, Section 5-C contains a new and different formula to be used in computing the adjusted premiums that define minimum nonforfeiture values.

Section 5-C contains a mandatory operative date, but there is also language permitting companies to elect an early operative date under certain conditions.

The model Standard Valuation law contains a cross reference to operative date for Section 5-C of the Standard Nonforfeiture Law for Life Insurance. After such operative date, there are mortality and interest rate components defined for use as the minimum standard for computing reserves. The Commissioners 1980 Standard Ordinary Table, or that table with Ten-Year Select Factors, is identified as the applicable mortality table component for ordinary life insurance policies (although there is a provision for other alternate mortality tables to be permitted by regulation). “Dynamic” interest rates determine the applicable interest rate component, but a lower maximum interest rate is defined for reserves than for nonforfeiture values.

Generally, the applicable mortality rates are lower and the applicable interest rates higher after the operative date. Thus, the reserves defined under the minimum standard would be lower for policies issued on or after the operative date.

Text

Under no circumstances can an insurance company elect an operative date for the purpose of Section 5-C of the Standard Nonforfeiture Law for Life Insurance, if such operative date would be in a calendar year prior to the calendar year in which that company furnished written notice of election of an operative date under that law.

Background Material

The purpose of this actuarial guideline is to ensure consistency and provide guidance in the election of this operative date.

Historically, insurance companies have been allowed to elect early operative dates so as to pass along the benefits of improved mortality rates and current interest rates to policyholders who purchase new life insurance policies. These new policies would typically have lower nonforfeiture values and would require lower reserves, and net premiums would be lower also. The expectation is that the lower net premiums might allow the company to reconsider its gross premium rates for these new policies issued after the operative date, and in many cases to lower the new gross premium rates.

A second reason for allowing the election of an early operative date would be to allow insurance companies and state insurance departments more time to prepare and review new life insurance policies, which are to be introduced into them marketplace. If every life insurance policy had to be changed over on the same mandatory operative date, it would be a great burden on the resources of all the parties involved.

Not for Distribution

Actuarial Guideline XXVII
ACCELERATED BENEFITS

PURPOSE

This guideline is designed to cover the actuarial aspects of accelerated benefits. Three general categories of accelerated benefits are covered:

- I) non-discounted acceleration of benefits
- II) actuarially discounted acceleration of benefits
- III) interest accrual approach to financing acceleration of benefits

In addition, there is a separate section to cover the special considerations for a policy lien approach, which is Section IV.

General considerations which apply to any method of determining accelerated benefits are given in Section V.

I. NON-DISCOUNTED ACCELERATION OF BENEFITS

A. Description

The type of plans considered in this subsection are those which provide for a defined event triggering one time acceleration of some or all of the death benefit of the base contract or rider, in such a way that every dollar of acceleration has a non-discounted matching reduction in the amount payable on death. These plans have been available in four forms, via

- 1. A contract integrating the acceleration feature with other, more traditional, features;
- 2. A rider attached to a regular contract at time of issue, to provide acceleration;
- 3. A rider, as in (2), but which may be attached to inforce contracts of the same company; or
- 4. A policy acting similar to the rider in (3) above, but for which the acceleration is applicable to inforce contract of other companies.

B. Reserves

1. Reserving Approach

Payment of benefits earlier than death itself is an early payment rather than a different payment. The basic reserve structure and requirements for regular life insurance need not be disturbed. Therefore, the CRVM methodology is acceptable, as is any other reserving methodology allowable for life insurance when determining the reserves needed for policies with an accelerated benefit or when determining the reserves for the accelerated benefit by itself.

2. General Consideration

A reserve formula should consider all relevant factors.

Approximations to develop a single decrement table which utilize all relevant factors except for voluntary termination rates are acceptable for policies and riders subject to this subsection provided it can be demonstrated that the approximations used produce essentially similar reserves, conservative reserves, or immaterial reserves. The calculations should take into account the reduction in life insurance benefits due to prior acceleration. However, in no event shall the reserves for the accelerated benefit and the life insurance benefit when taken together be less than the reserves for the life insurance benefit assuming no acceleration feature prior to payment of any accelerated benefits.

In the development and calculation of reserves for policies and riders subject to this subsection, due regard shall be given to the applicable policy provisions, marketing methods, administrative procedures and all other considerations which have an impact on projected claims costs, including, but not limited to the following:

- a. Definition of acceleration events,
- b. Premium waiver provision,
- c. Marketing method,
- d. Underwriting procedures,
- e. Delay in eligibility for benefit,
- f. Maximum benefit,
- g. Optional nature of benefit, and/or
- h. Guaranteed insurability options.

II. ACTUARIALLY DISCOUNTED ACCELERATION OF BENEFIT

A. Description

The products that are allowable under this type of approach generally provide for an acceleration of the death benefit payable under a life insurance policy, with an appropriate actuarial adjustment in the amount of money paid to the policyholder that represents the amount of money foregone by the Company by paying out the death benefit early. These products have no additional premium payable. This product can be made available at issue of the contract or after issue of the contract. It can either be a separate rider or part of the integrated policy. The interest rate or interest rate methodology used for discounting must be specified in the contract or rider or in the actuarial memorandum.

B. Reserves

The application of standard valuation law and CRVM reserves is appropriate for these policies. No additional reserves need be held as long as the actuary is convinced that the method used to discount the death benefit reflects sound actuarial principles.

If the actuary is convinced that the discounting procedure does not appropriately reflect these conditions, he or she should determine a reserve such that reserves are adequate for the life insurance benefits based on aggregates. There is nothing in this benefit design that changes that equation.

III. INTEREST ACCRUAL APPROACH TO FINANCING ACCELERATION OF BENEFITS

A. Description

Under this approach, the insurer accrues an interest charge on the accelerated benefit to account for lost investment income from the date of acceleration to the date of death. The interest may be accrued until death or may be required to be paid in cash periodically, or may be offset against the policy's remaining death benefit.

1. Alternative methods of including an interest accrual option:
 - a. A benefit of this type may be provided either as an integral part of a life insurance policy or as a rider to a life insurance policy.
 - b. If offered as a rider to a life insurance policy, such rider may be attached to either a new policy or to an existing policy.
2. Alternative Benefit Designs using this option: The rider or policy form should specify whether interest accruing on prior accelerated benefit payment needs to be paid in cash or whether additional accelerated benefit payments will be made to cover such interest accruals as they become due. Either approach is equally acceptable.

B. Interest Accrual Rate

1. The rider or policy form or the actuarial memorandum should specify the method used to determine the rate(s) of interest to be charged.
2. The specification of the method should be clear and unambiguous.
3. The method used for determining the interest rate should be included in the Actuarial memorandum.

C. Reserves

1. Prior to the occurrence of an event qualifying the policy for accelerated benefits, minimum statutory reserves for policies containing interest accrual provisions are the same as for policies with identical death benefits that do not contain interest accrued lien provisions, provided that the method of determining the interest rate to be charged, as specified in the rider or policy provisions or actuarial memorandum, results in an interest rate at least equal to the valuation interest rate applicable to the policy. If such is not the case, an extra reserve may be necessary on such policies, if it is determined that the aggregate reserves are not good and sufficient.
2. Following the occurrence of a qualifying event, accrued interest is an asset of the company for statutory reporting purposes. However, the valuation actuary should make certain that reserves in the aggregate are adequate to assure that such aggregate accrued interest is provided for. This will assure that such accrued interest assets can be held as admitted assets. The insurer's valuation actuary may

voluntarily increase the statutory reserve liability on each such policy in order to eliminate the need to non-admit a portion of the accrued interest policy lien or policy loan.

IV. BENEFIT PAYMENT LIENS

This section deals specifically with benefit payment liens and their effect on future policy premiums and benefits.

- A. The presence of a lien against the policy does not require a pro-rata reduction in the policy premiums or other values.
- B. Amount of lien computed as of the date of death may be deducted from the death benefit.
- C. Access to non-forfeiture benefits upon surrender or through future policy loans may be restricted to any excess of the cash surrender value over the sum of any outstanding loans and the lien.
- D. If the lien approach is used and RPU is available as a non-forfeiture benefit, the amount of RPU may be calculated as if no lien existed and the lien may continue to apply, provided that the lien continues to satisfy any percentage and dollar maximums and minimums specified in the contract. Alternatively, RPU may be made unavailable while the lien exists, provided an ETI benefit is available. Alternatively, the excess, if any, of the cash surrender value over the sum of outstanding loans and the lien may be applied in calculating the amount of the RPU, provided an ETI benefit is available. If the choice of methods is not left as an option to be the policyholder, the rider or policy form should specify which method will apply.
- E. If the lien approach is used an ETI is available as a non-forfeiture benefit, the period of ETI may be calculated as if no lien existed and the lien may continue to apply, provided that the lien continues to satisfy any percentage and dollar maximums and minimums specified in the contract.
- F. If the lien approach is used, any accelerated death benefit payment may first be applied toward repaying the portion of any outstanding policy loans which causes the sum of the accelerated death benefit and policy loans to exceed the cash value. Alternatively, outstanding policy loans may be retained and the lien that would otherwise be allowed may be reduced by any outstanding policy loans at the time of acceleration. If the choice of methods is not left as an option to the policyholder, the rider or policy form should specify which method will apply.
- G. The rider or policy form accelerated benefit lien provisions may specify that the existence of a benefit lien will not prevent termination of the policy in accordance with the regular policy termination provisions.
- H. If a policy terminates while subject to a lien, the insurer shall extinguish the lien without further recourse to the policyholder unless the policy or rider clearly indicates otherwise. In the event that the policy is reinstated, the lien may also be reinstated with interest accrued as if the policy had never terminated.
- I. The policyholder should have the option of paying all or part of any premium or accrued interest that would be capitalized under the terms of the rider or policy provisions in cash, as well as the option of repaying all or part of any lien in cash, in order to prevent the lien from causing the policy to terminate.

V. GENERAL CONSIDERATIONS

The items below should be considered, where applicable, for all types of accelerated benefits:

- A. The rider or policy form should specify whether any premium becoming due after the initial accelerated benefit payment is established needs to be paid in cash or whether additional accelerated benefit payment will be made to cover such premiums as they become due. Either approach is equally acceptable.
- B. The rider or policy form may specify any percentage and dollar minimum and maximum payments that may be accelerated. Any dollar or percentage minimums or maximums is equally acceptable. If no maximum is specified, it will be assumed to be 100% of the death benefit.
- C. The accelerated benefit may include a reasonable expense charge for administrative expenses and risks assumed by the company. If the available amount of the initial accelerated benefit is less than the maximum allowed, the rider or policy form should specify how such initial amount will be determined.
- D. The rider or policy form should specify the actions required, if any, to prevent policy termination if premium or interest expected to be capitalized would result in a total accelerated benefit payment exceeding the percentage or dollar maximum amount specified in the rider or policy form. Any such excess may be required to be paid in cash within an appropriate grace period in order to prevent policy termination. The rider or policy form may also specify that future premiums or interest becoming due must be paid in cash. If not specifically addressed, the rider or policy should remain in force and be administered with no change from the premium or interest requirement that existed immediately prior to the time at which the maximum was reached and the accelerated benefit would not be increased beyond the maximum specified in the rider or policy form.
- E. The rider or policy form may specify whether the accelerated benefit provision would apply to the original base insurance policy death benefit or the current insurance policy death benefit. If not specifically addressed, the rider or policy form should be administered as if maximums are automatically increased, but not automatically decreased.
- F. The rider or policy form may specify that an accelerated benefit is not available unless established prior to the policyholder's election of or lapse to ETI or RPU. If not specifically addressed, the rider or policy forms should be administered to provide an accelerated benefit after election of or lapse to ETI or RPU.
- G. The rider or policy form may specify that an accelerated benefit is not available if the policy has an irrevocable beneficiary or is assigned when accelerated benefits are initially claimed. Alternatively, the irrevocable beneficiary or assignee must provide a signed acknowledgement of concurrence for payout. The rider or policy form may specify that the policy may not be assigned (except to the insurer) after an accelerated benefit has been paid.

Actuarial Guideline XXVIII

STATUTORY CLAIM RESERVES FOR GROUP LONG-TERM DISABILITY CONTRACTS WITH A SURVIVOR INCOME BENEFIT PROVISION

Background

Many of the major writers of group long-term disability income insurance have included survivor benefits in such contracts. Provisions related to the survivor benefit include minimum disability periods, benefit amounts defined in terms of a number of months of disability benefits and a specified percentage of the monthly disability benefit.

This benefit is sometimes overlooked in the valuation process or ignored as being trivial in amount.

Drafting Note: Please see the 1990 “Proceedings,” Vol. 2, Pages 995-999, and the 1991 “Proceedings,” Vol. 1B, Pages 1321-1328.

Text

Claim reserves for survivor income benefits contained in group long-term disability contracts must be established based on the design of the survivor income benefit including the minimum period of disability before the spouse of a disabled person becomes eligible for a survivor income benefit and the amount of the benefit. A suitable approximation to the sum of the reserves for the basic disability benefit and the reserve for the survivor income benefit can be calculated by computing the reserve for the basic disability at an interest rate less than the maximum valuation interest rate.

Before any approximation can be accepted, rigorous testing of the approximation to the combined reserves for both the basic disability claim and the survivor income benefit must be performed. Tests indicated that basic disability reserves and survivor income benefit based on a 12-month disability requirement and a maximum survivor income benefit duration of 24 months with a survivor income benefit of .667 of the disability income with all reserves based on a valuation interest rate of 5.5% can be adequately approximated by basic disability reserves alone but calculated at a 3.5% valuation interest rate.

Actuarial Guideline XXIX

GUIDELINE CONCERNING RESERVES OF COMPANIES IN REHABILITATION

Preamble

The life insurance and annuity contracts of life insurance companies can be restructured by court order in rehabilitation proceedings. The contract restructuring may take the form of reduction in account values and/or guaranteed interest crediting premiums. Typically, the court order imposes restrictions on surrender of the contract while the company is in rehabilitation. These restrictions can include bans on surrenders while a rehabilitation plan is being developed and temporary limitations on the cash that can be obtained upon surrender. These restrictions are intended to prevent *en masse* surrenders while the company faces liquidity problems.

Several issues have arisen as to the interpretation of the Standard Valuation Law in these circumstances. The issues relate to the interpretation of the Commissioners' Reserve Valuation Method (CRVM) and the Commissioners' Annuity Reserve Valuation Method (CARVM), the determination of the guaranteed nonforfeiture benefits provided in the restructured contract and identification of the issue date of the contract after restructuring.

The Standard Valuation Law does not specifically address minimum reserve requirements after a contract has been restructured by court order. The minimum reserve requirements should be interpreted in the context of court-ordered contract restructuring to result in the most appropriate reserves under the particular circumstances. In general, this should be left to the regulators to determine.

Guideline

The phrase "future guaranteed benefits, including guaranteed nonforfeiture benefits," as used in CARVM, includes the cash surrender values based on contractual guarantees after reduction for any surrender charges available under the contract. In general, the value of future guaranteed benefits under CARVM may not be reduced by contingent surrender charges which may not be available upon cash surrender. See *Guideline Covering the Commissioners' Annuity Reserve Valuation Method (CARVM) (1985)*.

Whether or not a court-imposed temporary restriction on the availability of cash on surrender is taken into account under CARVM depends upon whether the rehabilitation plan specifies that the restriction is a reduction in the guaranteed nonforfeiture benefits in the restructured contracts. If the rehabilitation plan imposes a distinct temporary charge to ensure liquidity as opposed to changing common surrender charges that are historically used to determining nonforfeiture benefits, the temporary charges will not reduce guaranteed nonforfeiture benefits for purposes of CARVM.

A similar rule applies for purposes of reporting those reserves on life insurance contracts entitled "For surrender values in excess of reserves otherwise required."

For life insurance contracts, CRVM does not dictate that a particular method must be applied after a contract has been restructured. In the case of policies providing for a varying amount of insurance or requiring the payment of varying premiums, reserves are calculated by a method consistent with CRVM applicable to policies providing for a uniform amount of insurance and requiring the payment of uniform premiums.

A method consistent with CRVM adopted for purposes of a rehabilitation program should consider the valuation bases and expense allowance prior to restructuring as well as after restructuring. Depending upon the types of changes to the restructured contract, it may or may not be appropriate to take into account the guaranteed benefits and premium structure prior to restructuring.

The issue date for purposes of determining the applicable mortality tables and interest rates also depends on the circumstances. For example, it may be appropriate to treat annuity contracts as newly issued so that reserves are required to be recomputed using more current discount rates. However, in the same rehabilitation plan it may be inappropriate to treat a restructured level premium whole life contract as newly issued. Accordingly, whether a contract is treated as having a new issue date after contract restructuring depends upon the terms of the rehabilitation plan and the restructured contracts. In general, contracts are not treated as newly issued unless the rehabilitation plan or state filing for the restructured contracts so provides.

Similarly, the appropriate CRVM expense allowance will depend upon the terms and the intent of the restructuring and rehabilitation plan. Depending upon the types of changes to the restructured contract, it may be appropriate to carry forward an unamortized expense allowance based on original policy date. In other cases, a new unamortized expense allowance would be calculated as of the restructure date. In general, a new unamortized expense allowance is not calculated unless the rehabilitation plan or the state filing for the restructured contract so provides.

Not for Distribution

**GUIDELINE FOR THE APPLICATION OF PLAN TYPE TO GUARANTEED
INTEREST CONTRACTS (GICS) WITH BENEFIT RESPONSIVE PAYMENT
PROVISIONS USED TO FUND EMPLOYEE BENEFIT PLANS**

Background Material

Guaranteed Interest Contracts (GICs) that are used to fund employee benefit plans often times contain a provision that allows individual participants to voluntarily move funds on a book value basis to other investment opportunities. These contracts also allow for the withdrawal of funds on a book value basis to provide employee benefits such as a death benefit to a surviving beneficiary, disability benefits and benefits paid upon bona fide termination of employment. In the situations described above, the individual participant is to be distinguished from the policyholder. Typical contractual language is as follows:

1. Withdrawal for Redirection of Investments - Subject to the provisions of Subsection___ above, the contract owner shall direct the withdrawal and transfer to the contract owner of the pro rata amounts from the accumulation accounts for the purpose of redirecting an employee investment to an equity fund in accordance with the provision of the Plan.
2. Withdrawal for Plan Benefit Payments - Subject to the provisions of Subsection___ above, the contract owner shall direct the withdrawal and transfer to the contract owner of the pro rata amounts from the accumulation account due to distribution made to participants (or to their beneficiaries, in case of the participant's death) under the Plan.

Both examples of contractual language make reference to the "provisions of the Plan." Plan provisions reduce the disintermediation (C-3) risk, from the insurance company standpoint, associated with GICs. For example, plan provisions may restrict the opportunity for the 401 (k) plan participant to move funds from the GIC option to a competing "guarantee of principal" option within the plan.

The Standard Valuation Law utilizes a concept known as Plan Type to distinguish between different levels of voluntary withdrawal rights by policyholders. Voluntary withdrawal rights are contractual policyholder rights which may be exercised at the option of the policyholder and do not include such items as scheduled contractual payouts or payouts upon termination. The greater the level of voluntary withdrawal right afforded to the policyholder, the more conservative is the resulting valuation interest rate. Plan Types are designated in the Standard Valuation Law as with Plan Type A, Plan Type B or Plan Type C and are defined as follows:

1. Plan Type A is a plan under which the policyholder may not withdraw funds, or may withdraw funds at any time but only (a) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, (b) without such an adjustment but in installments over five years or more, or (c) as an immediate life annuity.
2. Plan Type B is a plan under which the policyholder may not withdraw funds before expiration of the interest rate guarantee, or may withdraw funds before such expiration but only (a) with an adjustment to reflect changes in interest rate or assets values since receipt of the funds by the insurance company, or (b) without such an adjustment but in installments over five years or more. At the end of the interest rate guarantee, funds may be withdrawn without such adjustment in a single sum or installments over less than five years.

3. Plan Type C is a plan under which the policyholder may withdraw funds before expiration of the interest rate guarantee in a single sum or installments over less than five years either (a) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (b) subject only to a fixed surrender charge stipulated in the contract as a percentage of the funds.

Text

For purposes of the application of the Standard Valuation Law to Guaranteed Interest Contracts (GICs) with benefit responsive provisions, the withdrawal of funds at book value for the purpose of redirecting or withdrawing an employee investment shall be considered a withdrawal by the policyholder unless the underlying plan or GIC contain written provisions which are designed to reduce the C-3 risk to the insurance company. As an example, a provision which meets this criteria would include both the following:

1. No direct transfer to competing funds, whether such funds are alternate funds of the insurance company or not. This provision prohibits direct transfer of funds from the GIC option to a competing plan option that offers either a guarantee of principal or to an option in which the risk of loss of principal is small such as a money market fund or short-term bond fund. Any transfer to such an option must first go through an non-competing plan option and reside there for at least 90 days or three months.

and
2. For GICs that fund plan investment options where interest is allocated to plan participants based on how much of their account balance is in each particular interest rate “cell,” participants are not allowed to redirect any of the balance they have in a GIC funding a particular cell to a competing fund until the GIC’s maturity date.

In addition, the valuation actuary must be satisfied that the GIC provisions designed to reduce the C-3 risk are administered by the insurer in the designed manner.

This requirement may be fulfilled by obtaining from the appropriate insurance company officer a certificate of intent regarding the insurance company administration of the provisions.

In addition, the valuation actuary must periodically review the actual experience under the contract to verify the appropriateness of the Plan Type assumption with reference to this Guideline.

Actuarial Guideline XXXI

VALUATION ISSUES VS. POLICY FORM APPROVAL

Background

Occasionally, the NAIC Life and Health Actuarial Task Force addresses valuation (reserve) issues related to a policy form or benefit design that has not been accepted or approved by a particular state. The development of reserving methods or providing guidance concerning reserve questions for such policy forms is necessary because the annual statement filed in each state, including states for which a particular policy form has not been approved for use, must reflect appropriate reserve for all policy forms and associated benefits.

Text

The adoption of an Actuarial Guideline by the NAIC Life and Health Actuarial Task Force dealing with a reserve issue associated with a particular policy form or benefit does not represent an endorsement for the approval of the particular policy form or benefit.

Not for Distribution

Actuarial Guideline XXXII

RESERVE FOR IMMEDIATE PAYMENT OF CLAIMS

Background Material

Section 5 Reserve Valuation Method—Life Insurance and Endowment Benefits of the NAIC Standard Valuation Law refers to an annual premium in defining the commissioners reserve valuation method. However, it has been general practice to hold an additional reserve where fractional premiums are paid and any fractional premium not yet due in the policy year of death is waived and to hold a further additional reserve for the refund of any premium paid beyond the end of the month in the policy year of death. These additional reserves are called for in the Miscellaneous Section of Exhibit 8 of the annual statement. These additional reserves are generally included in the basic reserves where an insurer uses an assumption of continuous payment of premiums.

Although Section 7 of the NAIC Standard Nonforfeiture Law for Life Insurance explicitly permits in calculating nonforfeiture “the assumption that any death benefit is payable at the end of the policy year of death,” there is no similar explicit permission to use such assumption in the NAIC Standard Valuation Law. The annual statement instructions are silent on any adjustment. A long time ago some life insurance policies provided that claims would be paid at the end of the policy year of death. However, for many years many policies have provided that claims will be paid immediately upon satisfactory proof of death. In fact, some states require that interest shall accrue from date of death.

Many insurers have held a reserve for immediate payment of claims either by an adjustment to curtate reserves or by including provision therefore in the basic reserves calculated on a continuous payment of claims basis.

Text

RESERVES FOR IMMEDIATE PAYMENT OF CLAIMS

- I. Reserves based on either fully continuous functions or on semi-continuous functions where the death portion reflects approximately one half of one year's valuation rate of interest are considered as making appropriate provision for immediate payment of claims.
- II. Where the basic reserves are based on curtate functions with no provision for immediate payment of claims:
 1. For any policy where the contract calls for payment of death claims at the end of the policy year in which death occurs, no adjustment to curtate reserves need be made.
 2. For any policy where the contract calls for payment of death claims immediately upon receipt of due proof of death of the insured, the death portion of curtate reserves shall be increased by one third of one year's valuation rate of interest. (Approximations may be used to split the total curtate reserves into death portion and the pure endowment portion.)
 3. For any policy where the contract provides for payment of interest on the death proceeds from date of death to date of payment, the death portion of curtate reserves shall be increased by one half of one year's valuation rate of interest. (Approximations may be used to split the total curtate into the death portion.)

- III. Where an insurer pays interest on death proceeds at an earlier point than as required by contract, it is appropriate that the statutory formula reflect such practice.
- IV. Where the actual formula reserves are more conservative than minimum statutory formula reserves, an insurer using curtate functions without provision for immediate payment of claims must demonstrate compliance with minimum statutory formula reserves adjusted in accordance with II above.
- V. This guideline shall apply to all new life insurance policies issued beginning January 1 following the date the guideline is adopted.
- VI. The guideline shall be applicable to policies issued prior to the date the guideline is adopted with any additional reserve graded in as follows for the years following the date the guideline is adopted:
 - 1. First year 20%
 - 2. Second year 40%
 - 3. Third year 60%
 - 4. Fourth year 80%
 - 5. Fifth and later years 100%

Not for Distribution

Actuarial Guideline XXXIII

DETERMINING CARVM RESERVES FOR ANNUITY CONTRACTS WITH ELECTIVE BENEFITS

Background Information

1. Introduction

The Standard Valuation Law (SVL) defines the methods and assumptions which are to be used in determining minimum statutory formula reserves. This law establishes the standards for annuity contracts (which therefore includes any annuity riders or endorsements, and any or all components of which, such as premiums, benefits, contract charges, primary or secondary accumulation values or other components, either relating to annuity benefits provided by the contract or providing separate annuity benefits) and includes the criteria for the interest and mortality assumptions to be used in determining minimum formula contract reserves. The 1980 revisions to the SVL provide for the maximum statutory formula reserve interest rate to be determined through a dynamic formula in order to incorporate changes in economic conditions, liquidity needs and the risks inherent in certain types of contracts.

The SVL defined methodology for annuity contracts, the commissioners annuity reserve valuation method (CARVM), requires that reserves be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contracts, that become payable prior to the end of such respective contract year. Such reserves are established to adequately fund all guaranteed contract obligations, including those obligations which are optional to the contract owner and which may not have yet been elected.

Industry practices and methods of reserving under CARVM for annuity contracts with multiple benefit streams have not been found to be consistent. These range from a low reserve equal to the cash surrender value to a reserve representing the greatest actuarial present value of the future benefit streams under all potential annuity or other nonforfeiture benefit election options using a conservative rate of interest.

The major purpose of this Actuarial Guideline is to provide clarification and consistency in applying CARVM to annuities with multiple benefit streams. Some of the areas requiring clarification include: the valuation of annuitization benefits; the application of incidence rates in CARVM; the application of the integrated benefit stream approach in CARVM; how to determine valuation interest rates and mortality tables for multiple benefit streams; and certain practical considerations regarding multiple benefit streams.

2. Annuitization Benefits

Varying forms of contracts provide that the cash value available to the contract owner is less than the amount available to purchase an annuitization option under the terms of the contract.

For purposes of this Actuarial Guideline, “accumulation fund” is defined as the policy value which is used to purchase an annuity option under the terms of the contract.

Frequently there are significant discontinuities in the reserves, both upward and downward, at the time a settlement option is elected, between the reserve held immediately prior to the settlement as

compared to the reserve required for the greatest actuarial present value of the annuitization option elected.

One of the most significant reasons for discontinuities in the reserve patterns at the time of election is the difference in the SPIA valuation rate available at the time of election as compared to the valuation rate used based on the date of issue of the original SPDA contract. Another significant reason is the difference between the guaranteed purchase rate contained in the contract and used for reserve development as compared to the rate actually used to purchase the annuity option at the time of election.

3. Application of Incidence Rates in CARVM

Since CARVM was adopted, there has been an increase in the types of benefits offered under certain annuity contracts, including enhanced death benefits, nursing home benefits, and various partial withdrawal provisions, including some dependent on values other than those used to determine cash values and which may allow for benefits to continue past the point where the cash value is zero. For some of these benefit types, the SVL is not explicit as to whether incidence tables prescribed under the SVL may be used to determine such benefits, versus requiring consideration of all contract owner options available under the contract, and choosing the set of incidence rates which produce the greatest present value.

4. Integrated Benefit Stream Approach

CARVM requires that reserves be based on the greatest present value of all potential future guaranteed benefits. For annuity contracts offering more than one type of potential benefit stream, the SVL is not explicit regarding whether or how blends of more than one type of benefit must be considered under CARVM.

Under the integrated benefit stream approach, any potential benefit stream must be considered, including blends reflecting the interaction of more than one type of benefit. Such potential benefit streams include all types of benefits for which the greatest present value concept is required. Additionally, adjustments must be made to all such potential benefit streams to reflect those benefit types for which prescribed incidence tables are required (e.g., death benefits).

For example, consider an annuity contract offering surrender, annuitization and death benefits. Potential benefit streams that would be considered include surrender streams, annuitization streams, and streams reflecting blends of surrender and annuitization benefits. All such streams would also be adjusted to reflect death benefits and to discount all benefits for survivorship (based on the mortality table prescribed in the SVL).

5. Valuation Interest Rates

For annuities offering more than one type of benefit, the SVL is not explicit as to how valuation interest rates should be determined. The SVL is also not explicit as to how valuation interest rates should be determined for certain types of benefits offered under annuity contracts, such as death and nursing home benefits.

Purpose

The purpose of this Actuarial Guideline is to codify the basic interpretation of CARVM and does not constitute a change of method or basis from any previously used method, by clarifying the assumptions and methodologies which will comply with the intent of the SVL. This Actuarial Guideline shall apply to all annuity contracts subject to CARVM, where any elective benefits (as defined below) are available to the contract owner under the terms of the contract. However, life or health insurance riders attached to an annuity contract, where all components of the rider (e.g., premiums, benefits, contract charges, accumulation values and other components) are separate and distinct from the components of the annuity contract, should be treated as a separate life or health insurance contract not subject to this Actuarial Guideline. While this Actuarial Guideline applies to all annuity contracts subject to CARVM, in the event an actuarial guideline or regulation dealing with reserves is developed for a specific annuity product design, the product specific actuarial guideline or regulation will take precedence over the Actuarial Guideline.

Definitions

1. Elective and Non-Elective Benefits in CARVM

For purposes of determining reserves under CARVM, each benefit available under the annuity contract must be placed into one of the two categories defined as follows:

Non-Elective Benefits: Benefits that are payable to contract owners or beneficiaries only after the occurrence of a contingent or scheduled event independent of a contract owner's election of an option specified in the contract, including (but not limited to) death benefits, accidental death benefits, disability benefits, nursing home benefits, and benefits payable under either a deferred or immediate annuity contract (with or without life contingencies), where no benefit options are available under the terms of the contract.

Elective Benefits: Benefits that do not fall under the non-elective benefits category (i.e., benefit options that may be freely elected under the terms of the contract). Elective benefits include (but are not limited to) full surrenders, partial withdrawals, and full and partial annuitizations.

In some cases it may not be clear whether some benefits are elective or non-elective. The presence of certain types of non-elective benefits may affect other non-elective benefits and/or elective benefits. The Valuation Actuary should use judgment in making these determinations by considering factors such as the degree to which contract owner actions would be influenced by the availability of each benefit in the contract.

2. Elective and Non-Elective Incidence Rates in CARVM

For non-elective benefits, incidence rates from tables prescribed by the SVL should be applied to determine the payment of non-elective benefits and to discount, for survivorship, all benefit payments included in an Integrated Benefit Stream, as defined below. If no incidence tables are prescribed by the SVL, then company or industry experience (with margins for conservatism) may be used, as appropriate. Annuity mortality tables prescribed by the SVL should be used to determine all mortality based benefits under the contract (including, but not limited to, annuitizations and death benefits) and to discount other types of benefit payments for survivorship.

Actuarial judgment should be used as to the appropriateness of applying any non-elective incidence rates other than mortality. For non-elective waiver-of-surrender-charge benefits other than mortality-based benefits and for similar non-elective benefits, incidence rates greater than zero are not to be applied at any time in the projection after the earlier of: (a) the end of the surrender charge period

applicable immediately after the first premium is paid; and (b) when the projected cash value has been depleted.

For elective benefits, incidence rates should not be based on tables reflecting past company experience, industry experience or other expectations. Instead, every potential guaranteed elective benefit stream required to be reserved by CARVM must be considered in the determination of integrated benefit streams as defined below. This is accomplished by considering trial sets of guaranteed elective benefit incidence rates, either through numerical testing or analytical means, to determine which trial set produces the “greatest present value” as described in Text paragraph 1 below. Theoretically, this means that all possible elective benefit incidence rates between 0% and 100% should be considered. However, in practice, such a greatest present value will typically occur by assuming an incidence rate of either 0% or 100%.

3. Integrated Benefit Stream

An integrated benefit stream is one potential blend of guaranteed elective and non-elective benefits available under the contract, determined as the combination of A and B, where:

A equals one potential stream of one or more types of guaranteed elective benefits available under the terms of the contract, based upon a chosen set of elective benefit incidence rates; and

B equals the stream of all guaranteed non-elective benefits provided under the terms of the contract, recognizing the guaranteed elective benefit stream under consideration in A above, and the non-elective incidence rates defined in 2. above.

Both A and B above should be discounted for survivorship, based on the non-elective incidence rates defined in 2. above.

Text

1. Greatest Present Value

All guaranteed benefits potentially available under the terms of the contract must be considered in the valuation process and analysis and the ultimate policy reserve held must be sufficient to fund the greatest present value of all potential integrated benefit streams, reflecting all guaranteed elective and non-elective benefits available to the contract owner. Each integrated benefit stream available under the contract must be individually valued and the ultimate reserve established must be the greatest of the present values of these values, based on valuation interest rate(s) as defined in Section 3 below.

2. Examples of Integrated Benefit Streams That Must Be Considered

A. Cash Value Streams

One mandatory set of integrated benefit streams for a deferred annuity with cash settlement values which must always be considered is any possible blend of future guaranteed partial withdrawals and full surrenders available under the contract, as specified in the SVL, accumulated at the guaranteed credited interest rate(s) and discounted at the valuation rate(s) of interest defined in section 3 below, with appropriate recognition of all guaranteed non-elective benefits available under the contract.

B. Annuitization Streams

A second mandatory set of integrated benefit streams that must be considered is any possible blend of future guaranteed full or partial annuitization elections, as specified in the SVL, available to the contract owner at each election date required by CARVM, with appropriate recognition of all guaranteed non-elective benefits available under the terms of the contract. In determining the integrated benefit streams to value the annuitization option, the guaranteed purchase rates contained in the contract, as well as any other contract provisions, excluding any current purchase rates which may be applicable, are applied to the accumulation fund.

C. Other Elective Benefit Streams

In addition to the cash value and annuitization streams described above, all other possible guaranteed elective benefits available under the contract, including blends of more than one type of guaranteed elective benefit, must be considered in a manner consistent with the mandatory cash value and annuitization streams, with appropriate recognition of all guaranteed non-elective benefits available under the contract.

3. Determination of Valuation Interest Rates

Section 4b of the SVL determines valuation rates for an annuity contract based on the following Parameters:

- A. The basis of valuation (issue year or change in fund);
- B. Whether or not the annuity provides for cash settlement options;
- C. Whether interest is guaranteed on premiums received more than 12 months following issue (or the valuation date for change in fund basis);
- D. The guarantee duration; and
- E. The Plan Type.

Parameters A, B and C above should be determined at a contract level. Additional requirements regarding the change in fund basis of valuation are set forth in Section 5 below. Parameters D and E should be determined at a benefit level, as set forth in Section 4 below.

Under a contract level determination, parameters are set based on the characteristics of the contract as a whole. Under a benefit level determination, parameters are set based on the characteristics of each benefit, resulting in potentially different valuation rates for each benefit type comprising the integrated benefit stream.

4. Determination of Guarantee Duration and Plan Type

Guarantee duration and Plan Type are based upon the specific characteristics of each individual benefit type that comprise the integrated benefit stream, as follows:

- A. For portions of the integrated benefit stream attributable to full surrender and partial withdrawal benefits, the Plan Type should be based upon the withdrawal characteristics of the benefit, as stated in the contract. This may result in a Plan Type A, B or C under the 1980 amendments of the SVL. The guarantee duration is the number of years for which interest rates are guaranteed in

excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty (20) years.

- B. For portions of the integrated benefit stream attributable to full and partial annuitization benefits, the determination of the valuation interest rate involves the use of the appropriate Plan Type and weighting factor as determined by the SVL, with the guarantee duration as the number of years from the original date of issue or date of purchase, to the date the annuitization is assumed to commence. If the underlying assumption is that the contract owner may withdraw funds only as an immediate life annuity or as installments over 5 years or more, this will generally result in a Plan Type A, under the 1980 amendments of the SVL, with the valuation interest rate changing as different assumed annuitization dates determine guarantee durations which will fall into different guarantee duration bands under the SVL. An assumed annuitization option which has a non-life contingent payout period of less than five (5) years shall be considered a Plan Type C, with the valuation interest rate changing as different assumed annuitization dates determine guarantee durations which will fall into different guarantee duration bands under the SVL.
- C. For portions of the integrated benefit stream attributable to non-elective benefits, since the underlying assumption is that no withdrawal is permitted, Plan Type A should generally be used, with a guarantee duration determined as the number of years from issue or purchase to the date non-elective benefits may first be paid. In most cases, the guarantee duration should be less than five years, since non-elective benefit coverage usually begins immediately after issue, with benefits payable commencing in the first contract year.

For benefit types incorporating multiple payments, paragraphs 4(A), 4(B), and 4(C) above should be applied to each separate payment according to the withdrawal, annuitization, or non-elective benefit characteristics of the contract and payment provisions at the time each payment is to be made. If a portion of the integrated benefit stream is part of an immediate life annuity or a series of installments over five (5) years or more, but can be changed directly or indirectly by exercise of contract owner withdrawal options, then it would be inappropriate to apply paragraph 4(B) to that portion of the integrated benefit stream, since the contractholder may withdraw funds other than as a life annuity or in installments of five (5) years or more.

For example, a Guaranteed Lifetime Income Benefit (GLIB) is a guarantee to the owner of a fixed deferred annuity contract, whether traditional or indexed to an external referent such as an equity index, that the owner can have a defined income for life in an amount determined by formula, while the owner retains traditional rights (such as withdrawal) to the other values provided by the underlying deferred annuity and while such values continue to exist. Income benefits are typically deducted from one or more of the annuity's defined values to the extent such values remain positive. Once the GLIB is elected, the contract owner may have rights to stop and restart the income benefit and may also request full or partial surrender of any remaining annuity value, though doing so may negatively impact or eliminate subsequent guaranteed income benefits. Thus, applying 4(A) and 4(B) above, the GLIB benefit stream is seen to be composed of two portions to determine the Plan Type and guarantee duration, as follows:

The first portion consists of the series of defined payments to the extent that the payments, or any fraction thereof, are withdrawals that reduce or deplete the annuity's defined values. Applying paragraph 4(A) to this portion would result in Plan Type A, Plan Type B, or Plan Type C, by following the definitions of such contained within the Standard Valuation Law and reflecting the specific contract provisions, especially with regard to withdrawal. Paragraph 4(A) would also apply to any residual withdrawals that can be made following election of the GLIB benefit.

The second portion is a life annuity without option to take or receive additional amounts under the contract, and consists of the payments not included in the above portion. Applying paragraph 4(B), Plan Type A would generally apply to this segment with the guarantee duration determined using the period from contract issue to commencement of payments in this second portion.

5. Change in Fund Basis

As indicated by section 4b.C.(1)(c)(vi) of the SVL, a company may elect to value annuity contracts with cash settlement options on either an issue year basis or on a change in fund basis. Annuity contracts with no cash settlement options must be valued on an issue year basis. The issue year basis or change in fund basis should be determined for the contract as a whole, and thus must be consistently applied to all portions of all integrated benefit streams available under the annuity contract. The election of issue year or change in fund basis must be made at the issuance of the contract and must not change during the term of the contract without the prior written approval of the commissioner.

6. Purchase Rates

Contracts may provide, as contractual guarantees, the use of preferential purchase rates to those listed in the contract. As an example, a contract may provide that the company will offer, at the time of annuitization, the rates offered to new purchasers of immediate annuities if such rates will provide a higher annuity benefit than would result from the contractually guaranteed rates provided in the contract. This creates a contract guarantee which must be valued under CARVM. Ignoring this benefit in determining reserves will produce reserves less than the statutory formula reserves required under CARVM. Valuation of this benefit, however, is complicated by the fact that the company does not currently know what the exact rate will be at the time of the settlement election. In order to determine conservative statutory formula reserves, if use of future unknown rates are guaranteed, the company shall establish reserves not less than the contract's accumulation fund value, on the valuation date, reduced by an "expense allowance" not to exceed 7% of such fund. This section does not require the calculation of a reserve for the annuitization of business based upon current purchase rates pursuant to the "annuitization streams" described in Paragraph 2.B. above.

Likewise for contracts which provide for additional amounts during the payout period over those guaranteed at the commencement of the annuity payments, the reserve during the deferred period shall not be less than the contract's accumulation fund reduced by an expense allowance not to exceed 7% of such fund.

7. Practical Considerations

The major purpose of this Actuarial Guideline is to provide clarification and consistency in applying CARVM to annuities with multiple benefit streams. However, in practice there may be other acceptable methods of applying CARVM which are substantially consistent with the methods described in this Actuarial Guideline. Such methods may also be used, with prior regulatory approval.

Additionally, in applying this Actuarial Guideline there may theoretically be an infinite number of contract owner options that are possible under the contract. However, it may not be practical, possible or even appropriate to test every conceivable combination of potential integrated benefit streams theoretically available under the contract. This Actuarial Guideline requires that the actuary consider, not necessarily test, all potential integrated benefit streams to determine to what extent each contract owner option has a material impact on the reserve. In practice, the actuary may be able to eliminate some potential integrated benefit streams by analytical methods. The actuary may also be able to demonstrate the reserve adequacy of certain approximations. For example, in certain situations it may

be shown that a CARVM reserve ignoring non-elective benefits, plus an “add-on” reserve for non-elective benefits, is a reasonable approximation for the theoretically correct CARVM reserve.

Effective Date

This guideline shall be effective on December 31, 1998, affecting all contracts issued on or after January 1, 1981. A company may request a grade-in period for contracts issued prior to December 31, 1998 from the domiciliary commissioner upon satisfactory demonstration that the method and level of current reserves held for such contracts are adequate in the aggregate. This phase-in will require establishment of no less than 33 1/3% of the additional reserves resulting from the application of this guideline on December 31, 1998, no less than 66 2/3% on December 31, 1999, and 100% by December 31, 2000.

Not for Distribution

Actuarial Guideline XXXIV

VARIABLE ANNUITY MINIMUM GUARANTEED DEATH BENEFIT RESERVES

**Actuarial Guideline XXXIV was repealed December 30, 2009, and was replaced by
Actuarial Guideline XVIII—CARVM for Variable Annuities, effective December 31, 2009.**

Not for Distribution

**THE APPLICATION OF THE COMMISSIONERS ANNUITY RESERVE METHOD TO
EQUITY INDEXED ANNUITIES**

Background

The purpose of this Actuarial Guideline is to interpret the standards for the valuation of reserves for equity indexed annuities. This Guideline codifies the interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the computational methodologies which will comply with the intent of the Standard Valuation Law (SVL).

Equity indexed deferred annuity products provide policyholders with a minimum guaranteed interest accumulation rate on a portion of all premium payments and a portion of the growth, if any, of an equity based index such as the S&P 500. While there is no “typical” equity indexed product, there are design features that are common to most products. Some of these features are a participation rate guaranteed for one or more years, a cap on the portion of the index growth that is credited to policyholders, and a policy term which defines a time period for which current guarantees are applicable.

Equity indexed immediate annuity products provide policyholders with a minimum guaranteed annuitization rate and an opportunity to receive larger periodic payments based on the growth, if any, in an equity index. The product design may include features such as a participation rate, cap or term.

While contract parameters such as participation rate and cap are guaranteed for a period of time, growth of the underlying index is not. Index growth may be positive or negative. This combination of guaranteed parameters and unknown equity index growth makes the application of CARVM to these products problematic.

CARVM defines minimum statutory reserves as “the greatest of the respective excesses of the present value, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, ... over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract, that become payable prior to the end of such respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in such contracts for determining guaranteed benefits.”

In order that all insurers issuing equity indexed annuity products establish reserves for statutory reporting purposes that are consistent with CARVM minimum statutory formula reserves requirements, this actuarial guideline identifies a computational method that is deemed to be consistent with CARVM in situations when specific operational criteria called “Hedged as Required” criteria are met. In addition, two computational methods are defined that are deemed to be consistent with CARVM in the event the “Hedged as Required” criteria are not met.

Two forms of the “Hedged as Required” criteria are provided. The “basic” criteria are applicable when an insurer uses long dated options to hedge the equity risk embedded in an equity indexed annuity. The second set of criteria is applicable when an insurer uses an option replication strategy.

Scope

This Actuarial Guideline applies to all equity indexed annuity contracts, regardless of the date of issue, that are subject to CARVM.

Computational Methods

Computational methods deemed to be consistent with CARVM can be classified into two groups, Type 1 methods and Type 2 methods. The following computational method is considered a Type 1 method: the Enhanced Discounted Intrinsic Method (EDIM). Type 1 computational methods are deemed to be consistent with CARVM if the applicable “Hedged as Required” are met. The following methods are considered Type 2 methods: the Commissioners Annuity Reserve Method with Updated Market Values (CARVM with UMV) and the Market Value Reserve Method (MVRM). Also, an adaptation of the MVRM, known as the Black-Scholes Projection Method (BSPM), is recognized. For a complete description of these methods, please consult Attachment 1.

General Requirements on the Use of Certain Computational Methods

The MVRM and EDIM computational methods are both based on a future value. In the case of MVRM, a projected index is determined. The projected index is then used to determine end of term and interim benefit amounts. CARVM is applied to these benefit amounts. In the case of EDIM, the end of term guaranteed value (a future value) is used to determine an interest rate for calculating terminal reserves for the guaranteed benefits after the initial terminal reserve. Determination of the “term” is an essential component of both computational methods.

The EDIM, MVRM and the BSPM adaptation of the MVRM computational methods are considered acceptable interpretations of CARVM under the following conditions:

1. The policy form design features a single dominant benefit which is the most likely benefit to be provided under the policy form with the determination of the single dominant benefit based on a consideration of product features such as the pattern of guaranteed participation rates, surrender charges, vesting rates, spread deductions, and marketing/advertising material.
2. The point in time associated with the single dominant benefit most likely to be provided under the contract is used as the terminal point of the current term for purposes of applying the computational method and complying with the “Hedged as Required” criteria, if applicable.
3. The appointed actuary has demonstrated to the satisfaction of the regulatory officials in each state in which the insurer is required to submit a statutory financial statement, prior to the use of the MVRM or EDIM computational methods, that the requirements above have been met.

Variations from the MVRM and EDIM as described in Attachment 1, are not acceptable interpretations of CARVM. The BSPM is considered an acceptable adaptation of the MVRM.

Type 1 Methods

A Type 1 computational method is deemed to be consistent with CARVM if an insurer using the method complies with the applicable “Hedged as Required” criteria (Attachment 2) and provides a certification as to compliance with the criteria. The certification must be signed by the appointed actuary. The certification shall be provided with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer does business.

For purposes of determining compliance with the “equivalence of characteristics” requirement in the “Hedged as Required” criteria, the current term of an equity indexed deferred annuity policy will be determined based on the requirements in the section captioned “General Requirements on Use of Certain Computational Methods.” For purposes of applying a Type 1 computational method, the time horizon for

present value calculations should be based on the current term of the policy based on the requirements in the section captioned “General Requirements on Use of Certain Computational Methods.”

The Enhanced Discounted Intrinsic Method (EDIM) requires an initial reserve amount that is determined by methods that are not specifically included in the EDIM. For purposes of compliance with statutory minimum formula reserve requirements, the initial reserve under EDIM must be set at least equal to the initial reserve produced by either CARVM with UMV, or the MVRM with assumptions used to compute any necessary option market values reasonable as of the date of issue of the policy. The insurer must provide a certification (Attachment 3) as to the reasonableness of the assumptions.

Type 2 Methods

The use of Type 2 method is not conditioned upon the requirement to meet the “Hedged as Required” criteria. However, an insurer using a Type 2 method must provide a certification (Attachment 4) signed by the appointed actuary with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer does business. This certification deals with the assumptions underlying the option market values included in the calculation of reserves using a Type 2 method and the consistency in assumptions between these option market values and the statement value of any options owned by the insurer to support the equity indexed annuity business being valued.

For purposes of applying the MVRM and the BSPM recognized adaptation computational methods, the time horizon for present value calculations should be based on the requirements in the section captioned “General Requirements on Use of Certain Computational Methods.”

Required Change in Method

In the event an insurer that is using a Type 1 computational method for a block of business fails to meet the applicable “Hedged as Required” criteria, the required actuarial certification must disclose this fact. If the reason for failing the “Hedged as Required” criteria is not corrected within one quarterly financial reporting of the initial disclosure of the failure in the actuarial certification, the insurer must use a Type 2 computational method for determining minimum statutory formula reserves for this block of business.

If at a later date, the insurer can demonstrate to the satisfaction of its domiciliary commissioner that it is meeting the applicable “Hedged as Required” criteria, the insurer may, with the approval of the domiciliary commissioner, resume using a Type 1 computational method. In addition, the insurer must notify the appropriate regulatory official in each state in which the insurer does business subject to the change in computational method.

Optional Change in Method

An insurer using either a Type 1 or Type 2 computational method for a block of business, may with the approval of its domiciliary commissioner and after notifying the appropriate regulatory official in all the other states in which the insurer writes this block of business, use a computational method of the other type. If the change in computational methods involves a change from a Type 2 computational method to a Type 1 computational method, the request to the domiciliary commissioner for approval of the change in method must be accompanied with a demonstration of compliance with the applicable “Hedged as Required” criteria.

Plan Type

The use of either a Type 1 computational method or a Type 2 computational method requires a determination of Plan Type for purposes of determining the maximum valuation interest rate. Design features unique to equity indexed annuities, such as an equity enhanced surrender values, vesting schedules, or participation rate, should not be used to determine the Plan Type of a policy form. Only those design features specifically identified in Section 4b. Paragraph C of the NAIC Model SVL may be used to assign a Plan Type to a policy form.

The definition of Plan Type A and Plan Type B in the NAIC Model SVL includes the phrase “with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company...” The reference to “change in ... asset values” does not include changes in policy values due to changes in the equity index underlying the policy form.

Other Regulatory Requirements

The guidance provided in this Actuarial Guideline concerning statutory minimum formula reserves for equity indexed annuity products supersedes the valuation guidance in Sections 5 and 6 of the NAIC Interest-Indexed Annuity Contracts Model Regulation.

Asset Adequacy Testing of Reserves

To the extent required by law, regulation, or regulatory requirements, reserves established for equity indexed annuity policies must be tested for adequacy using appropriate methods and assumptions.

Not for Distribution

ATTACHMENT 1

Description of Computational Methods

CARVM-UMV

Step 1: For each duration and each benefit at which an index-based benefit is available, determine the market value of the appropriate call option. The appropriate call option is one that exactly hedges the floor of the benefit at that point in time. This means that the payoff of the call option should exactly equal the difference between the specific benefit available at that point in time (reflecting all relevant contract features) and the guaranteed floor of that benefit. The market value should be determined using an appropriate option pricing technique, such as Black-Scholes or a stochastic scenario method.

Step 2: The market value of all of the call options are projected forward at the appropriate valuation interest rate to the point in time at which the call option would expire. The valuation interest rate should be consistent with the requirements of any applicable Actuarial Guidelines or regulations, such as Actuarial Guideline XXXIII or Actuarial Guideline IX-B.

Step 3: The future guaranteed benefits for each benefit at each time point are determined by adding the guaranteed floors of the benefit to the amounts determined in Step 2.

Step 4: Now a CARVM calculation can be performed. The CARVM calculation should be in accordance with Actuarial Guideline XXXIII and any other applicable regulations or Actuarial Guidelines.

MVRM

Step 1: Calculate the projected index value at the end of the “term” which would produce a benefit at the end of the “term” equal to the sum of (1) the contract guarantee at that time, and (2) the current market value of the call option(s) which would fully hedge the index-based benefit, accumulated at the appropriate valuation interest rate. This calculation should be performed assuming equal annual percentage increases in the index. The call options used are those with maturity dates coterminous with the setting of participation rates, spread, or any other method of determining index-based benefits. The valuation interest rate used to accumulate the call options should be consistent with the requirements of any applicable Actuarial Guidelines or regulations, such as Actuarial Guideline XXXIII or Actuarial Guideline IX-B. Note that the “term” referred to above should be consistent with the “term” described in this Actuarial Guideline.

Step 2: From the current level of the index and the projected level of the index at the end of the term, calculate an implied compound constant growth rate of the index from the valuation date to the end of the term. Use this implied growth rate to project the level of the index at intermediate anniversaries.

Step 3: All annuity benefits can now be determined from the index levels.

Step 4: Now a CARVM calculation can be performed. The CARVM calculation should be in accordance with Actuarial Guideline XXXIII and any other applicable regulations or Actuarial Guidelines.

MVRM Using Black-Scholes Projection Method

This is an adaptation of the basic MVRM approach to accommodate products for which the participation rate, spread, or any other benefit determination method is redetermined during the term (particularly annually).

Step 1: Calculate the cost of a full hedging call option as a percentage of the account value for the period that the benefit determination is guaranteed, accumulate the percentage to the end of that period at the risk-free interest rate, and use the accumulated percentage cost as the projected growth rate of the account value during the period. Perform the same type of calculation for each successive period within the term,

giving recognition to the benefit guarantees, forward interest rates, forward index volatility, and index dividend levels.

Step 2: Determine the index level which would provide the projected account level on each anniversary on the basis of the participation rate, spread, or other benefit determination method used.

Step 3: All annuity benefits can now be determined from the index levels.

Step 4: Now a CARVM calculation can be performed. The CARVM calculation should be in accordance with Actuarial Guideline XXXIII and any other applicable regulations or Actuarial Guidelines.

EDIM

Step 1: The Fixed Component at issue is the formula reserve produced by either CARVM-UMV or MVRM. The Fixed Component at the end of the term is the floor of the benefit actually being hedged.

Step 2: The intermediate values of the Fixed Component are found by solving for an interest rate that would accumulate the initial value to the ending value. For example, assume you purchase options assuming that 90% of policyholders will surrender at maturity, and that 10% of policyholders will annuitize at maturity. The Fixed Component is the sum of (1) 90% of the Fixed Component that grows to the floor of the surrender benefit; and (2) 10% of the Fixed Component that grows to the floor of the annuitization benefit.

Step 3: The Equity Component is equal to the discounted intrinsic value of the options. The discounted intrinsic value of the options is found by taking the intrinsic value at the valuation date, and discounting at the valuation rate for the number of years from the valuation date to the end of the term. The valuation interest rate used to discount the intrinsic value of the call options should be consistent with the requirements of any applicable Actuarial Guidelines or regulations, such as Actuarial Guideline XXXIII or Actuarial Guideline IX-B.

Step 4: The reserve is the sum of a Fixed Component and an Equity Component.

ATTACHMENT 2

Hedged as Required Criteria

In order to use a Type 1 computational method, the appointed actuary needs to certify quarterly that it meets either the “Basic” or “Option Replication” criteria.

Basic

1. Required equivalence of characteristics between the option contracts held and the options imbedded in the products with respect to specific contract features such as: Index, averaging features, option type, strike price, term, etc.
2. The amount of hedge purchased, at or near the contract issuance, must be greater than or equal to a Specified Percentage of the product’s account value, at contract issuance. The Specified Percentage varies by the length of the option guarantee (some annual ratchet products may have a term of several years, but the participation rates are only guaranteed for one year, so the “term” for this purpose is 1 year), and allows the company to assume no more than 3% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. For example, for a five-year point-to-point product, the Specified Percentage would be: $SP\% = (1 - .03)^5 = 86\%$.
3. The Company must have a specific plan for hedging risks associated with interim death benefits, early surrenders, etc.
4. The Company must have a system in place that is used to monitor the effectiveness of the company’s hedging strategy.
5. The Company must have a stated maximum tolerance for differences between the expected performance of the hedge and the actual results of the hedge.

Option Replication

1. Required equivalence of characteristics between the target of an option replication strategy employed, and the options imbedded in the liabilities with respect to specific contract features such as: index, averaging features, option type, strike price, term, etc.
2. At the end of each quarter, the notional amount of the target of the option replication strategy must be greater than or equal to the sum of the Specified Percentages of each contract's account value. The Specified Percentage varies by the length of the remaining option guarantee (some annual ratchet products may have a term of several years, but the participation rates are only guaranteed for one year, so the “term” for this purpose is 1 year), and allows the company to assume no more than 3% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. For example, if a point-to-point contract has five years remaining, the Specified Percentage for that contract would be: $SP\% = (1 - .03)^5 = 86\%$. Appropriate assumptions for non-elective decrements such as mortality may be added to the assumption for elective decrements.
3. The company must have a specific plan for hedging risks associated with interim death benefits, early surrenders, etc.
4. The Company must have system in place that is used to monitor the effectiveness of the company’s hedging strategy.
5. The Company must have a stated maximum tolerance for differences between the expected performance of the hedge and the actual results of the hedge. The maximum tolerance test and compliance evaluation test must meet the following minimum requirements. The compliance evaluation criteria will be a retrospective correlation test performed at least on a weekly basis.

The Company will compare the change in the market value, from the beginning of the calendar quarter, of the hedge portfolio with the change in the market value of the options embedded in the liability portfolio. The maximum dollar amount of difference permitted between these two changes is 10% of the beginning of period market value of the options embedded in the liabilities. If the difference exceeds this limit, the following steps must be taken:

- If for a second time during a quarter the dollar amount of difference exceeds 10% of the beginning of period market value of the options embedded in the liabilities, but is less than 25% of the beginning of period market value of the options embedded in the liabilities, the Company must notify the Commissioner of Insurance in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy.
- If at any of the weekly intervals, the difference between the two changes exceeds 25% of the beginning of period market value of the options embedded in the liabilities, the Company must notify the Commissioner of Insurance in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on the CARVM-UMV.
- If at any point in time during the quarter the difference between the two changes exceeds 35% of the beginning of period market value of options embedded in the liabilities, the insurer is deemed to be out of compliance with the "Hedged as Required" criteria, and the Company must notify the Commissioner of Insurance in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on the CARVM-UMV.

Drafting Note: The requirements discussed above deal with the situation in which the actual hedge underperforms relative to the expected hedge performance. The ability of an insurer to over-hedge may be constrained by other components of a state's regulatory framework including the state's investment article and regulations concerning the use of derivative instruments. For purposes of this Drafting Note, over-hedged means that at a particular point in time, the hedge portfolio exceeds the portfolio of liabilities being hedged. If over-hedged, the excess hedging instruments are excluded from the measurements required in Item 5 of the Hedged as Required Criteria.

ATTACHMENT 3
Reasonableness of Assumptions Certification

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The certification must be signed by the appointed actuary.

I, (state name and professional designation), am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity options used in the determination of the initial statutory reserves under the Enhanced Discounted Intrinsic Method for all equity indexed deferred annuity products issued or reinsured by (company name) and reported in the statutory financial statement as of (the date of valuation). The assumptions used to determine such option market values are reasonable in light of the relevant economic conditions prevalent at the time of issue of each policy valued using the Enhanced Discounted Intrinsic Method.

(Name of actuary)

(Signature of actuary)

(Date of certification)

Not for Distribution

ATTACHMENT 4**Reasonableness and Consistency of Assumptions Certification**

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The certification must be signed by the appointed actuary.

I, (state name and professional designation), am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity options used in the determination of statutory reserves for all equity indexed annuity products issued or reinsured by (company name) insurance company and reported in the statutory financial statement as of (the date of valuation). The assumptions used to determine such option market values are:

1. reasonable in light of current relevant economic conditions as of the date of valuation, and
2. are consistent with the comparable assumptions used to determine the statement value of any derivative instruments used to hedge the equity indexed based obligations embedded in the equity indexed annuities subject to this certification.

(Name of actuary)

(Signature of actuary)

(Date of certification)

Actuarial Guideline XXXVI

THE APPLICATION OF THE COMMISSIONERS RESERVE VALUATION METHOD TO EQUITY INDEXED LIFE INSURANCE POLICIES

Background

The purpose of this Actuarial Guideline is to clarify statutory and regulatory requirements for the valuation of reserves for equity indexed universal life insurance policies. This Guideline codifies the interpretation of the Commissioners Reserve Valuation Method (CRVM) by clarifying the computational methodologies that are deemed to comply with the intent of the Standard Valuation Law (SVL) and the Universal Life Insurance Model Regulation. These methodologies will be deemed to be consistent with CRVM.

Equity indexed universal life insurance policies include interest credits that are a combination of a guaranteed interest rate and an interest rate based on a percentage of the increase in an equity index, such as the S&P 500. Currently, there are only a few products in the market and the product designs have been straightforward. As new product designs emerge, this Actuarial Guideline may have to be revised.

In order that all insurers issuing equity indexed universal life insurance policies establish reserves for statutory reporting purposes that are consistent with CRVM minimum statutory formula reserves, this Actuarial Guideline identifies a computational method deemed to be consistent when specific operational criteria called “Hedged as Required” criteria are met. In addition, two other computational methods are defined that are deemed to be consistent with CRVM in the event the “Hedged as Required” criteria are not met.

Scope

This Actuarial Guideline applies to all equity indexed universal life insurance policies, regardless of the date of issue, that are subject to CRVM and would otherwise be subject to the reserve requirements under the Universal Life Insurance Model Regulation.

Definitions

Appointed Actuary. The appointed actuary, for purposes of this guideline, is the actuary appointed by the company’s board of directors to provide opinions in accordance with Standard Valuation Law and the model Actuarial Opinion and Memorandum regulation.

Credited. Index-based benefits will be considered to be credited when they are added to the fund and treated in the same manner as other interest credits to the fund.

Term. An index-based benefit crediting period.

Computational Methods

Computational methods deemed to be consistent with CRVM can be classified into three groups, Type 1 methods, Type 2a methods and Type 2 methods. The following computational method is considered a Type 1 method: the Implied Guarantee Rate Method (IGRM). Type 1 computational methods are deemed to be consistent with CRVM only if the “Hedged as Required” criteria are met. The following is considered a Type 2a method: the Commissioners Reserve Valuation Method with Updated Average Market Value (CRVM with UAMV). The following is considered a Type 2 method: the Commissioners Reserve Valuation Method with Updated Market Value (CRVM with UMV). For a complete description of these methods, consult Attachment 1.

The minimum reserve for equity indexed life insurance policies is the statutory reserve calculated under the Universal Life Insurance Model Regulation for an identical policy with no guaranteed index-based benefits. If the reserve produced by Type 1, Type 2a or Type 2, as appropriate, is greater than the minimum reserve, then that Type 1, Type 2a or Type 2 reserve is the minimum reserve.

Type 1 Methods

A Type 1 computational method is deemed to be consistent with CRVM if an insurer using the method complies with the “Hedged as Required” Criteria (Attachment 2) and provides a certification (Attachment 3) as to compliance with the criteria. The appointed actuary must sign the certification. The certification shall be provided with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer writes or reinsures equity indexed universal life insurance business.

For purposes of determining compliance with the “equivalence of characteristics” requirement in the “Hedged as Required” criteria, the current term of an equity indexed universal life insurance policy is one year or less. This should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

The IGRM computational method is deemed to be consistent with CRVM under the following conditions:

1. The implied guaranteed rate for terms after the first, determined at issue using the method of Attachment 1, paragraph 3 of the IGRM method, is less than or equal to the appropriate maximum valuation interest rate.
2. Index-based benefit terms cannot be greater than one year. This should be interpreted consistently when a separate index- based benefit guarantee is made on each premium received.
3. The appointed actuary has demonstrated at time of filing or in conjunction with a change to a Type 1 Method, to the satisfaction of the regulatory officials in each state in which the insurer writes or reinsures equity indexed universal life insurance business, prior to the use of the IGRM that the requirements in (1) and (2) above have been met.

Type 2a Methods

A Type 2a computational method is deemed to be consistent with CRVM if an insurer using the method complies with Type 2a Prerequisite Criteria below, and provides Reasonableness and Consistency of Assumptions Certification (Attachment 4). The appointed actuary must sign the certification. The certification shall be provided with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer writes or reinsures equity indexed universal life insurance business.

Type 2a Prerequisite Criteria are as follows:

1. At issue, the policy satisfies (a) or (b) as follows:
 - (a) The implied guaranteed rate for terms after the first, determined at issue using the method of Attachment 1, paragraph 3 of the CRVM with UAMV method, is less than or equal to the appropriate maximum valuation interest rate; or
 - (b) Policies with identical renewal guarantees issued in three of the past five years would have satisfied condition 1 for the Type 1 method.
2. Index-based benefit terms cannot be greater than one year. This should be interpreted consistently when a separate index- based benefit guarantee is made on each premium received.

3. The appointed actuary has demonstrated at time of filing or in conjunction with a change to a Type 2a Method, to the satisfaction of the regulatory officials in each state in which the insurer writes or reinsures equity indexed universal life insurance business, prior to the use of the CRVM with UAMV that the requirements in (1) and (2) above have been met.

Type 2 Methods

The use of a Type 2 method is not conditioned upon the requirement to meet the “Hedged as Required” criteria or the Type 2a Prerequisite Criteria. However, an insurer using a Type 2 method must provide a certification (Attachment 5) signed by the appointed actuary with each annual and quarterly statutory financial statement filed with the appropriate insurance regulatory official in each state in which the insurer writes or reinsures equity indexed universal life insurance business. This certification deals with the assumptions underlying the option market values included in the calculation of reserves using a Type 2 method and the consistency in assumptions between these option market values and the statement value of any options owned by the insurer to support the equity indexed universal life insurance business being valued.

Required Change in Method

In the event an insurer that is using a Type 1 computational method for a block of business fails to meet the applicable “Hedged as Required” criteria, the required actuarial certification must disclose this fact. If the reason for failing the “Hedged as Required” criteria is not corrected within one quarterly financial reporting period of the initial disclosure of the failure in the actuarial certification, the insurer must choose to use a Type 2a or a Type 2 computational method for determining minimum statutory formula reserves for this block of business.

If, at a later date, the insurer can demonstrate to the satisfaction of its domiciliary commissioner that it is meeting the applicable “Hedged as Required” criteria, the insurer may, with the approval of the domiciliary commissioner, resume using a Type 1 computational method. In addition, the insurer must notify the appropriate regulatory official in each state in which the insurer does business subject to the change in computational method.

Optional Change in Method

An insurer using either a Type 1, Type 2a or Type 2 computational method for a block of business may, with the approval of its domiciliary commissioner and after notifying the appropriate regulatory official in all the other states in which the insurer writes this block of business, use a computational method of another type. If the change in computational methods involves a change from a Type 2 or Type 2a computational method to a Type 1 computational method the request to the domiciliary commissioner for approval of the change in method must be accompanied with a demonstration of compliance with the applicable “Hedged as Required” criteria. If the change in computational methods involves a change from a Type 2 computational method to a Type 2a or Type 1 computational method, the request to the domiciliary commissioner for approval of the change in method must be accompanied with a demonstration of compliance with the “Type 2a Prerequisite Criteria” or the requirements specified in the section captioned “Type 1 Methods.”

Asset Adequacy Testing of Reserves

To the extent required by law, regulation, or regulatory requirements, reserves established for equity indexed life policies must be tested for adequacy using appropriate methods and assumptions.

Attachment 1
Description of Computational Methods

Implied Guaranteed Rate Method (IGRM)

To use this computational method, companies must satisfy the “Hedged as Required” criteria, which are set out in Attachment 2. On the asset side, options will be held in accordance with the rules of the NAIC Accounting and Procedures Manual.

The following describes how the IGRM works:

1. Issue date calculations:

Calculate an implied guaranteed rate, determined at issue, for the period of the initial term equal to: (a) the guaranteed interest rate for the period of the initial term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost, determined at issue, is the option cost, which will provide the index-based benefit in excess of any other interest rate guarantee for the initial term, accumulated to the end of the term at the appropriate maximum valuation rate. The option cost should be as of the issue date.

Calculate an implied guaranteed rate, determined at issue, for the terms after the first. The implied guaranteed rates for terms after the first term will be based on historical moving average option costs according to (3) below.

Using the Universal Life Insurance Model Regulation, with the guaranteed interest rates equal to the implied guaranteed rates, calculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, and net premium for the policy based on guarantees at issue.

2. Valuation date calculations:

Calculate the implied guaranteed rate for the current term based on the current term’s index-based benefit and the option cost at the start of the current term that will provide the indexed benefit, in excess of any other interest rate guarantee, for the current term. The method of calculating the current term implied guaranteed rate is the same as for calculating the rate for the initial term. The implied guaranteed rate for terms after the current is not recalculated as long as neither the interest rate guarantees nor the index-based benefit guarantee have changed. (If guarantees have improved, then the new implied guaranteed rates for future terms will be based on option costs determined at issue according to (3) below.)

Continue the calculation of the reserve according to the Universal Life Insurance Model Regulation. Use the recalculated current term implied guaranteed rate and the implied guaranteed rate for future terms, as determined according to (3) below, when computing future guaranteed benefits at the valuation date. Do not recalculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, or net premium. This section should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

In determining reserves, the net premiums, as determined in Section 1 above, are payable over the period that benefits are projected to be available, but not beyond the end of the net premium payment period determined at issue.

3. Index-based benefit guarantees beyond the current term should be handled as follows:

Calculate an implied guaranteed rate, determined at issue, for the terms after the current term equal to: (a) the guaranteed interest rate for the period of the term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost is the historical moving average cost of the option whose term begins at the beginning of the term, which will provide the index-based benefit in excess of any other interest rate guarantee for the term, accumulated for the length of the term at the appropriate maximum valuation rate.

The historical moving average cost of the option will be calculated based on the averages over the sixty months previous to the calendar year of issue of each of the following items: (a) 3% plus the annualized daily actual index volatility as the estimated implied volatility for a one year European At-The-Money option, e.g. if the average index volatility is 15%, the implied volatility for the base case option cost is 18%; (b) index dividend rate; and (c) risk free rate. The base case cost is for a one year European At-The-Money option and must be adjusted to the characteristics of the policy.

In those states that require, by regulation, that the policy valuation interest rates not exceed the “minimum guaranteed interest rate” in the policy, the “minimum guaranteed interest rate” for IGRM is the implied guaranteed rate.

Commissioners Reserve Valuation Method Updated Average Market Value (CRVM with UAMV)

To use this computational method, companies must satisfy the Type 2a Prerequisite Criteria. On the asset side, options will be held in accordance with the rules of the NAIC Accounting and Procedures Manual. Similarly, reinsurance reserve credit will be in accordance with the rules of the NAIC Accounting and Procedures Manual.

The following describes how the CRVM with UAMV works:

1. Issue date calculations:

Calculate an implied guaranteed rate, determined at issue, for the period of the initial term equal to: (a) the guaranteed interest rate for the period of the initial term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost, determined at issue, is the option cost that will provide the index-based benefit in excess of any other interest rate guarantee for the initial term, accumulated to the end of the term at the appropriate maximum valuation rate. The option cost should be as of the issue date.

Calculate an implied guaranteed rate, determined at issue, for the terms after the first. The implied guaranteed rates for terms after the first term will be based on historical moving average option costs according to (3) below.

Using the Universal Life Insurance Model Regulation, with the guaranteed interest rates equal to the implied guaranteed rates, calculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, and net premium for the policy based on guarantees at issue.

2. Valuation date calculations:

When calculating the present value of future guaranteed policy benefits at the valuation date by projecting a fund equal to the greater of the Guaranteed Maturity Fund or the policy value, this fund should be projected to the end of the current term at the guaranteed interest rate and added to

the accumulated option cost for the current term. The option cost should be determined as of the valuation date.

The option should provide for the index-based benefit in excess of any other interest rate guarantee for the current term based on a fund equal to the greater of the Guaranteed Maturity Fund or the policy value. The option cost should be accumulated to the end of the current term at the appropriate maximum valuation rate in accordance with the SVL.

This combined amount should then be projected forward using the implied guaranteed rates for future terms, as determined according to (3) below.

The implied guaranteed rates for terms after the current are recalculated on the valuation date. The implied guaranteed rates for future terms will be based on historical moving average option costs on the valuation date according to (3) below.

Do not recalculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, or net premium. This section should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

In determining reserves, the net premiums, as determined in Section 1 above, are payable over the period that benefits are projected to be available, but not beyond the end of the net premium payment period determined at issue.

3. Index-based benefit guarantees beyond the current term should be handled as follows:

Calculate an implied guaranteed rate, determined either at issue or at a valuation date, for the terms after the current term equal to: (a) the guaranteed interest rate for the period of the term; plus (b) the accumulated option cost expressed as a percent of the policy value to which the indexed benefit is to be applied. The accumulated option cost is the historical moving average cost of the option whose term begins at the beginning of the term, which will provide the index-based benefit in excess of any other interest rate guarantee for the term, accumulated for the length of the term at the appropriate maximum valuation rate.

The historical moving average cost of the option will be set equal to the option cost calculated based on the averages of each of the following items over the sixty months previous to the calendar year of the determination date: (a) 3% plus the annualized daily actual index volatility as the estimated implied volatility for a one year European At-The-Money option, e.g. if the average index volatility is 15%, the implied volatility for the base case option cost is 18%; (b) index dividend rate; and (c) risk free rate. The base case cost is for a one year European At-The-Money option and must be adjusted to the characteristics of the policy.

In those states that require, by regulation, that the policy valuation interest rates not exceed the “minimum guaranteed interest rate” in the policy, the “minimum guaranteed interest rate” for CRVM with UAMV is the implied guaranteed rate.

CRVM with Updated Market Value (UMV) Method

CRVM with UMV applies the Universal Life Insurance Model Regulation to equity indexed life insurance policies using the following methods:

1. Issue date calculations:

When calculating the present value of future guaranteed policy benefits at issue by projecting fund values, the fund should be projected to the end of the initial term at the guaranteed interest rate and added to the accumulated option cost for the initial term. This combined amount should

then be projected forward, using the policy guarantees to determine future death and endowment benefits. The option should provide for the indexed benefit in excess of any other interest rate guarantee for the initial term. The option cost should be as of the issue date. The option cost should be accumulated to the end of the initial term at the appropriate maximum valuation rate in accordance with the SVL. Any index-based benefit guarantees beyond the initial term should be determined as described in (3) below.

Using this method of determining the present value of future guaranteed benefits, calculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, and net premium for the policy based on guarantees at issue.

2. Valuation date calculations:

When calculating the present value of future guaranteed policy benefits at the valuation date by projecting a fund equal to the greater of the Guaranteed Maturity Fund or the policy value, this fund should be projected to the end of the current term at the guaranteed interest rate and added to the accumulated option cost for the current term. The option cost should be determined as of the valuation date. This combined amount should then be projected forward, using the policy guarantees to determine future death and endowment benefits. The option should provide for the index-based benefit in excess of any other interest rate guarantee for the current term, based on a fund equal to the greater of the Guaranteed Maturity Fund or the policy value. The option cost should be accumulated to the end of the current term at the appropriate maximum valuation rate in accordance with the SVL. Any index-based benefit guarantees beyond the current term should be treated as described in (3) below. Do not recalculate the Guaranteed Maturity Premium, Guaranteed Maturity Fund, or net premium. This section should be interpreted consistently when a separate index-based benefit guarantee is made on each premium received.

In determining reserves, the net premiums, as determined in Section 1 above, are payable over the period that benefits are projected to be available, but not beyond the end of the net premium payment period determined at issue.

3. Index-based benefit guarantees beyond the current term should be handled as follows:

At the time of calculation, fund values projected to the end of the current term should be further projected to the end of the next term at the guaranteed interest rate. This should be added to the accumulated option cost for that term. This should be done successively for each subsequent term, using the appropriate option cost for each term. The option for each term should provide for the index-based benefit in excess of any other interest rate guarantee for the term. The cost for each option should recognize the current relevant economic condition on the calculation date and be priced as if the term began on that date. The option cost for each future term should be accumulated to the end of the term at the appropriate maximum valuation rate in accordance with the SVL.

Attachment 2
Hedged as Required Criteria - Life Products

In order to use a Type 1 computational method, the appointed actuary needs to certify quarterly that it meets either the “Basic” or “Option Replication” criteria.

Basic

1. Required equivalence of characteristics between the option policies held and the options embedded in the policies for the current term with respect to specific policy features such as: index; averaging features; option type; strike price; term; etc.
2. The amount of hedge owned must substantially cover the greater of the account value or reserve. “Substantially” is measured by the guarantees in the specific policy (some policies may have longer term guarantees than others), and allows the company to assume no more than 6% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. Benefit decrements due to charges in the policy should be taken into account in the same way as they are in the indexed interest formula in the policy (i.e., if indexed interest is credited on an average fund value, then it is the projected average fund value on each policy which should be hedged).
3. The company must have a specific plan for hedging risks associated with death benefits, early surrenders, unexpected premium payment patterns, and other potentialities. This plan must be available at issue and updated at every valuation date, or as often as the valuation actuary requirements may warrant.
4. The company must have a system in place that is used to monitor the effectiveness of its hedging strategy.
5. The company must have a stated maximum tolerance for differences between expected performance of the hedge and the actual results of the hedge.

Option Replication

1. Required equivalence of characteristics between the target of an option replication strategy employed and the options imbedded in the liabilities for the current term with respect to specific policy features such as: index; averaging features; option type; strike price; term; etc.
2. At the end of each quarter, the notional amount of the target of the option replication strategy must substantially cover the greater of the account value or reserve. “Substantially” is measured by the guarantees in the specific policy (some policies may have longer term guarantees than others), and allows the company to assume no more than 6% per year of elective benefit decrements, unless the Commissioner agrees to a higher limit. Benefit decrements due to charges in the policy should be taken into account in the same way as they are in the indexed interest formula in the policy (i.e., if indexed interest is credited on an average fund value, then it is the projected average fund value on each policy which should be hedged).
3. The company must have a specific plan for hedging risks associated with death benefits, early surrenders, unexpected premium payment patterns and other potentialities. This plan must be available at issue and updated at every valuation date, or as often as the valuation actuary requirements may warrant.
4. The company must have a system in place that is used to monitor the effectiveness of the company’s hedging strategy.

5. The company must have a stated maximum tolerance for differences between the expected performance of the hedge and the actual results of the hedge. The maximum tolerance test and compliance evaluation test must meet the following minimum requirements. The compliance evaluation criterion will be a retrospective correlation test performed at least on a weekly basis. The company will compare the change in the market value, from the beginning of the calendar quarter, of the hedge portfolio with the change in the market value of the target of the option replication strategy. The maximum dollar amount of difference permitted between these two changes is 10% of the beginning of period market value of the target of the option replication strategy. If the difference exceeds this limit, the following steps must be taken:
- If for a second time during a quarter the dollar amount of difference exceeds 10% of the beginning of period market value of the target of the option replication strategy, but is less than 25% of the beginning of period market value of the target of the option replication strategy, the company must notify the Commissioner in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy.
 - If at any of the weekly intervals the difference between the two changes exceeds 25% of the beginning of period market value of the target of the option replication strategy, the company must notify the Commissioner in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on CRVM with UMV, or CRVM with UAMV if the conditions for that method are satisfied.
 - If at any point in time during the quarter the difference between the two changes exceeds 35% of the beginning of period market value of target of the option replication strategy, the insurer is deemed to be out of compliance with the “Hedged as Required” criteria, and the company must notify the Commissioner in each state in which the insurer is licensed. The notification must indicate the dollar amount of reserves being hedged by the option replication strategy and the impact on surplus of reporting the reserves based on the CRVM with UMV, or CRVM with UAVM if the conditions for that method are satisfied.

The requirements discussed above deal with the situation in which the actual hedge underperforms relative to the expected hedge performance. The ability of an insurer to over-hedge may be constrained by other components of a state’s regulatory framework including the state’s investment article and regulations concerning the use of derivative instruments. For purposes of this Guideline, over-hedged mean that at a particular point in time, the hedge portfolio exceeds the portfolio of liabilities being hedged. If over-hedged, the excess hedging instruments are excluded from the measurements required in Item 5 of the Hedged as Required Criteria.

Attachment 3
Reasonableness of Assumptions Certification
for Implied Guaranteed Rate Method

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The appointed actuary must sign the certification.

I, (state name and professional designation) am the appointed actuary for (company name). The company meets the Hedged as Required criteria for policies reserved under the Implied Guarantee Rate Method. I have reviewed the assumptions underlying the values assigned to all equity index options used in the determination of the implied guaranteed rate used in the calculation of reserves under the Implied Guaranteed Rate Method for all equity indexed universal life insurance policies issued or reinsured by (company name) and reported in the statutory financial statement as of (the date of valuation).

The assumptions at the start of the current term used to determine such option values for the current term are:

1. Reasonable in light of current relevant economic conditions at the start of the current term; and
2. Consistent with the comparable assumptions used to determine the statement of value of any derivative instruments as of the valuation date used to hedge the equity index-based obligations embedded in the equity indexed life policies subject to this certification.

The assumptions at issue used to determine equity index option values for terms subsequent to the current term are:

1. Determined in accordance with the Implied Guaranteed Rate Method
2. Based on quantitative data for the base case option (1-year European At-The-Money) of 3% plus ____% average annualized daily actual volatility over the 60 months previous to the calendar year of issue.
3. Reasonably adjusted to reflect the following variances from the base case due to benefit design and capital market reasons (all material adjustments should be listed)
 - a. skew adjustments
 - b. _____ (to be described by appointed actuary)
4. Reliant on the following source(s) for assumptions not prescribed by this Actuarial Guideline:
 - a. _____ (to be described by appointed actuary)

(Name of actuary)

(Signature of actuary)

(Date of certification)

Attachment 4
Reasonableness and Consistency of Assumptions Certification
for Commissioners Reserve Valuation Method with Updated Average Market Value

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The appointed actuary must sign the certification.

I, (state name and professional designation) am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity index options used in the determination of statutory reserves using a Type 2a computational method for all equity indexed universal life insurance policies issued or reinsured by (company name) insurance company and reported in the statutory financial statement as of (the date of valuation).

The assumptions used to determine such option values for the current term are:

1. Reasonable in light of current relevant economic conditions as of the date of valuation; and
2. Consistent with the comparable assumptions used to determine the statement of value of any derivative instruments as of the valuation date used to hedge the equity index-based obligations embedded in the equity indexed life policies subject to this certification.

The assumptions used to determine equity index option values for terms subsequent to the current term are:

1. Determined in accordance with the Commissioners Reserve Valuation Method with Updated Average Market Value
2. Based on quantitative data for the base case option (1-year European At-The-Money) of 3% plus ____ % 60 -month moving average annualized daily actual volatility
3. Reasonably adjusted to reflect the following variances from the base case due to benefit design and capital market reasons (all material adjustments should be listed)
 - a. skew adjustments
 - b. _____ (to be described by appointed actuary)
4. Reliant on the following source(s) for assumptions not prescribed by this Actuarial Guideline:
 - a. _____ (to be described by appointed actuary)

 (Name of actuary)

 (Signature of actuary)

 (Date of certification)

Attachment 5
Reasonableness and Consistency of Assumptions Certification
for Commissioners Reserve Valuation Method with Updated Market Value

The following certification must be filed in conjunction with each quarterly and annual statutory financial statement filed with the appropriate regulatory official in each state in which the insurer does business. The appointed actuary must sign the certification.

I, (state name and professional designation) am the appointed actuary for (company name). I have reviewed the assumptions underlying the values assigned to all equity index options used in the determination of statutory reserves using a Type 2 computational method for all equity indexed universal life insurance policies issued or reinsured by (company name) insurance company and reported in the statutory financial statement as of (the date of valuation). The assumptions used to determine such option values are:

1. Reasonable in light of current relevant economic conditions as of the date of valuation; and
2. Consistent with the comparable assumptions used to determine the statement of value of any derivative instruments as of the valuation date used to hedge the equity index-based obligations embedded in the equity indexed life policies subject to this certification.

(Name of actuary)

(Signature of actuary)

(Date of certification)

Actuarial Guideline XXXVII

VARIABLE LIFE INSURANCE RESERVES FOR GUARANTEED MINIMUM DEATH BENEFITS

Background

This guideline's primary focus is to clarify the appropriate projection assumptions and methodologies used to determine statutory reserve liabilities for Guaranteed Minimum Death Benefits (GMDBs) offered with variable life insurance products.

For many years, insurance companies have not applied uniform reserve standards to variable life insurance policies in general, and to GMDBs in particular. Four regulatory sources are often looked to for guidance. First, the Standard Valuation Law (SVL) requires that CRVM be based on the present value of future guaranteed benefits. Second, the Variable Life Insurance Model Regulation as revised in 1983 and again in 1989 states "Reserve liabilities for variable life insurance policies shall be established under [SVL] in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees." Third is the Universal Life Insurance Model Regulation and most recently the Valuation of Life Insurance Policies Model Regulation.

GMDBs are common features of variable life products. Recently, reserve methods for universal life secondary guarantees have been clarified in the Valuation of Life Insurance Policies Model Regulation. These secondary guarantees are similar to GMDBs offered with variable life policies. A Guaranteed Minimum Death Benefit is any guarantee which provides death benefit protection which would not otherwise be provided in the absence of such a guaranteed benefit or provision. An example of a GMDB is a policy in which death benefits continue in-force even if the policy value is zero. This benefit may be contingent on additional qualifications being met, such as cumulative premiums meeting some limit.

Additional examples of GMDBs are provided below. This list is not intended to include all types of GMDBs.

- A Minimum Death Benefit Provision or No Lapse provision where death benefits are guaranteed to remain in-force for a period of time even if the policy value is not greater than zero subject only to certain conditions being met such as cumulative premiums meeting a minimum amount, or if a theoretical policy value is sufficient to meet a minimum amount.
- Death Benefits that are guaranteed to be at least as large as the original face amount, regardless of investment performance which might generate negative Paid Up Additions on a traditional fixed premium variable life insurance policy.

The Variable Life Insurance Model Regulation defines the reserve methodology for variable life policies. However, currently two versions of the model regulation exist and this results in inconsistent treatment by state. These two versions include the 1983 revisions and the 1989 revisions to the model regulation. Many states have not passed either revision and therefore require direct interpretation of SVL. In practice, companies have interpreted these regulations inconsistently with regard to assumptions and/or application to current products available today. The 1983 version of the regulation treats flexible premium policies differently than scheduled premium policies. The 1983 version of the regulation did not anticipate the types of GMDBs available today which require contingent conditions to be met to maintain a death benefit guarantee, for instance specified premiums must be paid. Thus, confusion exists with regard to which valuation method is appropriate. The 1989 version makes no distinction between the scheduled premium and flexible premium policies.

This Guideline codifies the basic interpretation of reserve liabilities for variable life GMDBs by clarifying the projection assumptions and methodologies that comply with the SVL. Minimum valuation standards that may be used to determine this reserve and are not specifically addressed in this guideline are defined by SVL and other applicable state regulations. This guideline focuses on the methodology of the 1989 revisions to interpret SVL, as we believe the 1989 revision more appropriately considers the types of products and GMDBs available today.

Interpretations of both the 1983 and 1989 versions reflect the comments made in the December 1972 report which concluded that an acceptable GMDB reserve system should have the following characteristics:

1. The GMDB reserve should be held in the general account of the company so that it will be backed by the general assets of the company, most of which are debt obligations valued at amortized cost and, therefore, are of a fixed dollar nature. It would not be proper to hold the GMDB reserve in the separate account, assuming the reserve is not supported by fixed dollar assets but by assets that are moving in the opposite direction from the risk, i.e. value moving downward while the risk increases and vice versa.
2. The GMDB reserve should be adequate to cover the GMDB death claims for the next year in all but the most extreme circumstances so that the regulatory authorities can be assured the company will not run into financial trouble from this source before the next annual statement is filed.
3. The GMDB reserve should react slowly but steadily through an extended period of poor investment experience of the separate account.
4. The GMDB reserve should not cause unnecessary fluctuations in surplus by increasing too rapidly in a sharp market downswing. Also, the reserve should not decrease too rapidly in a sharp market upswing after a period of poor market performance.

This guideline maintains the four principles above in interpreting the Standard Valuation Law as it relates to variable life business and the methods defined in both the 1983 and 1989 versions of the Variable Life Insurance Model Regulation.

Reserve methodologies which recognize the variable nature of GMDB are defined in the Variable Life Insurance Model Regulation and include a One-Year Term reserve recognizing a 1/3 drop in separate account assets, the Attained Age Level Reserve (AALR) methodology and in the 1983 version, a methodology for flexible premium policies. Reserves for GMDBs are held in the general account.

This guideline recognizes the following principles when determining appropriate reserves for GMDB.

- Determine the guaranteed death benefits which are not valued in the basic policy reserves.
- Establish a reserve for these benefits over the period of time in which revenue is collected to pay for such benefits; however, no greater than the period of time these guaranteed benefits are provided.
- Collected revenue should not be de-minimus in order to reduce the reserve.
- The reserve established is in addition to basic reserves

This guideline interprets the standards for applying these methodologies. This guideline also interprets the projection assumptions to be applied to determine excess guaranteed death benefits. The guideline clarifies the use of the AALR methodology for flexible premium variable life policies with contingent

GMDB benefit structures similar to specified premium contracts. This guideline is based on the belief that the 1983 revisions did not anticipate these types of GMDB benefits on flexible premium contracts. Thus, it makes sense to interpret the 1983 revisions for these types of GMDB benefits by applying the AALR methodology when there is a contingent GMDB structure. For flexible premium plans with other types of GMDBs, the flexible premium language of the 1983 revision is used where applicable.

The AALR methodology, along with the one-year term reserve is generally consistent with the principles above in that additional reserves are established in recognition of all death benefit guarantees not reflected in basic reserves. If multiple guarantees exist all guarantees must be valued and the greatest additional reserve is held. Consecutive GMDBs are treated as a single guarantee. These reserves are funded over the period of time GMDB Revenue will be collected through either policy charges or premiums, however, not to exceed the GMDB benefit period. The AALR methodology funds any GMDB Revenue deficiency over the period of time the Revenue is collected, however, no longer than the end of the guarantee period.

GMDB reserves are held in addition to basic reserves unless the appointed actuary provides satisfactory documentation to the state of domicile insurance department stating why such reserves are redundant. For example, for traditional variable life product designs where reserves are generally determined on a tabular basis and use an assumed interest rate (AIR), if basic reserves are determined based on at least the guaranteed face amount, (i.e. ignoring any negative additions) then the guaranteed death benefit is fully reflected in the basic reserves; therefore, an additional GMDB reserve is redundant. Neither this guideline nor the 1989 amendments specifically address traditional variable life product designs, nor does this guideline specifically exclude these designs from its scope.

An additional purpose of this guideline is to emphasize the impact of Sections 3A(3) and 3A(4) in the Valuation of Life Insurance Policies Model Regulation ("XXX") relative to reserving for variable life and variable universal life products.

Scope

The guideline applies to all variable life insurance contracts to which the Standard Valuation Law applies and which provide Guaranteed Minimum Death Benefits (GMDBs) either explicitly or implicitly.

Definitions

Attained age level reserve (AALR): The AALR is a methodology described in the 1983 and 1989 revisions to the Variable Life Insurance Model Regulation.

Catch-up provision: A Catch-up provision is a provision in the policy that gives the policyholder the right to catch up on any contingent requirements in order to maintain the GMDB.

Guaranteed Period: The guaranteed period is the period of time over which a GMDB is guaranteed regardless of the basic guarantees in the policy. A policy may have multiple guaranteed periods and GMDBs.

Guaranteed Minimum Death Benefit (GMDB): A Guaranteed Minimum Death Benefit (GMDB) is any guarantee which provides continued death benefit protection which would not otherwise be provided in the absence of such a guaranteed benefit or provision. A policy may have multiple GMDBs.

One-Year Term (OYT) reserve: The OYT reserve covers a period of no more than one year following a 1/3-asset drop. This reserve is fully described in the 1989 revision to the Variable Life Insurance Model Regulation. This guideline clarifies the methodology and the assumptions used to determine OYT reserves.

Policy Value: Policy value means, as of the valuation date, the greater of (a) zero and (b) the amount to which separately identified interest credits and/or investment return and mortality, expense, or other

charges are made under a variable life insurance policy. Subsequent to the valuation date, “policy value” means the amount determined in accordance with the procedures specified in this guideline.

Projection Assumptions: The Projection Assumptions are used to determine guaranteed death benefits. This projection of policy values uses the following assumptions:

1. Cost of insurance rates are equal to the minimum valuation mortality.
2. The GMDB is assumed to be in effect for the maximum period of the GMDB. All minimum requirements necessary to maintain the GMDB in force subsequent to the valuation date are assumed to be met at the latest point in time sufficient to maintain the GMDB through its maximum period. Contingent requirements, if any, required to reinstate or catch-up as of the valuation date are assumed to occur on the valuation date. If the GMDB would continue in effect subsequent to the valuation date with no additional actions required, contingent requirements are assumed not to resume until the latest point in time which would prevent the termination of the GMDB.
3. The general account policy values and separate account policy values are projected at the valuation interest rate. The assumed investment rate, if any, is used when determining the OYT reserve.
4. The guaranteed period covered is determined assuming all contingent requirements are met.
5. Policy options and benefits are assumed to continue unchanged as of the valuation date. Examples include fixed and variable account allocation and the death benefit option.
6. The projection of policy values is made for the entire guarantee period, regardless of whether projected policy values are positive or negative at any point in the projection. Any negative policy value would be set to zero.

The policy value is projected forward from the valuation date with valuation interest rate credits, any payments required to maintain the guarantee and valuation mortality charges (and no other credits or charges). The Guideline stipulates that “A death benefit in the absence of the guarantee is assumed to be provided as long as the projected policy value is greater than zero,” and “Any negative policy value would be set to zero.” An AALR need not be established for a VUL policy to provide for any period during which there would be a death benefit in the absence of the guarantee, since this benefit would be provided for by the policy’s basic reserve. This means that for an AALR to develop, the mortality charges must exceed the required payments plus interest credits by enough to reduce the policy value to zero during the guarantee period. Surrender charges are not relevant to this determination.

GMDB Revenue: GMDB Revenue is policy charges or premium, either implicit or explicit. These charges or premiums may or may not be explicitly stated to cover GMDB benefits. An example of an implicit premium is a positive premium necessary to maintain a target policy value in order to maintain benefits.

Term cost: Term costs are based on the guaranteed minimum death benefits in excess of the death benefits that would be provided in absence of such guarantee based on a projection of policy values using the Projection Assumptions defined above. These costs are then discounted to the valuation date. The term costs are based on minimum valuation mortality standards and a discount rate not to exceed the maximum valuation interest rate.

1/3-Asset Drop: A 1/3 reduction in separate account assets that is used in the calculation of the one-year term reserve. This 1/3 drop is not applied to fixed account assets.

Text

1. Basic Reserves:

Basic Reserves include the reserve held for death benefits provided in the absence of a GMDB. Reserve liabilities for variable life insurance policies shall be established consistent with the methodologies described in the Standard Valuation Law and in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees. Reserve methods described in the Variable Life Insurance Model Regulation and the Universal Life Insurance Model Regulation may be appropriately utilized to determine reserve liabilities such that application of these methods is consistent with the principles of the Standard Valuation Law.

2. Guaranteed Minimum Death Benefit Reserves:

Additional reserves are required to provide for liabilities of GMDB provisions which provide benefits that would not be provided in the absence of the guarantee. In measuring these liabilities, the basic reserve provides for death benefits which occur in the absence of the guarantee. GMDB reserves provide for the contingency of death occurring when the guaranteed minimum death benefit exceeds the death benefit that would be paid in absence of the guarantee. A consistent reserve methodology should be used regardless of whether a contract has scheduled premiums or flexible premiums.

When a contract provides multiple GMDBs and/or multiple guarantee periods, a reserve is established based on the guaranteed period which produces the greatest reserve as of the valuation date. Consecutive GMDBs are treated as a single guarantee period. The reserve methodology reflects all potential guarantee periods assuming that contingent requirements are met such as: contingent premiums paid, Catch-up Provisions or any pre-funding of contingent requirements.

For a policy under the 1989 revisions or a flexible premium policy with contingent GMDBs similar to a specified premium contract under the 1983 revision, the GMDB reserve equals the greater of (1) and (2) where (1) equals “the aggregate total of term costs” (OYT) which covers a period of no more than one year following a 1/3-asset drop, and (2) equals the AALR as described below.

For a flexible premium policy under the 1983 revisions not covered above, (where the GMDB guarantee is not contingent on any policyholder requirement), reserve liabilities for any guaranteed minimum death benefit shall be maintained in the general account of the insurer and shall be not less than the aggregate total of the term costs, if any, covering the period provided for in the guarantee not otherwise provided for by the reserves held in the separate account assuming a 1/3-asset drop, projected at the valuation interest rate.

a) One Year Term Reserves (OYT):

This reserve component equals the “aggregate total of term costs”, if any, covering a period of one full year from the valuation date, or, if less, covering the period of time death benefits are provided which are not otherwise provided for by the basic reserves. This reserve assumes any contingent requirements to maintain the GMDB are met by reflecting any Catch-up Provisions or any pre-funding of contingent requirements.

“Aggregate total term costs” equals the present value of guaranteed minimum death benefits in excess of death benefits that would be provided in absence of such guarantee, if any, prior to the end of one full year or the end of the guaranteed period if sooner. A death benefit in the absence of the guarantee is assumed to be provided as long as the projected policy value is greater than zero. Death benefits are determined by projecting the policy value following a 1/3-asset drop and using the Projection Assumptions defined above. Present values are determined using valuation mortality rates and the maximum valuation interest rate.

b) Attained Age Level Reserves (AALR):

This reserve component allows for funding GMDBs over no longer than the guaranteed period. This reserve assumes contingent requirements are met to maintain the GMDB and reflect any prepaid contingent requirements or Catch-up provisions. A death benefit in the absence of the guarantee is assumed to be provided as long as the projected policy value is greater than zero. This reserve component exists until no later than the end of the guarantee period if, on any prior valuation date, projected policy values resulted in guaranteed minimum death benefits in excess of death benefits that would be provided in absence of such guarantee. To the extent long term favorable investment performance results in redundant reserves, the valuation actuary may request permission from the state of domicile insurance department to release all or a portion of the redundant GMDB reserves. This projection of policy value is based on the Projection Assumptions defined above and does not incorporate a 1/3-asset drop.

The AALR reserve component shall not be less than zero and shall equal the “residue,” as described in paragraph (1) below, of the prior year’s AALR on the contract, with any such “residue,” increased or decreased by a “payment” computed on an attained age basis as described in paragraph (2) below.

- (1) The “residue” of the prior year’s AALR on each variable life insurance contract shall not be less than zero and shall be determined by adding interest at the maximum valuation interest rate to such prior year’s reserve, deducting the tabular claims based on the “excess”, if any, of the guaranteed minimum death benefit over the death benefit that would be payable in absence of such guarantee, and dividing the result by the tabular probability of survival. Hence, tabular costs are only deducted for years where, in the absence of the guarantee, coverage would be less than the guaranteed coverage.
- (2) The “payment” used to increase or decrease the “residue” above shall be computed so that the present value of a level payment of that amount each year over the future period for which GMDB Revenue will be collected under the contract is equal to (A) minus (B) minus (C), where, (A) is the present value of future guaranteed minimum death benefits. The future guaranteed minimum death benefits are the projected future death benefits including the GMDB. (B) is the present value of the projected future death benefits that would be payable in the absence of the GMDB. The guaranteed benefit for (A) and (B) should be calculated for the life of the policy. Both (A) and (B) are calculated based on the Projection Assumptions. (C) is any “residue,” as described in paragraph (1) above, of the prior year’s AALR on such variable contract. Minimum standards of valuation mortality assumptions and maximum valuation interest rates are used to determine present values and net level payments. The period of time in which GMDB Revenue will be collected is limited to the period of time policy values are sufficient to collect policy charges or the period of time contingent requirements will be paid to maintain the GMDB. In no event will the time period be greater than the time to the end of the guarantee period. It should also be noted that the “payment” may be negative resulting in the reserve running off over the remaining guarantee period.

c) Other Flexible Premium Policies under the 1983 revisions not included above:

The present value of potential guaranteed minimum death benefits in excess of death benefits that would be provided in absence of such guarantee is determined by using

minimum standards of valuation mortality assumptions and maximum valuation interest rates.

3. Issues:

Sections 3A(3) and 3A(4) of “XXX” state the following:

3A(3): This regulation shall not apply to any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

3A(4): This regulation shall not apply to any variable universal life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts.

The language of these sections is clear. The reserving for variable life and variable universal life is in no way affected by the provisions of “XXX.” In particular, the 19-year select factors and the “X” factor are not applicable to the calculation of reserves for variable life and variable universal life products.

Effective Date

This guideline affects all variable life insurance contracts issued. Where the application of this Guideline produces higher reserves than the company had otherwise established by their previously used interpretation, such company must comply with this guideline effective December 31, 2001. However, such company may request a grace in period, not to exceed three (3) years, from the domiciliary Commissioner upon satisfactory demonstration of the previous interpretation and that such delay of implementation will not cause a hazardous financial condition or potential harm to its policyholders.

Retroactive application of the guideline to in-force policies to develop the current reserve portion of the AALR will generally not be feasible. Therefore, the reserve as of 12/31/2000 should be set equal to the greater of the amount established by the company under its current method or \$0 if the company did not previously calculate an AALR.

**THE APPLICATION OF THE VALUATION OF LIFE INSURANCE POLICIES
MODEL REGULATION**

Introduction

The revised version of the *Valuation of Life Insurance Policies Model Regulation* (Model #830) was adopted by the NAIC in March 1999. Since that date, some questions have been raised regarding whether and how Model #830 applies to various product designs. The purpose of this guideline is to provide direction as to the application of Model #830 to such products. Specifically, this guideline provides examples of various policy features that constitute “guarantees” and gives directions on how to reserve for these guarantees in accordance with Model #830.

Obviously, new policy designs will emerge subsequent to the development of this document. No statute, regulation, or guideline can anticipate every future product design, and common sense and professional responsibility are needed to assure compliance with both the letter and the spirit of the law. While Model #830 is a complex regulation, its intent is clear: reserves need to be established for the guarantees provided by a policy. Policy designs which are created to simply disguise those guarantees or exploit a perceived loophole must be reserved in a manner similar to more typical designs with similar guarantees.

Text

The following product designs have been brought to the attention of the NAIC Life Actuarial (A) Task Force. The list below specifies reserving approaches which the Task Force regards as being most consistent with the letter and spirit of Model #830. However, the specified reserving approaches should be modified as needed to comply with the intent of this guideline that similar reserves be established for policy designs that contain similar guarantees.

1. An initial level premium rate is guaranteed for 10 years followed by increased guaranteed premiums for an additional 20 years. However, the company cannot increase premiums after year 10 (i.e., the initial premium continues to be charged) unless some specified event occurs.

The initial reserve segment is 30 years. Since the contract contains provisions that limit the company’s ability to increase premiums, then the initial premium should be treated as guaranteed for the entire 30-year period. It would be contrary to the conservative nature of statutory accounting to treat this policy the same as one in which the ability to raise premiums is unrestricted.

2. A term policy has an illustrated level premium for 30 years, the first 10 of which are guaranteed. Additionally, there is a refund option which provides that a specified refund will be paid if the premium ever increases. The refund must be requested within a limited time (e.g., 30 days) of receiving notice of the increase. Coverage terminates if the option is exercised.

This example differs from the one above in that there is no specified event that has to occur in order for the company to impose a premium increase; however, the company must provide an additional benefit to the policyholder if it exercises this right. Thus the company does not have an unrestricted right to impose an increase after 10 years. If the contract contains provisions that require that additional benefits be provided to the policyholder in the event of a premium increase, even if these benefits are lost if not claimed within a stated time frame, then the initial premiums should be treated as guaranteed for the entire 30 year period. It would be contrary to the conservative nature of statutory accounting to treat this policy the same as one in which the

ability to raise premiums does not require that additional benefits be provided. Therefore, the initial segment for this policy is 30 years.

3. An initial level premium rate is guaranteed for 10 years followed by increased guaranteed premiums for an additional 20 years. However, after year 10 the policyholder is protected against premiums being increased above the initial level, with the protection provided by a second company through either reinsurance, a second policy issued to the consumer, or an agreement between the companies.

The combined reserves of the direct writer and the second company should be no less than the amount which the direct writer would hold if (a) there were no second company and (b) the initial reserve segment were 30 years. If this condition is not met, reserve credits for the direct writer should be disallowed. The reserve held by the direct writer should be based on the initial level premium being guaranteed for 30 years.

4. A product has relatively high gross premiums but with a guaranteed dividend or guaranteed refund schedule, or by some other means guarantees a low net cost to the policyholder.

The net amount of premium (i.e., gross premium less dividends or refunds) should be used in the reserve calculation. That represents the amount the insured actually pays for coverage.

For products reinsured on either a coinsurance or modified coinsurance basis, the reinsurer's reserve calculation should also be based on the net premium (i.e., gross premiums less dividends or refunds guaranteed to be paid to the policyholder).

5.
 - a) A re-entry term product has an initial rate guarantee for 10 years, with loose or non-existent re-entry underwriting, allowing the policyholder to re-enter for an additional 20 years at specified favorable rates.
 - b) A universal life policy has provisions such that, if the UL policy lapses prior to the 10th policy anniversary because the actual accumulation value (or cash value, depending on design) falls below zero but stipulated premiums have been paid, a substitute policy is guaranteed to be issued providing the same amount of insurance coverage at the same stipulated premium for the remainder of the 10-year period plus an additional 20 years.

The reentry periods and premiums should be treated as a continuation of the initial guarantees for reserve calculation purposes. The initial reserve segment applicable to the original policy should be 30 years if the stipulated premium for the substitute policy is not high enough to trigger a new reserve segment. When the substitute policy is issued, reserves should be determined as if the coverage had been issued at the issue age and issue date of the original policy. Effectively, the company has guaranteed coverage for 30 years at the time the initial policy is issued, and the reserves established should reflect that guarantee.

6. A reinsurance treaty provides for 30 years of level premiums on a current scale but directly guarantees those premiums for only the first 10 years. However, if the reinsurer increases the premiums after 10 years, the reinsurer agrees to increase the expense allowance such that the net payments (premium minus allowance) by the direct writer remains unchanged.

Relative to the reinsurer's reserve calculation, the initial reserve segment should be 30 years and the valuation premium should be level over that period. In this instance, the additional "expense allowance" has no relationship to the expenses actually incurred by the direct writer in administering the reinsured policies. Although a bona fide expense allowance would typically not be considered in determining the valuation premiums and reserve segments, in this instance the

additional “expense allowance” has no relationship to the expenses actually incurred by the direct writer in administering the reinsured policies.

7. A universal life policy has a cumulative “premium catch-up provision” in which the coverage is guaranteed to remain in force as long as a stipulated premium is paid each year, and if the insured is paying less than is required to maintain the guarantee, there is an unlimited right to make up past premium deficiencies.

Model #830 requires that “when a policy contains more than one secondary guarantee, the minimum reserve shall be the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees.” Since secondary guarantees with “catch-up” provisions are capable of being reinstated up to the end of the secondary guarantee period, they constitute “unexpired secondary guarantees” which must be incorporated into the calculation of “the greatest of the respective minimum reserves at that valuation date of each unexpired secondary guarantee, ignoring all other secondary guarantees.”

The basic and deficiency reserves for a secondary guarantee with a catch-up provision should be computed as if the stipulated premium requirement had been met. The basic reserve shall be reduced by the product of (a) the “catch-up amount,” if any, which would be required on the valuation date and (b) the ratio of the “initial” (i.e., before adjustment) basic reserve to the sum of the “initial” basic and deficiency reserves. In no event shall the “reduced” basic reserve be reduced below zero. The deficiency reserve shall be reduced by the product of (a) the “catch-up amount,” if any, which would be required on the valuation date and (b) the ratio of the “initial” deficiency reserve to the sum of the “initial” basic and deficiency reserves. In no event shall the “reduced” deficiency reserve be reduced below zero.

If a universal life policy with a “premium catch up provision” has a shadow account below the level necessary to maintain the secondary guarantee, then the reserve for the secondary guarantee shall be valued according to this example. The basic and deficiency reserves, before deduction for the catch-up amount, shall be calculated as specified in Section 8A, Section 8B, Section 8C or Section 8E, as applicable.

- 8A. For policies and certificates issued prior to July 1, 2005: A universal life policy guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

First, the minimum gross premiums (determined at issue) that will satisfy the secondary guarantee requirement must be derived.

Second, for purposes of applying Sections 7B and 7C of Model #830, the “specified premiums” are the minimum gross premiums derived in “Step One.”

Third, a determination should be made of the amount of actual premium payments in excess of the minimum gross premiums. For policies utilizing shadow accounts, this will be the amount of the shadow account. For policies with no shadow accounts but which specify cumulative premium requirements, this excess will be the amount of the cumulative premiums paid in excess of the cumulative premium requirements; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Fourth, a determination should be made of the single payment necessary at the valuation date to fully fund the remaining secondary guarantee assuming that the minimum gross premiums have been paid, up through the valuation date, during the secondary guarantee period. The result from “Step Three” should be divided by this number.

Fifth, compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830.

Sixth, the “net amount of additional premiums” is determined by multiplying the ratio from “Step Four” by the difference between the net single premium from “Step Five” and the basic and deficiency reserve, if any, computed in “Step Two.”

Seventh, a “reduced deficiency reserve” should be computed by multiplying the deficiency reserve, if any, by the one minus the ratio from “Step Four,” but not less than zero. This “reduced deficiency reserve” is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Eighth, the actual reserve used for purposes of Section 7D(1) of Model #830 is the lesser of: (1) the net single premium from “Step Five,” and (2) the amount of the excess from “Step Six” plus the basic reserve and the deficiency reserve, if any, computed in “Step Two.” Reduce this result by the applicable policy surrender charges, i.e., the account value less the cash surrender value. If the resulting amount is less than the sum of the basic and deficiency reserve from Step Two, then the basic and deficiency reserves to be used for the purposes of Section 7D(1) are those calculated in Step Two, and no further calculation is required.

Ninth, an “increased basic reserve” should be computed by subtracting the “reduced deficiency reserve” in “Step Seven” from the reserve computed in “Step Eight.” This “increased basic reserve” is the basic reserve to be used for purposes of Section 7D(1) of Model #830.

- 8B. For policies and certificates issued on or after July 1, 2005 and on or prior to December 31, 2006: A universal life policy guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

First, the minimum gross premiums (determined at issue) that will satisfy the secondary guarantee requirement must be derived.

Second, for purposes of applying Sections 7B and 7C of Model #830, the “specified premiums” are the minimum gross premiums derived in “Step One.” Consistent with Model #830, the remaining steps in this guideline should be calculated on a segmented basis, using the segments that Model #830 defines for the product. Therefore, in the remaining steps, the term “fully fund the guarantee” should be interpreted to mean fully funding the guarantee to the end of each possible segment. The term “remainder of the secondary guarantee period” should be interpreted to mean the remainder of each possible segment. The total reserve should equal the greatest of all possible segmented reserves.

Third, a determination should be made of the amount of actual premium payments in excess of the minimum gross premiums. For policies utilizing shadow accounts, this will be the amount of the shadow account. For policies with no shadow accounts but which specify cumulative premium requirements, this excess will be the amount of the cumulative premiums paid in excess of the cumulative premium requirements; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Fourth, as of the valuation date for the policy being valued, for policies utilizing shadow accounts, determine the minimum amount of shadow account required to fully fund the guarantee. For policies with no shadow accounts but which specify cumulative premium requirements, determine the amount of the cumulative premiums paid in excess of the cumulative

premium requirements that would result in no future premium requirements to fully fund the guarantee; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee). For any policy for which the secondary guarantee can not be fully funded in advance, solve for the minimum sum of any possible excess funding (either the amount in the shadow account or excess cumulative premium payments depending on the product design) and the present value of future premiums (using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves) that would fully fund the guarantee. The amount determined above for this step is to then be divided by one minus a 7% premium load allowance (0.93). The result from “Step Three” should be divided by this number, with the resulting ratio capped at 1. The ratio is intended to measure the level of prefunding for a secondary guarantee which is used to establish reserves. Assumptions within the numerator and denominator of the ratio therefore must be consistent in order to appropriately reflect the level of prefunding. The denominator is allowed to be inconsistent only by the amount of the premium load allowance as defined in this step. As used here, “assumptions” include any factor or value, whether assumed or known, which is used to calculate the numerator or denominator of the ratio.

[DRAFTING NOTE: The 7% premium load allowance approximates an average premium load level as evidenced by policies currently sold in the market. Rather than have the funding ratio vary according to the actual policy loads (which can fluctuate greatly by company and product), all companies will use an identical premium load allowance at a level approximately equal to the current industry average.]

Fifth, compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830.

Sixth, the “net amount of additional premiums” is determined by multiplying the ratio from “Step Four” by the difference between the net single premium from “Step Five” and the basic and deficiency reserve, if any, computed in “Step Two.”

Seventh, a “reduced deficiency reserve” should be computed by multiplying the deficiency reserve, if any, by the one minus the ratio from “Step Four,” but not less than zero. This “reduced deficiency reserve” is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Eighth, the actual reserve used for purposes of Section 7D(1) of Model #830 is the lesser of: (1) the net single premium from “Step Five,” and (2) the amount of the excess from “Step Six” plus the basic reserve and the deficiency reserve, if any, computed in “Step Two.” Reduce this result by the applicable policy surrender charges, i.e., the account value less the cash surrender value. Multiply this surrender charge by the ratio of the net level premium for the secondary guarantee period divided by the net level premium for whole life insurance. Calculate both net premiums using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves. However, if no future premiums are required to support the guarantee period being valued, there is no reduction for surrender charges. If the resulting amount is less than the sum of the basic and deficiency reserve from Step Two, then the basic and deficiency reserves to be used for the purposes of Section 7D(1) of Model #830 are those calculated in Step Two, and no further calculation is required.

Ninth, an “increased basic reserve” should be computed by subtracting the “reduced deficiency reserve” in “Step Seven” from the reserve computed in “Step Eight.” This “increased basic reserve” is the basic reserve to be used for purposes of Section 7D(1) of Model #830.

- 8C. For all policies and certificates issued on or after January 1, 2007 and on or prior to December 31, 2012: A universal life policy guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

First, the minimum gross premiums (determined at issue) that will satisfy the secondary guarantee requirement must be derived.

Second, for purposes of applying Sections 7B and 7C of Model #830, the “specified premiums” are the minimum gross premiums derived in “Step One.” Consistent with Model #830, the remaining steps in this guideline should be calculated on a segmented basis, using the segments that Model #830 defines for the product. Therefore, in the remaining steps, the term “fully fund the guarantee” should be interpreted to mean fully funding the guarantee to the end of each possible segment. The term “remainder of the secondary guarantee period” should be interpreted to mean the remainder of each possible segment. The total reserve should equal the greatest of all possible segmented reserves. Additionally, for purposes of applying Sections 7B and 7C of Model #830, a lapse rate of no more than 2% per year for the first 5 years, followed by no more than 1% per year to the policy anniversary specified in the following table based on issue age, and 0% per year thereafter may be used. If the duration in the table is less than 5, then a lapse rate of no more than 2% per year may be used through that duration, and 0% per year thereafter.

Issue Age	Duration
0-50	30 th policy anniversary
51-60	Policy anniversary age 80
61-70	20 th policy anniversary
71-89	Policy anniversary age 90
90 and over	No lapse

Third, a determination should be made of the amount of actual premium payments in excess of the minimum gross premiums. For policies utilizing shadow accounts, this will be the amount of the shadow account. For policies with no shadow accounts but which specify cumulative premium requirements, this excess will be the amount of the cumulative premiums paid in excess of the cumulative premium requirements; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Fourth, as of the valuation date for the policy being valued, for policies utilizing shadow accounts, determine the minimum amount of shadow account required to fully fund the guarantee. For policies with no shadow accounts but which specify cumulative premium requirements, determine the amount of the cumulative premiums paid in excess of the cumulative premium requirements that would result in no future premium requirements to fully fund the guarantee; the cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee). For any policy for which the secondary guarantee can not be fully funded in advance, solve for the minimum sum of any possible excess funding (either the amount in the shadow account or excess cumulative premium payments depending on the product design) and the present value of future premiums (using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves) that would fully fund the guarantee. The amount determined above for this step is to then be divided by one minus a 7% premium load allowance (0.93). The result from “Step Three” should be divided by this number, with the resulting ratio capped at 1. The ratio is intended to measure the level of prefunding for a secondary guarantee which is used to establish reserves. Assumptions within the numerator and denominator of the ratio therefore must be consistent in order to appropriately reflect the level of prefunding. The denominator is allowed to be inconsistent only by the amount

of the premium load allowance as defined in this step. As used here, “assumptions” include any factor or value, whether assumed or known, which is used to calculate the numerator or denominator of the ratio.

[DRAFTING NOTE: The 7% premium load allowance approximates an average premium load level as evidenced by policies currently sold in the market. Rather than have the funding ratio vary according to the actual policy loads (which can fluctuate greatly by company and product), all companies will use an identical premium load allowance at a level approximately equal to the current industry average.]

Fifth, compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830. For purposes of calculating the net single premium, a lapse rate subject to the same criteria as the lapse rate used in applying Step 2 of 8C above may be used.

Sixth, the “net amount of additional premiums” is determined by multiplying the ratio from “Step Four” by the difference between the net single premium from “Step Five” and the basic and deficiency reserve, if any, computed in “Step Two.”

Seventh, a “reduced deficiency reserve” should be computed by multiplying the deficiency reserve, if any, by the one minus the ratio from “Step Four,” but not less than zero. This “reduced deficiency reserve” is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Eighth, the actual reserve used for purposes of Section 7D(1) of Model #830 is the lesser of: (1) the net single premium from “Step Five,” and (2) the amount of the excess from “Step Six” plus the basic reserve and the deficiency reserve, if any, computed in “Step Two.” Reduce this result by the applicable policy surrender charges, i.e., the account value less the cash surrender value. Multiply this surrender charge by the ratio of the net level premium for the secondary guarantee period divided by the net level premium for whole life insurance. Calculate both net premiums using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves. If the resulting amount is less than the sum of the basic and deficiency reserve from Step Two, then the basic and deficiency reserves to be used for the purposes of Section 7D(1) of Model #830 are those calculated in Step Two, and no further calculation is required.

Ninth, an “increased basic reserve” should be computed by subtracting the “reduced deficiency reserve” in “Step Seven” from the reserve computed in “Step Eight.” This “increased basic reserve” is the basic reserve to be used for purposes of Section 7D(1) of Model #830.

Business reserved pursuant to Section 8C must be supported by an asset adequacy analysis specific to this business. This asset adequacy analysis must be performed pursuant to the requirements of Section 3 of the Standard Valuation Law. Reserves required by Section 8C shall be increased by any additional reserves required by the asset adequacy analysis.

- 8D. This Section 8D applies to policies and certificates (1) issued on and after July 1, 2005, (2) issued prior to January 1, 2013, and (3) in force on December 31, 2012, or on any valuation date thereafter: Under a universal life policy with a secondary guarantee, the coverage is guaranteed to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

Notwithstanding the requirements of any of the other sections of this Actuarial Guideline (and in addition to any testing that may be required under Section 8C), this Section 8D describes the

reserving requirements with respect to universal life with secondary guarantee products, with or without a shadow account, with multiple sets of interest rate or other credits, or multiple sets of cost of insurance, expense, or other charges that may become applicable to the calculation of the secondary guarantee measures in any one policy year. This Section 8D does not apply if the minimum gross premiums for the policies are determined by applying the set of charges and credits that produces the lowest premiums, regardless of the imposition of constraints, contingencies, or conditions that would otherwise limit the application of those credits and charges. The requirements of this Section 8D apply to a company on December 31, 2012, and on any subsequent valuation date if (1) on the applicable date, the in force face amount (direct plus assumed) of universal life insurance to which this Section 8D would otherwise apply exceeds 2% of the company's face amount of individual permanent life insurance in force, or (2) on the applicable date, the company's face amount of insurance in force subject to this Section 8D exceeds \$1,000,000,000 (one billion dollars). Any company otherwise meeting these criteria may seek an exemption to the requirements under this Section 8D by filing an exemption request with its state of domicile, which will provide a copy of the request to the NAIC Financial Analysis (E) Working Group (FAWG). If the state of domicile agrees with the exemption request, then the requirements of this Section 8D do not apply to such company, provided FAWG does not conclude that the exemption would allow the company to use a reserving methodology that is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

a. Primary Reserve Methodology

The company's aggregate gross reserve before reinsurance for the business subject to this Section 8D to be reported in the December 31, 2012, and subsequent annual statutory financial statements of the company will be the aggregate reserve under 1 below, plus any excess of the aggregate reserve determined as defined in 2 below, over 1:

1. The basic and deficiency reserve as of the valuation date determined by the company according to the reserve methodology and assumptions used by the company for the statutorily-reported reserve for the business subject to this Section 8D as of December 31, 2011.
2. The reserve amount as of the valuation date determined according to the same requirements for determining the deterministic reserve in the version of the *Valuation Manual* specified under Section 11 of the *Standard Valuation Law* (Model #820) and adopted by the NAIC to govern the principle-based valuation on the valuation date, but with the two modifications identified below, determined as follows:
 - a) First, future year-by-year cash flows for the block of business subject to this Section 8D are projected as of the valuation date. In making this projection:
 - (I) the projected net investment earnings from the starting assets shall be the lesser of (i) the actual portfolio net investment returns and (ii) net investment returns based on a portfolio of A-rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue for those bonds.
 - (II) the projected net investment rate for the reinvestment assets shall be the lesser of (i) the average over a period of 12 months, ending on the June 30 prior to the valuation date, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investor Services, Inc. and (ii) 7% per annum.

- b) Second, future year-by-year net investment returns are determined from the cash flows generated in Section 8D(a)(2)(a).
- c) Third, the reserve for the policies is computed using the year-by-year net investment returns determined in Section 8D(a)(2)(b) to discount the cash flows applicable to those policies.

The company may calculate the reserves as of any December 31 as of a date no earlier than three months before that December 31 valuation date, using relevant company data, provided an appropriate method is used to adjust those reserves to the valuation date.

If the aggregate reserve determined pursuant to the second calculation above exceeds the aggregate reserve determined pursuant to the first calculation, the additional reserve to be held is deemed to be required pursuant to Model #820, Section 3 and Section 6, which provide for an analysis of reserves pursuant to an asset adequacy analysis with margins for moderately adverse assumptions. Any such excess shall be allocated to each policy in proportion to the Step 1 reserve for that policy.

b. Alternative Reserve Methodology

The requirements of subsection a. above shall not apply to a company that holds a total gross reserve amount, before reinsurance, for the business subject to this Section 8D at least equal to the total reserve determined in accordance with the November 1, 2011 Life Actuarial (A) Task Force Statement on Actuarial Guideline XXXVIII, except that for purposes of determining any deficiency reserves under Model #830, using mortality and lapse assumptions according to the same requirements for determining the deterministic reserve in the *Valuation Manual*.

c. Documentation and Reporting

Under the direction of one or more qualified actuaries, the company shall prepare a stand-alone Actuarial Memorandum covering the reserve analysis performed on the business described in this Section 8D in compliance with Section 7 of the *Actuarial Opinion and Memorandum Regulation* (Model #822) to document the assumptions, analyses and results of the reserve calculations described above. The Actuarial Memorandum shall be prepared regardless of whether the company used the Primary Reserve Methodology described in Section 8D(a) or the Alternative Reserve Methodology described in Section 8D(b). Documentation in the submitted Actuarial Memorandum must be sufficient for another actuary qualified in the same practice area to evaluate the assumptions, analyses and results, and to enable regulatory review and verification that the assumptions, analyses and results satisfy the requirements described above, as they relate to the company. In the event that the *Valuation Manual* is incomplete or unclear as to any matter, the actuary preparing the Actuarial Memorandum shall use his or her best judgment in applying the requirements of the *Valuation Manual* and shall document his or her decisions in the Actuarial Memorandum. For any business subject to this Section 8D that has been ceded by the company, the Actuarial Memorandum shall provide a listing of the assuming companies with face amount, reserve credit taken, and form of reinsurance for such business. The Actuarial Memorandum shall be submitted to the state of domicile of the company by the April 30 following the valuation date.

For reporting years prior to 2015: The state of domicile shall provide a copy of the Actuarial Memorandum to FAWG and, upon request, to any other state in which the company is licensed.

For reporting years 2015 and after: The state of domicile shall provide a copy of the Actuarial Memorandum to FAWG upon request and, upon request, to any other state in which the company is licensed.

For those companies that used the Primary Reserve Methodology described above, the Actuarial Memorandum shall also provide with respect to the business subject to this Section 8D a description of the simplifications, approximations and modeling efficiency (aggregation) techniques used to calculate the reserve amount set forth in Subsection 2 of the Primary Reserve Methodology (i.e., Section 8D(a)(2)) and a clear indication that, upon request, information may be obtained that is adequate to permit the audit of any subgroup of the aggregated reserve amounts to ensure that the total of the seriatim (policy-by-policy) reserve calculations produces a reserve not materially different than the aggregated reserve amount determined pursuant to Subsection 2 of the Primary Reserve Methodology (i.e., Section 8D(a)(2)).

Along with the filing of the Actuarial Memorandum pertaining to the December 31, 2012 valuation date, those companies using the Primary Reserve Methodology above shall also submit a report to its state of domicile indicating what the gross reserve before reinsurance for the business subject to this Section 8D would be as of December 31, 2012 if the reserve had been determined pursuant to the methodology and experience assumptions used to determine the reserve set forth in Subsection 2 of the Primary Reserve Methodology (i.e., Section 8D(a)(2)), except using a net reinvestment return rate assumption not greater than the maximum valuation interest rate for the year of issue of each policy set forth in Model #820. The company shall include in this report what its (i) total adjusted capital and (ii) company action level risk based capital would be if the company held the reserve calculated pursuant to this methodology rather than the reserve actually reported for the applicable business in the annual statement submitted by the company to the NAIC. The report described in this paragraph will be provided by the company to the state of domicile, which will forward a copy to FAWG. Upon request, the state of domicile will also forward a copy of this report to any other state in which the company is licensed. The state of domicile, FAWG, and any other state receiving the report will treat it as containing confidential information. The report is to be provided for informational purposes only, and it is to be considered and used as one additional piece of information to be evaluated in the context of the company's overall financial position.

For reporting years prior to 2015: The domestic state will perform a review of the Actuarial Memorandum in consultation with FAWG to ensure the company's reserve calculations have been performed according to the requirements of this Section 8D.

If:

- the company reports in its financial statements the reserve level required above, adjusted for any phase-in period approved by the company's state of domicile, and
- the company complies with any applicable phase-in period made by the state of domicile with respect to such additional reserves, and
- FAWG agrees with the state of domicile's decisions,

FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is appropriate in relation to the benefits and the pattern of premiums for the plans covered. If FAWG does not agree with the state of domicile's decisions, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

For reporting years 2015 and after: The domestic state will perform a review of the Actuarial Memorandum to ensure the company's reserve calculations have been performed according to the requirements of this Section 8D and may consult with FAWG regarding this review.

If FAWG does not agree with the state of domicile's decisions, FAWG shall issue a confidential report to non-domiciliary states indicating that the company's reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

- 8E. For policies and certificates issued on or after January 1, 2013, except for ULSG policies and certificates for which the company elects or is required to apply VM-20 as the reserve standard, per *Valuation Manual* requirements: For a universal life policy or certificate that guarantees the coverage to remain in force as long as the accumulation of premiums paid satisfies the secondary guarantee requirement.

Step 1: The first step is to derive the minimum gross premiums for the policy or certificate (to be determined at issue). Except as indicated for policies and certificates described in Method I Policy Design #3 (described below), the minimum premiums so derived must satisfy the secondary guarantee requirement. Model #830, Section 7A(4) does not apply in determining the minimum gross premiums for policies and certificates described in this Section 8E.

I) Methodology for determining the minimum gross premiums for certain designs ("Method I").

1. Policy Design #1: For a policy containing a secondary guarantee that uses a shadow account with a single set of charges and credits, the minimum gross premium for any policy year is the premium that, when paid into a policy with a zero shadow account value at the beginning of the policy year, produces a zero shadow account value at the end of the policy year, using the guaranteed shadow account charges and credits (e.g., interest credited rate, mortality charges, premium loads and expense charges) specified under the secondary guarantee.
2. Policy Design #2: For a policy that compares paid accumulated premiums to minimum required accumulated premiums (cumulative premium policy), with both accumulations based on a single set of charges and credits specified under the secondary guarantee, the minimum gross premium for any policy year is the premium that, when paid into a policy for which the accumulated premiums equals the minimum required accumulated premiums at the beginning of the policy year, results in the paid accumulated premiums being equal to the minimum required accumulated premiums at the end of the policy year.
3. Policy Design #3: If, for any policy year, a shadow account secondary guarantee, a cumulative premium secondary guarantee design, or other secondary guarantee design, provides for multiple sets of charges and/or credits, then the minimum gross premiums shall be determined by applying the set of charges and credits in that policy year that produces the lowest premiums, ignoring the constraint that such minimum premiums satisfy the secondary guarantee requirement and ignoring any contingencies or conditions that would otherwise limit the application of those charges and credits.

Notwithstanding the language in the approaches described above, the guaranteed (including conditionally guaranteed) policy credits for each year shall be limited as to magnitude in order for minimum gross premiums to be determined consistent with any of the policy designs above. The limitations must be met at the time of each product filing and also when guaranteed credits or charges for each such product are revised. For this purpose, policy credits based on the interest or accumulation rates in the policy shall not exceed the "Index" (defined in the next sentence) plus 3% per annum. The Index used to establish the limitation as to magnitude shall be either (i) the monthly average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Inc., for the month immediately preceding the date of the Actuarial Opinion required under this Section 8E and described below, or (ii) the monthly average over a period of twelve months, ending on the June 30 preceding the date of the Actuarial Opinion required below, of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc. The averaging period chosen by the company must be elected at time of product

filing and consistently used for that product thereafter even if guaranteed credits or charges are subsequently revised for that product.

II) Methodology for determining the minimum gross premiums for other designs (“Method II”).

Unless otherwise provided in this Section 8E, the minimum gross premiums shall be the lowest schedule of premiums that keep the policy in force over the life of the secondary guarantee period and that produce the greatest deficiency reserve at issue. If deficiency reserves produced at issue are all zero, then the smallest absolute value of the difference between “quantity A” set forth in Model #830, Section 5B, over the basic reserve shall be considered the greatest deficiency reserve. For purposes of this Step 1, in deriving the deficiency reserve associated with a particular schedule of gross premiums, the X factors used shall be set equal to 1 for all durations, issue ages, and risk classes.

For policies that use a shadow account, and for cumulative premium policies, the schedule of premiums that keep the policy in force over the life of the secondary guarantee period and that produce the greatest deficiency reserve at issue shall be determined assuming the following premium-paying patterns for premiums actually paid under the policy:

- Level premiums for the life of the secondary guarantee but not beyond the duration that premiums may be paid under the policy, and
- Increasing premiums over the life of the secondary guarantee (including any resulting reserve segments created), but not beyond the durations that premiums may be paid under the policy, and
- Combinations of the above premium patterns including higher initial premiums for funding levels to have access to better charges and credits with combinations of level and increasing premium patterns thereafter.

For all policies and certificates subject to this Step 1 of Method II of this Section 8E, the company shall also perform a good faith high-level analytical review of the product design with respect to the premium payment patterns to be expected with respect to that design. The review should consider whether there are situations whereby the product design is likely to elicit a pattern of premium payments that, if paid, would provide the insured with access to lower charges and/or higher credits than those that would apply assuming the premium paying patterns required to be tested under this Section 8E and thereby result in the need for a deficiency reserve significantly in excess of that determined using the schedules of minimum gross premiums determined pursuant to the premium payment patterns required to be tested under this Section 8E. To the extent identified, the company shall use such other premium payment patterns it determines are likely to result in the need for a greater deficiency reserve than implied by the premium payment patterns required to be tested under this Section 8E in determining the schedule of minimum gross premiums and related deficiency reserve. In performing this analytic review, the company shall consider payment patterns which keep the policy in force over the lifetime of the secondary guarantee.

Step 2: For purposes of applying Section 7B and Section 7C of Model #830, the “specified premiums” are the minimum gross premiums derived in Step 1. Consistent with Model #830, the remaining steps in this guideline should be calculated on a segmented basis, using the segments that Model #830 defines for the product. Therefore, in the remaining steps, the term “fully fund the guarantee” should be interpreted to mean fully funding the guarantee to the end of each possible segment. The term “remainder of the secondary guarantee period” should be interpreted to mean the remainder of each possible segment. The total reserve should equal the greatest of all possible segmented reserves. Additionally, for purposes of applying Section 7B and Section 7C of Model #830, the lapse rate used shall be no more than 2% per year for the first 5 years,

followed by no more than 1% per year to the policy anniversary specified in the following table based on issue age, and 0% per year thereafter. If the duration in the table is less than 5, then a lapse rate of no more than 2% per year may be used through that duration, and 0% per year thereafter.

Issue Age	Duration
0-50	30 th policy anniversary
51-60	Policy anniversary age 80
61-70	20 th policy anniversary
71-89	Policy anniversary age 90
90 and over	No lapse

Step 3: A determination should be made of the amount of actual premium payments greater than or less than the minimum gross premiums. For policies using shadow accounts and qualifying under one of the Policy Designs of Method I, this will be the amount of the shadow account. For policies using shadow accounts whose minimum gross premium is determined under Method II, this will be the amount of the shadow account minus the amount that would be in the shadow account if the minimum gross premiums used to calculate basic and deficiency reserves in Step 2 were paid. This result may be negative. For cumulative premium policies whose minimum gross premiums are determined under Method I, this excess will be the amount of cumulative premiums paid over the cumulative premium requirements. For cumulative premium policies whose minimum gross premiums are determined under Method II, this excess will be the amount of the cumulative premiums paid minus the cumulative premium using the minimum gross premiums used to calculate basic and deficiency reserves in Step 2. This result may be negative. The cumulative premium payments and requirements should include any interest credited under the secondary guarantee (with interest credited at the rate specified under the secondary guarantee).

Step 4: As of the valuation date for the policy being valued, for policies using shadow accounts, determine the minimum amount of shadow account required to fully fund the guarantee. For cumulative premium policies, determine the minimum amount of the cumulative premiums required to fully fund the guarantee less the cumulative premium requirements. For any policy for which the secondary guarantee cannot be fully funded in advance, solve for the minimum sum of any possible excess funding (either the amount in the shadow account or excess cumulative premium payments depending on the product design) and the present value of future premiums (using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves) that would fully fund the guarantee. For shadow account policies, if the minimum gross premium is determined according to Method II and the Step 3 amount is positive then the amount determined above for this step is reduced by any positive shadow account based on minimum gross premiums. For cumulative premium policies, if the minimum gross premium is determined according to Method II and the Step 3 amount is positive then the amount determined above for this step is reduced by the excess of cumulative premiums, assuming minimum gross premiums are paid, over the cumulative premium requirements. For shadow account policies, if the minimum gross premium is determined according to Method II and the Step 3 amount is negative then the amount determined above for this step is replaced by the amount of the shadow account based on the minimum gross premiums. For cumulative premium policies, if the minimum gross premiums are determined by Method II and the Step 3 amount is negative then the amount determined above for this step is replaced by the excess of cumulative premiums, assuming minimum gross premiums are paid, over the cumulative premium requirements.

The amount determined above for this step is then divided by one minus a 7% premium load allowance (0.93).

The result from Step 3 should be divided by the number above, with the resulting ratio capped at 1 and no less than (-1). The ratio is intended to measure the level of prefunding for a secondary guarantee and is used to establish reserves. Assumptions within the numerator and denominator of the ratio therefore must be consistent in order to appropriately reflect the level of prefunding. The denominator is allowed to be inconsistent only by the amount of the premium load allowance as defined in this step. As used here, “assumptions” include any factor or value, whether assumed or known, that is used to calculate the numerator or denominator of the ratio.

[DRAFTING NOTE: The 7% premium load allowance approximates an average premium load level as evidenced by policies currently sold in the market. Rather than have the funding ratio vary according to the actual policy loads (which can fluctuate greatly by company and product), all companies will use an identical premium load allowance at this 7% level, which is approximately equal to the current industry average.]

Step 5: Compute the net single premium on the valuation date for the coverage provided by the secondary guarantee for the remainder of the secondary guarantee period, using any valuation table and select factors authorized in Section 5A of Model #830. For purposes of calculating the net single premium, a lapse rate subject to the same criteria as the lapse rate used in applying Step 2 may be used.

Step 6: If the amount in Step 3 is positive the “net amount of additional premiums” is determined by multiplying the ratio from Step 4 by the difference between the net single premium from Step 5 and the basic and deficiency reserve, if any, computed in Step 2.

If the amount in Step 3 is negative, the “net amount of additional premiums” is determined by multiplying the ratio from Step 4 by the basic reserves, if any, computed in Step 2. This result will be negative or zero. Subtract the deficiency reserve calculated in Step 2 from this result and then add the following amount, depending on whether the policy is a shadow account policy or a cumulative premium policy:

- a) If a shadow account policy add the following:
The deficiency reserve at issue calculated using X factors associated with the premium paying pattern used in determining the greatest deficiency reserve in Method II, Step 1, multiplied by one minus the ratio of the amount of the shadow account divided by minimum amount in the shadow account that would fully fund the guarantee. This amount in Step 6(a) is not to be less than zero.
- b) If a cumulative premium policy add the following:
The deficiency reserve at issue calculated using X factors associated with the premium paying pattern used in determining the greatest deficiency reserve in Method II, Step 1, multiplied by one minus the ratio of the amount of cumulative premiums paid divided by the minimum amount of cumulative premiums required to fully fund the guarantee. This amount in Step 6(b) is not to be less than zero.

Step 7: A “reduced deficiency reserve” shall be computed by multiplying the deficiency reserve, if any, by one minus the ratio (such ratio not to be set less than zero) from Step 4; this final amount also not to be set less than zero. This “reduced deficiency reserve” is the deficiency reserve to be used for purposes of Section 7D(1) of Model #830.

Step 8: The reserve used for purposes of Model #830, Section 7D(1), is as follows.

- a) Take the lesser of:
 - 1) the “net amount of additional premiums” from Step 6 plus the basic reserve and the deficiency reserve, if any, computed in Step 2, and
 - 2) the net single premium from Step 5.
- b) Reduce the result in Step 8(a) by the applicable policy surrender charges (i.e., the account value less the cash surrender value). Multiply this surrender charge by the ratio of the net level premium for the secondary guarantee period divided by the net level premium for whole life insurance. Calculate both net premiums using the maximum allowable valuation interest rate and the minimum mortality standards allowable for calculating basic reserves.
- c) Calculate the reserve floor:
 - 1) If the result in Step 3 is negative, then the reserve floor shall equal the sum of the Step 2 basic and deficiency reserves and the amount from Step 6.
 - 2) If the result in Step 3 is not negative, then the reserve floor shall equal the sum of the Step 2 basic and deficiency reserves without any adjustment.

The reserve to be used for purposes of Model #830, Section 7D(1) is the greater of the resulting amount from Step 8(b) above and the reserve floor.

Step 9: An “increased basic reserve” shall be computed by subtracting the “reduced deficiency reserve” in Step 7 from the reserve computed in Step 8. This “increased basic reserve” is the basic reserve to be used for purposes of Model #830, Section 7D(1).

Actuarial Opinion and Company Representation Requirements

If a company uses one of the Policy Design methodologies described above in Method I of this Section 8E to determine the minimum gross premiums in Step 1, the company shall submit to its state of domicile at the time of filing/approval of a new product, or by December 31, 2012, for current products that will be issued in 2013 or thereafter, and at any time when rates and/or charges are changed, an Actuarial Opinion signed by the Appointed Actuary and a Representation of the Company signed by a Senior Officer of the company regarding the applicable policy form(s) that states:

Actuarial Opinion

“I, (name and professional designation), am the appointed actuary for (company name). I have examined the actuarial assumptions and actuarial methods used in determining the reserves described herein, and, in my opinion: (1) the product referenced herein meets the definition of Policy Design # ___ described in Method I in Section 8E of Actuarial Guideline XXXVIII (AG 38); (2) notwithstanding the language in Policy Design # ___, the guaranteed (including conditionally guaranteed) policy credits in the product available for any year do not exceed the “Index” defined in Method I in Section 8E of AG 38 plus 3% per annum; and (3) the minimum gross premiums determined under Policy Design # ___ are not inconsistent with the minimum premiums, charges and credits that are expected to apply under the policy.”

(Name of actuary, printed or typed)

(Signature of actuary)

(Date signed)

Company Representation

“(company name) hereby represents: (1) that the product referenced herein meets the definition of Policy Design # ____ described in Method I in Section 8E of Actuarial Guideline XXXVIII (AG 38); (2) notwithstanding the language in Policy Design # ____, the guaranteed (including conditionally guaranteed) policy credits in the product available for any year do not exceed the “Index” defined in Method I in Section 8E of AG 38 plus 3% per annum; and (3) the minimum gross premiums determined under Policy Design # ____ are not inconsistent with the minimum premiums, charges and credits that are expected to apply under the policy.”

(Name of company Officer, printed or typed)
(Signature of company Officer)
(Date signed)

For reporting years prior to 2015: The state of domicile shall provide a copy of the Actuarial Opinion and the Company Representation to FAWG and, upon request, to any state in which the company plans to issue the policy that is the subject of the Actuarial Opinion and Company Representation.

For reporting years 2015 and after: The state of domicile shall provide a copy of the Actuarial Opinion and the Company Representation to FAWG, upon request, and, upon request, to any state in which the company plans to issue the policy that is the subject of the Actuarial Opinion and Company Representation.

Policy Design

For reporting years prior to 2015: If a company develops reserves based on Method II of this Section 8E, the company shall submit a report from its Appointed Actuary prior to issuing policies on that form to its state of domicile, which will provide a copy to FAWG and (upon request) to any state in which the company plans to issue the product, that briefly describes the analytical review performed, the company’s conclusions following the analytical review, and whether any additional premium payment patterns other than those required by this Section 8E were tested as a result of the review. If FAWG agrees with the state of domicile’s decisions with respect to the company’s Method II reserving methodology, FAWG shall issue a confidential report to non-domiciliary states indicating that the company’s reserving methodology is appropriate in relation to the benefits and the pattern of premiums for the plans covered. If FAWG does not agree with the state of domicile’s decisions with respect to the company’s Method II reserving methodology, FAWG shall issue a confidential report to non-domiciliary states indicating that the company’s reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

For reporting years 2015 and after: If a company develops reserves based on Method II of this Section 8E, the company shall submit a report from its Appointed Actuary prior to issuing policies on that form to its state of domicile, which will provide a copy to FAWG, upon request, and (upon request) to any state in which the company plans to issue the product, that briefly describes the analytical review performed, the company’s conclusions following the analytical review, and whether any additional premium payment patterns other than those required by this Section 8E were tested as a result of the review. If FAWG does not agree with the state of domicile’s decisions with respect to the company’s Method II reserving methodology, FAWG shall issue a confidential report to non-domiciliary states indicating that the company’s reserving methodology is not appropriate in relation to the benefits and the pattern of premiums for the plans covered.

Effective Date

With the exception of Steps 3 through Step 9 of Section 8A and all of Section 8B, Section 8C, Section 8D and Section 8E, the scope of this guideline shall be inclusive of policies issued on and after the earlier of a state's adoption of the revised Model #830 (adopted by the NAIC in March 1999) or the statutory accounting practices and procedures as set forth in the NAIC *Accounting Practices and Procedures Manual*. All of Section 8A, Section 8B, Section 8C, Section 8D and Section 8E shall be applicable to policies and certificates issued on or after the later of the date of a state's adoption of the revised Model #830 and January 1, 2003, subject to the dates and/or applicable scope specified in Section 8A, Section 8B, Section 8C, Section 8D and Section 8E.

Not for Distribution

Actuarial Guideline XXXIX

RESERVES FOR VARIABLE ANNUITIES WITH GUARANTEED LIVING BENEFITS

**Actuarial Guideline XXXIX sunset on December 30, 2009, and was replaced by
Actuarial Guideline XVIII—CARVM for Variable Annuities, effective December 31, 2009.**

Not for Distribution

Actuarial Guideline XL

GUIDELINE FOR VALUATION RATE OF INTEREST FOR FUNDING AGREEMENTS AND GUARANTEED INTEREST CONTRACTS (GICS) WITH BAIL-OUT PROVISIONS

PURPOSE

The purpose of this Guideline is to interpret the Standard Valuation Law (SVL) for assignment of appropriate valuation interest rates to risks embedded in bail-out provisions under Funding Agreements and Guaranteed Interest Contracts.

BACKGROUND

Funding Agreements (FAs) and other types of Guaranteed Interest Contracts (GICs) typically issued to tax-exempt municipal bonds, money market funds and securities lending funds, often contain bail-out provisions that allow the contractholders to get their money back at full book value. Such provisions may be triggered by the credit rating downgrade of the issuer below a given level or may be at a given period's notice to the contractholder, e.g. 7, 30, 90 or 180 days' notice. The contract language for these provisions may be as follows:

1. In the event that the investment provider (i.e. the insurance company) is downgraded below *A-/A3* by S & P and/or Moody's respectively, the contract holder has the right to terminate the contract and receive the remaining principal and accrued interest without penalty. [In most cases the issuer has the alternate option to provide a replacement contract or post collateral or do a credit wrap.]
2. Each party has the right to terminate the contract before maturity by giving the other at least *7/30/90 or 180-days* notice in writing. At such termination the principal and accrued interest is payable with no penalty.

Contracts with downgrade provision

The bulk of the contracts issued with a downgrade provision are fixed rate FAs or GICs issued in connection with tax-exempt municipal bonds. These contracts can be short-term or long-term. Short-term contracts typically have an average life of around one-year, and are intended for municipal bond funds for construction, acquisition, housing, tax revenue anticipation notes (TRANS), etc. In these types of funds the cash-flow projections are provided when the case is underwritten, but there may be variability in the actual withdrawals. Any outstanding principal and interest is payable at maturity.

Long-term contracts are issued in connection with the debt service reserve (DSR) or the float fund of the bond issue, and mature at the same time as the bonds, which can be as long as 30 years. The float fund takes in deposits, and pays out the half-yearly interest and principal (if any is due) on the bonds. It runs to near zero about twice a year, after each half-yearly coupon payment. The DSR is a contingent fund for a rainy day to prevent a missed coupon or principal payment on the bond. The DSR has a single deposit that is typically 10% of the bond issue.

Contracts with put provision

FAs or GICs with put provisions are generally issued to money market funds subject to Rule 2a-7 of the Investment Company Act. Rule 2a-7 provides guidelines on liquidity, requiring funds available at book value subject to certain notification periods. Additionally, these contracts usually have downgrade provisions. Even if the downgrade provision is not in the contract, it can be assumed that the put will be exercised on downgrade, since a certain level of credit is also a Rule 2a-7 requirement.

Typically, these FAs or GICs guarantee a floating rate of interest linked to an index like LIBOR, which is paid out and reset periodically. Most contracts have fixed maturity dates when the principal is returned. Generally the FAs or GICs are the higher yielding assets of the money market funds, and therefore puts are not expected to be exercised.

Risks

Both the downgrade and the put provisions present liquidity or concentration type of risks to the issuer, i.e. if a critical event occurs, a substantial part of the whole block of business is likely to be liquidated. Sufficient asset liquidity, prudent A/L management, cash flow testing, hedging strategies, etc. can mitigate these risks. Also, companies generally have contractual provisions providing alternative options.

Downgrade provision:

The main risk here is that, upon downgrade to the trigger level, a company may have to realize its assets at a market loss in order to pay out at book. If the downgrade happens in a falling interest rate environment there is no risk of a market loss as the underlying assets are likely to be at a higher market value. On the other hand if the downgrade occurs in a rising interest rate environment, market value losses would occur when the company sells assets to pay out liabilities at book value.

Companies have written provisions in their contracts that provide alternate options to paying at book value in a rising interest rate environment:

“Novation/Assignment” option: The novation/assignment option allows the company to transfer its liabilities to another funding agreement provider that meets the credit rating requirements of the contractholder. In a rising interest rate environment, the new provider should be willing to pay a “premium” to assume a liability crediting a below market interest rate. In a perfectly efficient market this “premium” should precisely offset the market value loss upon the sale of the asset. In practice, however, it is less likely that the “premium” would fully offset the market value loss since:

- The new provider may view the liability risk somewhat differently
- The new provider may try and take advantage of the situation of the downgraded company
- There may be a large volume of these types of contracts in the market, etc.

However, the “premium” payable by the new provider could provide a substantial offset against the market value loss incurred by the downgraded company.

“Collateralization” option: This option allows the company to post assets as collateral for the benefit of the contractholder, as an alternative to payment at book value. The collateral posted would have to meet the credit requirements of the contractholder, which could be government or agency securities. Usually the collateral posted is required to have a cushion, typically ranging from 102% to 105%.

Upon trigger of the downgrade provision, the company would need to have suitable assets in its portfolio that are available for use as collateral, and also acceptable to the contractholder. In addition, there will be administrative and custodial expenses/fees of establishing and monitoring collateral levels. In some states there may also be legal restrictions on encumbering assets that back policyholder claims.

If the downgraded company can overcome the above constraints, then collateralization is another alternative of maintaining the contract and not having to pay out at book value.

“Credit Wrap” option: Under this arrangement the contract is issued out of a separate account which is guaranteed by a financial guarantee insurer. Effectively, the credit rating of the guarantor passes through to meet the credit requirement of the FA or GIC. [A number of FAs or GICs requiring a higher credit rating are currently being written in this way.]

The contract being wrapped has to meet certain criteria before the financial guarantee insurers are willing to wrap. Generally, the guarantor would also require higher credit rated securities in the separate account, which could be government or agency, and would require these in the 102% to 105% range. There will also be administrative and custodial expenses of establishing and monitoring the separate account in addition to the wrap fee payable to the mono-line insurer.

Although at significant cost, this option does provide the downgraded company a viable alternative to paying out at book value.

Put provision:

The put provision is not tied to a particular event but can contractually be exercised by giving the required days' notice. It has been argued that this provision is there to meet the Rule 2a-7 liquidity requirements and in practice is unlikely to be exercised, particularly since the FAs or GICs are one of the higher yielding assets of the money market portfolio. However, it is a contractual option and if, for example, the issuer were in financial difficulties, it will be exercised. Past experience suggests this is the case.

The put provision therefore presents a liquidity or concentration risk similar to that of downgrade—it is likely to be exercised in bulk upon happening of a critical event. Similar considerations apply, i.e. in a rising interest rate environment market value losses would occur when the company sells assets to pay out liabilities at book value.

Reserves

For reserving the Standard Valuation Law applies. However, when the SVL was enacted, these types of bail-out provisions did not exist, and were therefore not addressed explicitly. The purpose of this Guideline is to interpret the SVL for assignment of appropriate valuation interest rates to risks embedded in these bail-out provisions.

Other Actuarial Guidelines have provided similar interpretations. For example, Guideline XIII addresses interest bailout provisions under annuity contracts, Guideline XXX provides for participant directed withdrawal provisions under GICs, and Guideline XXXIII covers the elective and non-elective benefits under individual annuity contracts.

Plan Types

The SVL utilizes a concept known as Plan Type, which was designed to distinguish between the various levels of disintermediation risks—the greater the disintermediation risk for a company, the more conservative is the resulting valuation rate. Plan Types designated in the model SVL are defined as follows:

Plan Type A: At any time policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without such adjustment but in installments over five years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted.

Plan Type B: Before expiration of the interest rate guarantee, policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without such adjustment but in installments over five years or more, or (3) no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without an adjustment in a single sum or installments over less than five years.

Plan Type C: Policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than five years either (1) without adjustment to reflect changes in interest

rates or asset values since receipt of the funds by the insurance company, or (2) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.

TEXT

For the purpose of the application of the Standard Valuation Law to FAs and GICs, the annuities and GIC valuation interest rates are to be used. The bailout provisions described above shall be treated as a withdrawal by the policyholder at book value, and the underlying contracts shall be classified as Plan Type C.

However, for contracts containing written provisions that allow the insurance company alternate options to paying out at book value, the valuation actuary may use a valuation rate of interest higher than Type C. In no event may the valuation interest rate be greater than that applicable to similar contracts with no put or bailout provisions. If a provision requires over-collateralization and/or use of high credit quality assets, this should be adequately reflected in the reserves.

If a higher interest rate than Type C is used, the valuation actuary must be satisfied and be able to demonstrate that the written provisions substantially reduce the liquidity risk. In addition, the valuation actuary must be satisfied, and should periodically review, that there are other risk management measures in place to reduce the liquidity or concentration risk, taking into consideration at least the following:

- Readily liquidated assets at nil or minimal market-value loss
- Cash-flow testing results
- Standby lines of credit available and other liquidity facilities established
- Hedges in place with liquidity options
- High credit quality assets available for use as collateral.

Actuarial Guideline XLI

PROJECTION OF GUARANTEED NONFORFEITURE BENEFITS UNDER CARVM

I. Background

The following is an excerpt from the October 21, 2003, Report of the American Academy of Actuaries' Life Valuation Subcommittee:

Annuity SNFL Impact on Reserves

Per the Standard Valuation Law, Commissioner's Annuity Reserve Valuation Method (CARVM) is:

"the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, *including guaranteed nonforfeiture benefits*, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year."

Historically the guaranteed nonforfeiture benefit calculation has been determined at issue (e.g. 90 percent of premiums accumulated at three percent interest). The recent change to the Standard Nonforfeiture Law for Individual Deferred Annuities has changed this.

Nonforfeiture Rate

The new Standard Nonforfeiture Law for Individual Deferred Annuities has changed the nonforfeiture rate from being static to being dynamic. Under the old law, the nonforfeiture interest rate was three percent. The revised law bases the nonforfeiture rate on the five-year Constant Maturity Treasury Rate less 125 basis points (bps). The nonforfeiture rate is subject to a minimum of one percent and a maximum of three percent. Additional enhancements include the ability to reset the nonforfeiture rate at a date predetermined in the contract and allowing an additional reduction (offset) for Equity Indexed Annuities.

The nonforfeiture rate can be reset at a date predetermined in the contract (e.g. five years from issue) and based on a formula specified in the contract. The same requirements applicable to the initial rate apply to the re-determined rate.

The revised law allows an additional offset to the nonforfeiture rate for contracts that provide substantive participation in an equity indexed benefit. This offset ranges from 0 bps to 100 bps.

The ability to re-determine the nonforfeiture rate and that the EIA offset may be reevaluated in the future raises some issues with the CARVM calculation.

In doing a CARVM projection, what should be the assumed interest rate? Should the option depend on whether there are re-determination provisions? Should the option depend on whether the product relies on an equity indexed offset?

The Report further states:

The minimum guaranteed interest rate in the contract might be different than the minimum nonforfeiture rate. To the extent that the guaranteed values in the contract are always greater than the minimum nonforfeiture benefits, then the nonforfeiture values do not come into play.

This Guideline specifies how to determine the nonforfeiture interest rate used in determining the minimum nonforfeiture benefits guaranteed under the contract. As noted in the Report, the minimum nonforfeiture benefits may be less the guaranteed values otherwise provided by the contract. Where this is the case, the higher guaranteed values are used in the CARVM calculation, and “the nonforfeiture values do not come into play.”

It should also be noted that requirements for projecting guarantees exist in other regulations and guidelines, such as the specifications in Actuarial Guideline XXXV (“The Application of the Commissioners Annuity Reserve Method to Equity Indexed Annuities”) for projecting equity-indexed guarantees. The specifications of this Guideline are in addition to any other requirements.

II. Scope

This Guideline applies to contracts subject to CARVM and the Standard Nonforfeiture Law for Individual Deferred Annuities (“SNLIDA”).

III. Text

The following assumptions shall be made on the valuation date for purposes of determining the future nonforfeiture interest rate when this rate is not known in advance. For purposes of (B) below, “NI” shall refer to the nonforfeiture interest rate, “VI” shall refer to the valuation interest rate, and “CNI” shall refer to the current nonforfeiture interest rate which will be adjusted for any future durations pursuant to “A” below.

- A. For the period of time during which the additional EIA offset is not known, the additional offset shall be zero.
- B. For the period of time during which the nonforfeiture interest rate is not known,
$$NI = \min [\max \{VI, CNI\}, 3\%]$$

If the redetermination of the nonforfeiture interest rate is based on changes to the value of the underlying index (this will be the five-year Constant Maturity Treasury Rate in the case of the nonforfeiture interest rate), then for purposes of this Guideline it shall be assumed that such rate is not known as of the first date on which the rate may be subject to redetermination.

IV. Applicability

This Guideline is effective December 31, 2006 and affects all contracts issued on or after January 1, 1981.

Actuarial Guideline XLII

THE APPLICATION OF THE MODEL REGULATION PERMITTING THE RECOGNITION OF PREFERRED MORTALITY TABLES FOR USE IN DETERMINING MINIMUM RESERVE LIABILITIES

1. Purpose

The purpose of this Guideline is to provide rules and guidance in the selection of the proper set of mortality rates when a company chooses to use either the 2001 CSO Preferred Class Structure Mortality Table or the 2017 CSO Preferred Class Structure Mortality Table as authorized under a state's requirements.

2. Effective Date and Scope

The 2001 CSO Preferred Class Structure Mortality Table is available for valuation purposes for individual life policy forms (and certain group life products sold to individuals by certificate with premium rates guaranteed from issue for at least two years) for issues as provided by the state's requirements which may be based on the NAIC *Model Regulation Permitting The Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities* (Model #815) and which may use the NAIC *Valuation Manual*.

The 2017 CSO Preferred Class Structure Mortality Table is available for valuation purposes for individual life policy forms (and certain group life products sold to individuals by certificate with premium rates guaranteed from issue for at least two years), for issues as provided by a state's requirements which may use the NAIC *Valuation Manual*.

The applicable CSO Preferred Class Structure Mortality Table is either the 2001 CSO Preferred Class Structure Mortality Table or the 2017 CSO Preferred Class Structure Mortality Table as applicable in context.

3. Definitions

- A. "Anticipated mortality" means the appointed actuary's assumption about the mortality to be experienced in the future on a group of insured lives.
- B. "Appointed actuary" means any individual who is appointed or retained in accordance with the requirements set forth in the Actuarial Opinion and Memorandum Regulation.
- C. "Basic reserves" means reserves calculated in accordance with Section 5 of the Standard Valuation Law.
- D. "Class" means a group of policies under one or more plans of insurance that has similar anticipated mortality, as grouped together by the insurer.
- E. "Credibility" means a measure of the predictive value in a given application that the appointed actuary attaches to a particular body of data (predictive is used here in the statistical sense and not in the sense of predicting the future).
- F. "Deficiency reserves" means the excess over basic reserves, if any, of minimum reserves established in accordance with Section 8 of the Standard Valuation Law.
- G. "Full credibility" means the level at which a particular body of data is assigned full predictive value based on a selected confidence interval.

- H. “Preferred class certification” means the certification required by Section 5 of the Model.
- I. “Underwriting-based justification” means the incorporation of underwriting criteria for use in setting the anticipated mortality assumption.
- J. “Underwriting class” means the insurer’s designation of insureds into a particular premium rate structure, e.g. super preferred, preferred, or standard.

4. Selection of Table within the Applicable CSO Preferred Class Structure Mortality Table

VM-20, Section 3C of the *Valuation Manual* contains the requirements governing the set of mortality rates to be used for the purpose of calculating reserves based on the applicable CSO Preferred Class Structure Mortality Table. The election of the applicable CSO Preferred Class Structure Mortality Table is on a policy form and calendar year of issue basis, although once a calendar year cohort of policy forms is placed on the applicable CSO Preferred Class Mortality Structure Table basis, it may not subsequently revert back to the standard applicable CSO basis without the approval of the commissioner. This would be considered a basis change for annual statement reporting purposes. For those calendar years of issue in which a company opts to use the applicable CSO Preferred Class Structure Mortality Table, it must use the entire applicable CSO Preferred Class Structure Mortality Table for the chosen policy forms, i.e. a company may not use the preferred classes from the applicable CSO Preferred Class Structure Mortality Table and use the applicable Standard CSO Mortality Table for the non-preferred class(es). Additionally, if the company sells two similar policy forms in the same market the appointed actuary must use the same version of the table for both forms and may not use the applicable CSO Preferred Class Structure Mortality Table on one and the applicable Standard CSO Mortality Table on the other. A characteristic of this two-form scenario is that preferred lives would be attracted to one form and non-preferred lives would be attracted to the other.

The Model contains a requirement that at the time of election and annually thereafter, except for business valued under the applicable Residual Standard Nonsmoker Table or the applicable Residual Standard Smoker Table, the appointed actuary shall certify that the following tests of sufficiency were passed:

- a. For each class, the present value of death benefits over the next ten years after the valuation date using the anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.
- b. For each class, the present value of death benefits over the future life of the contracts using anticipated mortality experience without recognition of mortality improvement beyond the valuation date for each class is less than the present value of death benefits using the valuation basic table corresponding to the valuation table being used for that class.

In the event that the class does not contain any policies with expiry dates ten or more years into the future, the sufficiency test based on the present value over the future life of the contracts shall be the only test required.

In order to choose the proper set of mortality rates within the applicable CSO Preferred Class Structure Mortality Table and to develop the preferred class certification, the following considerations shall be made:

A. Creation of Classes

The appointed actuary should consider the composition and characteristics of the policies issued under a plan of insurance in determining the appropriate classes that will be applicable under that plan. The policies that comprise classes generally have similar underwriting or mortality experience characteristics. When classes are similar across various plans of insurance, these classes may be combined into a single aggregate class. The appointed actuary shall not combine classes that are expected to have dissimilar anticipated mortality as a means to produce reserves that are materially lower than those developed if the classes were not combined.

The appointed actuary should consider the presence of reinsurance in creating classes. Anticipated mortality should be assessed and classes should be created on a gross basis. To the extent that anticipated mortality on reinsurance ceded or assumed is materially different from that on direct business, the appointed actuary should consider creating separate classes to properly reflect the anticipated mortality.

If, due to differences in actual experience by policy form and underwriting class, groupings of classes are changed from those used in the prior actuarial certifications, the change and the effect of the change shall be disclosed to the commissioner in the actuarial certification.

Separate classes may be established for a single policy form if there are significant anticipated mortality differences for different cohorts of insured lives, such as age groups or policy sizes. For instance, if a company has different underwriting thresholds for policies with face amounts of \$1 million or more, it may be appropriate to have a class for policies with face amounts of less than \$1 million and a separate class for policies of \$1 million or more.

B. Deriving Anticipated Mortality

- i. If relevant company experience for a particular class is available and has full credibility, the appointed actuary shall use that experience as the basis for deriving anticipated mortality.
- ii. In situations where relevant company experience for a particular class is available but does not have full credibility, the appointed actuary shall derive the anticipated mortality by blending the relevant company experience for the class with actual relevant, credible experience and past trends in experience of other similar types of business, either in the same company, in other companies (including reinsurance companies), or from other sources, generally in that order of preference provided that the appointed actuary supplies underwriting-based justification. The blending process shall be based on a credibility methodology that is recognized by the actuarial profession as acceptable practice as provided for in published transactions and scientific journals.
- iii. In situations where relevant company experience for a particular class is not available (e.g. a new product), the appointed actuary may derive the anticipated mortality using actual relevant credible experience and past trends in experience of other similar types of business either in the same company, in other companies (including reinsurance companies), or from other sources, generally in that order

of preference, provided that the appointed actuary supplies underwriting-based justification.

- iv. Underwriting-based justification shall include an analysis of the relationship between the underwriting-based criteria for the class where no experience data is available or does not have full credibility and the underwriting-based criteria that underlie the actual relevant credible experience data.
- v. If no sufficient underwriting-based or experienced-based justification is made to derive anticipated mortality for a class, the company shall not use the applicable CSO Preferred Class Structure Mortality Table for valuation.

C. Periodic Assessment of Anticipated Mortality

The appointed actuary shall annually review relevant emerging experience and underwriting methods for the purpose of assessing the appropriateness of anticipated mortality for each class and, in aggregate, for all classes combined. If the results of statistical or other testing indicate that previously anticipated mortality for a given class is inappropriate, then the appointed actuary shall set a new anticipated mortality assumption for the class. After analyzing the appropriateness of the anticipated mortality for each class, the appointed actuary shall analyze the appropriateness of the anticipated mortality assumptions at the aggregate level. If the analysis at the aggregate level indicates that aggregate anticipated mortality is inadequate, then the appointed actuary shall adjust the anticipated mortality assumption for one or more of the classes until the appointed actuary is satisfied that the anticipated mortality assumptions are adequate at the aggregate level.

D. Tests of Sufficiency

After the anticipated mortality is established, each class must be tested for sufficiency. If a class fails any required sufficiency test, the class must be re-valued using a different set of mortality rates from the applicable CSO Preferred Class Structure Mortality Table. A company must choose a set of mortality rates under which all required tests of sufficiency can be passed.

E. Calculation of Present Value

When a class is tested for sufficiency, the calculation of the present value of death benefits shall be based on a projection of death benefits, without the effect of lapse, at the valuation interest rate used to determine basic reserves for the class. If the class contains policies with several valuation interest rates, the lowest valuation interest rate used to determine the base reserves for any policy within the class shall be used for that class.

F. Right of Commissioner to Change the Table Used by the Company

The commissioner may require a company to change the mortality table if it is determined by the commissioner that inadequate justification of anticipated mortality is provided by the company.

5. Communications and Disclosures

The appointed actuary shall provide to the commissioner an annual certification that, as of the valuation date, the anticipated mortality experience of each class of business (other than Residual Standard Class) meets the criteria of 4(a) and 4(b) above. Additionally, the appointed actuary shall prepare an annual report in support of the certification. The report shall include the following items:

- A. The certification that the report supports;
- B. The specified plans of insurance for which the company has elected to use the Preferred Class Structure Table, briefly describing each plan and the amount of in force business (count, face amount, and reserves) on each plan on the valuation date;
- C. Compliance with the certification criteria;
- D. Description of sources of information used as a basis for determining anticipated mortality;
- E. Analysis performed to evaluate the credibility of relevant historical company experience when establishing anticipated mortality for each class;
- F. Analysis performed to evaluate the relationship between the underwriting-based criteria and the anticipated mortality established in each class.
- G. Statistical or other quantitative analyses performed in assessing the continued appropriateness of the anticipated mortality assumption for each class and for all classes in aggregate, and a summary of changes made as a result of the analyses;
- H. Anticipated Mortality, without recognition of mortality improvement beyond the date of valuation, for each class and for all classes in aggregate;
- I. For each class, the ratio of Anticipated Mortality to the mortality rates in the Valuation Basic Table corresponding to the set of valuation mortality rates being used for that class;
- J. Any changes made in the approach or parameters applied to the statistical analyses or tests performed compared to those performed at the last annual valuation; and,
- K. Disclosure of the financial impact of any change in the chosen set of valuation mortality rates

Drafting Note: Annual actuarial opinions, certifications and reports for the use of “X” factors have been required since the implementation of the NAIC *Valuation of Life Insurance Model Regulation*. The work and analysis to be performed for Preferred Class Certification is very similar to the requirements for the use of the “X” factors and the appointed actuary may combine the selection and analysis of “X” factors and the selection and analysis of applicable CSO Preferred Class Structure Mortality Table into one actuarial opinion, certification and annual experience report, if the appointed actuary wishes to do so.

6. Other Items of Note

- A. If a class of business is assigned to a different set of mortality rates within the applicable CSO Preferred Class Structure Mortality Table (either a higher or lower level of mortality rates) from that used in the prior valuation, the change is not considered a basis change, and the reserve change must be accounted for in the calculation of gain from operations.
- B. Multiple underwriting classes on a policy form can be mapped into the same set of mortality rates within the applicable CSO Preferred Class Structure Mortality Table, if, in aggregate, the underwriting classes can be shown to have anticipated mortality no greater than the valuation basic table underlying the set of mortality rates selected.
- C. If a company chooses to use the applicable CSO Preferred Class Structure Mortality Table for basic reserves, the same table must be the basis for the calculation of deficiency reserves, if applicable.

Not for Distribution

Actuarial Guideline XLIII

CARVM FOR VARIABLE ANNUITIES

Table of Contents

Section I	Background
Section II	Scope
Section III	Definitions
Section IV	Reserve Methodology
Section V	Effective Date
Appendix 1	Determination of Conditional Tail Expectation Amount Based on Projections
Appendix 2	Reinsurance and Statutory Reporting Issues
Appendix 3	Standard Scenario Requirements
Appendix 4	Alternative Methodology
Appendix 5	Scenario Calibration Criteria
Appendix 6	Allocation of the Aggregate Reserves to the Contract Level
Appendix 7	Modeling of Hedges
Appendix 8	Certification Requirements
Appendix 9	Contractholder Behavior
Appendix 10	Specific Guidance and Requirements for Setting Prudent Estimate Mortality Assumptions
Appendix 11	1994 Variable Annuity MGDB Mortality Table

Section I) Background

The purpose of this Actuarial Guideline (Guideline) is to interpret the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The Guideline codifies the basic interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the assumptions and methodologies that will comply with the intent of the Standard Valuation Law (SVL). It also applies similar assumptions and methodologies to contracts that contain characteristics similar to those described in the scope, but that are not directly subject to CARVM.

For many years regulators and the industry have struggled with the issue of applying a uniform reserve standard to these contracts and in particular some of the guaranteed benefits referenced above. Current approaches make assumptions about product design, contractholder behavior and economic relationships and conditions. The economic volatility seen over the last few decades, combined with an increase in the complexity of these products, have made attempts to use these approaches for measuring economic-related risk less successful.

The Guideline addresses these issues by including an approach that applies principles of asset adequacy analysis directly to the risks associated with these products and guarantees.

The NAIC is currently using a similar approach to calculate risk-based capital (RBC) for similar contracts (i.e., the C-3 Phase II project). The methodology in the Guideline is based on that approach, and the intent of the Guideline is to, where possible, facilitate a framework whereby companies may determine both reserve and RBC in a consistent calculation.

In developing the Guideline, two regulatory sources were looked to for guidance. First, the SVL requires that CARVM be based on the greatest present value of future guaranteed benefits. Second, the NAIC Model Variable Annuity Regulation (VAR) states that the “reserve liability for variable annuities shall be established pursuant to the requirements of the Standard Valuation Law in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.”

The Guideline requires that reserves for contracts falling within its scope be based on a minimum floor determined using a standard scenario (referred to as the Standard Scenario Amount) plus the excess over this minimum floor, if any, of a reserve calculated using a projection of the assets and estimated liabilities supporting these contracts over a broad range of stochastically generated projection scenarios and using prudent estimate assumptions (referred to as the Conditional Tail Expectation Amount). Within each of these scenarios, the greatest of the present values of accumulated losses ignoring Federal Income Tax is determined. The assumed fund performance for these scenarios must meet the mandated calibration standards contained in the Guideline. The reserve calculated using projections is based on a Conditional Tail Expectation measure of the results for each scenario.

Conditional Tail Expectation (CTE) is a statistical risk measure that provides enhanced information about the tail of a distribution above that provided by the traditional use of percentiles. Instead of only identifying a value at a particular percentile and thus ignoring the possibility of extremely large values in the tail, CTE recognizes a portion of the tail by providing the average over all values in the tail beyond the CTE percentile. Thus where the tail of the distribution of losses approximates that of a standard normal distribution, CTE (70) will approximate the 88th percentile; where the tail is “fatter” than that of a standard normal distribution, CTE (70) will exceed the 88th percentile; and where the tail is not as “fat” as a standard normal distribution, CTE (70) will be lower than the 88th percentile. Therefore, for distributions with “fat tails” from low probability, high impact events, such as those covered by the Guideline, the use of CTE will provide a more revealing measure than use of a single percentile requirement.

For certain products (e.g., variable annuities with Guaranteed Minimum Death Benefits only), a company can use an Alternative Methodology in place of the modeling approach outlined above to determine the Conditional Tail Expectation Amount.

The projection methodology used to calculate the Conditional Tail Expectation Amount, as well as the approach used to develop the Alternative Methodology, is based on the following set of principles. These principles should be followed when applying the methodology in the Guideline and analyzing the resulting reserves:¹

Principle 1. The objective of the approach used to determine the Conditional Tail Expectation Amount is to quantify the amount of statutory reserves needed by the company to be able to meet contractual obligations in light of the risks to which the company is exposed.

Principle 2. The calculation of the Conditional Tail Expectation Amount is based on the results derived from an analysis of asset and liability cash flows produced by the application of a stochastic cash flow model to equity return and interest rate scenarios. For each scenario the greatest present value of accumulated surplus deficiency is calculated. The analysis reflects Prudent Estimate (see the definition of Prudent Estimate in Section III) assumptions for deterministic variables and is performed in aggregate (subject to limitations related to contractual provisions)² to allow the natural offset of risks within a given scenario. The methodology utilizes a projected total statutory balance sheet approach by including all projected income, benefit and expense items related to the business in the model and sets the Conditional Tail Expectation Amount at a degree of confidence using the conditional tail expectation measure applied to the set

¹ Note the following when considering these principles:

- a. The principles should be considered in their entirety.
- b. The Guideline requires companies to meet these principles with respect to only those contracts that fall within the scope of the Guideline and are in force as of the valuation date to which the requirements are applied.

² Examples where full aggregation between contracts may not be possible include experience rated group contracts and the operation of reinsurance treaties.

of scenario specific greatest present values of accumulated statutory deficiencies that is deemed to be reasonably conservative over the span of economic cycles.

Principle 3. The implementation of a model involves decisions about the experience assumptions and the modeling techniques to be used in measuring the risks to which the company is exposed. Generally, assumptions are to be based on the conservative end of the actuary's confidence interval. The choice of a conservative estimate for each assumption may result in a distorted measure of the total risk. Conceptually,³ the choice of assumptions and the modeling decisions should be made so that the final result approximates what would be obtained for the Conditional Tail Expectation Amount at the required CTE level if it were possible to calculate results over the joint distribution of all future outcomes. In applying this concept to the actual calculation of the Conditional Tail Expectation Amount, the actuary should be guided by evolving practice and expanding knowledge base in the measurement and management of risk.

Principle 4. While a stochastic cash flow model attempts to include all real world risks relevant to the objective of the stochastic cash flow model and relationships among the risks, it will still contain limitations because it is only a model. The calculation of the Conditional Tail Expectation Amount is based on the results derived from the application of the stochastic cash flow model to scenarios while the actual statutory reserve needs of the company arise from the risks to which the company is (or will be) exposed in reality. Any disconnect between the model and reality should be reflected in setting Prudent Estimate assumptions to the extent not addressed by other means.

Principle 5. Neither a cash flow scenario model, nor a method based on factors calibrated to the results of a cash flow scenario model, can completely quantify a company's exposure to risk. A model attempts to represent reality, but will always remain an approximation thereto and hence uncertainty in future experience is an important consideration when determining the Conditional Tail Expectation Amount. Therefore, the use of assumptions, methods, models, risk management strategies (e.g., hedging), derivative instruments, structured investments or any other risk transfer arrangements (such as reinsurance) that serve solely to reduce the calculated Conditional Tail Expectation Amount without also reducing risk on scenarios similar to those used in the actual cash flow modeling are inconsistent with these principles. The use of assumptions and risk management strategies should be appropriate to the business and not merely constructed to exploit 'foreknowledge' of the components of the required methodology.

The methodology prescribed in the Guideline is applied to a company's entire portfolio of variable annuities (whether or not they contain guaranteed benefits), as well as other affected products that contain guaranteed benefits. Current guaranteed benefits include Guaranteed Minimum Death Benefits, Guaranteed Minimum Accumulation Benefits, Guaranteed Minimum Income Benefits, Guaranteed Minimum Withdrawal Benefits, Guaranteed Lifetime Withdrawal Benefits, and Guaranteed Payout Annuity Floors. It is also expected that the methodology in the Guideline will be applied to future variations on these designs and to new guarantee designs.

Since statutory reporting requires companies to report reserves prior to reinsurance, the Guideline clarifies standards for adjusting the various components of the reserve so that the reserve may be reported both prior to and net of reinsurance.

The Guideline also requires an allocation of the total reported reserve between the General and Separate Accounts and prescribes a method for doing this allocation.

³ The intent of Principle 3 is to describe the conceptual framework for setting assumptions. Appendix 9 provides the requirements and guidance for setting contractholder behavior and includes alternatives to this framework if the actuary is unable to fully apply this principle.

Actuarial certification of the work done to calculate reserves is required by the Guideline. A qualified actuary (referred to throughout the Guideline as “the actuary”) shall certify that the work has been done in a way that meets all applicable Actuarial Standards of Practice.

For more details on the development of these requirements, including the development of the calibration criteria, see the American Academy of Actuaries recommendation on C-3 Phase II risk-based capital.

This Guideline and its Appendices require the actuary to make various determinations, verifications and certifications. The company shall provide the actuary with the necessary information sufficient to permit the actuary to fulfill the responsibilities set forth in this Guideline and its Appendices and responsibilities arising from applicable Actuarial Standards of Practice, including ASOP No. 23, *Data Quality*.

The risks reflected in the calculation of reserves under this Guideline arise from actual or potential events or activities which are both:

- a) Directly related to the contracts falling under the scope of this Guideline or their supporting assets; and
- b) Capable of materially affecting the reserve.

Categories and examples of risks reflected in the reserve calculations include but are not necessarily limited to:

- a) Asset Risks
 - (i) Separate Account fund performance;
 - (ii) Credit risks (e.g., default or rating downgrades);
 - (iii) Commercial mortgage loan rollover rates (roll-over of bullet loans);
 - (iv) Uncertainty in the timing or duration of asset cash flows (e.g., shortening (prepayment risk) and lengthening (extension risk));
 - (v) Performance of equities, real estate, and Schedule BA assets;
 - (vi) Call risk on callable assets;
 - (vii) Risk associated with hedge instrument (includes basis, gap, price, parameter estimation risks, and variation in assumptions); and
 - (viii) Currency risk.
- b) Liability Risks
 - (i) Reinsurer default, impairment or rating downgrade known to have occurred before or on the valuation date;
 - (ii) Mortality/longevity, persistency/lapse, partial withdrawal and premium payment risks;
 - (iii) Utilization risk associated with guaranteed living benefits;
 - (iv) Anticipated mortality trends based on observed patterns of mortality improvement or deterioration, where permitted;
 - (v) Annuitization risks; and
 - (vi) Additional premium dump-ins (high interest rate guarantees in low interest rate environments);
- c) Combination Risks
 - (i) Risks modeled in the company’s risk assessment processes that are related to the contracts, as described above;
 - (ii) Disintermediation risk (including such risk related to payment of surrender or partial withdrawal benefits); and
 - (iii) Risks associated with Revenue Sharing Income.

The risks not necessarily reflected in the calculation of reserves under this Guideline are:

- a) Those not reflected in the determination of Risk-Based Capital; and

- b) Those reflected in the determination of Risk-Based Capital but arising from obligations of the company not directly related to the contracts falling under the scope of this Guideline, or their supporting assets, as described above.

Categories and examples of risks not reflected in the reserve calculations include but are not necessarily limited to:

- a) Asset Risks
 - Liquidity risks associated with a “run on the bank.”
- b) Liability Risks
 - (i) Reinsurer default, impairment or rating downgrade occurring after the valuation date;
 - (ii) Catastrophic events (e.g., epidemics or terrorist events);
 - (iii) Major breakthroughs in life extension technology that have not yet fundamentally altered recently observed mortality experience; and
 - (iv) Significant future reserve increases as an unfavorable scenario is realized.
- c) General Business Risks
 - (i) Deterioration of reputation;
 - (ii) Future changes in anticipated experience (reparameterization in the case of stochastic processes) which would be triggered if and when adverse modeled outcomes were to actually occur;
 - (iii) Poor management performance;
 - (iv) The expense risks associated with fluctuating amounts of new business;
 - (v) Risks associated with future economic viability of the company;
 - (vi) Moral hazards; and
 - (vii) Fraud and theft.

Section II) Scope

- A) The Guideline applies to contracts, whether directly written or assumed through reinsurance, falling into any of the following categories:
 - 1) Variable deferred annuity contracts subject to the Commissioner’s Annuity Reserve Valuation Method (CARVM), whether or not such contracts contain Guaranteed Minimum Death Benefits (GMDBs), or Variable Annuity Guaranteed Living Benefits (VAGLBs);
 - 2) Variable immediate annuity contracts, whether or not such contracts contain GMDBs or VAGLBs;
 - 3) Group annuity contracts that are not subject to CARVM, but contain guarantees similar in nature⁴ to GMDBs, VAGLBs, or any combination thereof; and
 - 4) All other products that contain guarantees similar in nature to GMDBs or VAGLBs, even if the insurer does not offer the mutual funds or variable funds to which these guarantees relate, where there is no other explicit reserve requirement.⁵

⁴ The term “similar in nature,” as used in sections II(A)3) and II(A)4) is intended to capture both current products and benefits as well as product and benefit designs that may emerge in the future. Examples of the currently known designs are listed in footnote #5 below. Any product or benefit design that does not clearly fit the Scope should be evaluated on a case-by-case basis taking into consideration factors that include, but are not limited to, the nature of the guarantees, the definitions of GMDB and VAGLB in sections III(A)1) and III(A)2) and whether the contractual amounts paid in the absence of the guarantee are based on the investment performance of a market-value fund or market-value index (whether or not part of the company’s separate account).

⁵ For example, a group life contract that wraps a GMDB around a mutual fund would generally fall under the scope of the Guideline since there is not an explicit reserve requirement for this type of group life contract. However, for an individual

If such a benefit is offered as part of a contract that has an explicit reserve requirement and that benefit does not currently have an explicit reserve requirement:

- a) The Guideline shall be applied to the benefit on a standalone basis (i.e., for purposes of the reserve calculation, the benefit shall be treated as a separate contract);
 - b) The reserve for the underlying contract is determined according to the explicit reserve requirement; and
 - c) The reserve held for the contract shall be the sum of a) and b).
- B) The Guideline does not apply to contracts falling under the scope of the NAIC Model Modified Guaranteed Annuity Regulation (MGAs); however, it does apply to contracts listed above that include one or more subaccounts containing features similar in nature to those contained in MGAs (e.g., market value adjustments).
- C) Separate account products that guarantee an index and do not offer GMDBs or VAGLBs are excluded from the scope of the Guideline.

Section III) Definitions

A) Definitions of Benefit Guarantees

- 1) Guaranteed Minimum Death Benefit (GMDB). A GMDB is a guaranteed benefit providing, or resulting in the provision that, an amount payable on the death of a contractholder, annuitant, participant, or insured will be increased and/or will be at least a minimum amount. Only such guarantees having the potential to produce a contractual total amount payable on death that exceeds the account value, or in the case of an annuity providing income payments, an amount payable on death other than continuation of any guaranteed income payments, are included in this definition. GMDBs that are based on a portion of the excess of the account value over the net of premiums paid less partial withdrawals made (e.g., an Earnings Enhanced Death Benefit) are also included in this definition.
- 2) Variable Annuity Guaranteed Living Benefit (VAGLB). A VAGLB is a guaranteed benefit providing, or resulting in the provision that, one or more guaranteed benefit amounts payable or accruing to a living contractholder or living annuitant, under contractually specified conditions (e.g., at the end of a specified waiting period, upon annuitization, or upon withdrawal of premium over a period of time), will increase contractual benefits should the contract value referenced by the guarantee (e.g., account value) fall below a given level or fail to achieve certain performance levels. Only such guarantees having the potential to provide benefits with a present value as of the benefit commencement date that exceeds the contract value referenced by the guarantee are included in this definition. Payout annuities without minimum payout or performance guarantees are neither considered to contain nor to be VAGLBs.
- 3) Guaranteed Minimum Income Benefit (GMIB). A GMIB is a VAGLB design for which the benefit is contingent on annuitization of a variable deferred annuity or similar contract. The benefit is typically expressed as a contractholder option, on one or more option dates, to have a minimum amount applied to provide periodic income using a specified purchase basis.

variable life contract with a GMDB and a benefit similar in nature to a VAGLB, the Guideline would generally apply only to the VAGLB-type benefit, since there is an explicit reserve requirement that applies to the variable life contract and the GMDB.

- 4) Guaranteed Payout Annuity Floor (GPAF). A GPAF is a VAGLB design guaranteeing that one or more of the periodic payments under a variable immediate annuity will not be less than a minimum amount.

B) Definitions of Reserve Methodology Terminology

- 1) Scenario. A scenario consists of a set of asset growth rates and investment returns from which assets and liabilities supporting a set of contracts may be determined for each year of a projection.
- 2) Cash Surrender Value. For purposes of the Guideline, the Cash Surrender Value for a contract is the amount available to the contractholder upon surrender of the contract. Generally, it is equal to the account value less any applicable surrender charges, where the surrender charge reflects the availability of any free partial surrender options. For contracts where all or a portion of the amount available to the contractholder upon surrender is subject to a market value adjustment, however, the Cash Surrender Value shall reflect the market value adjustment consistent with the required treatment of the underlying assets. That is, the Cash Surrender Value shall reflect any market value adjustments where the underlying assets are reported at market value, but shall not reflect any market value adjustments where the underlying assets are reported at book value.
- 3) Scenario Greatest Present Value. For a given scenario, the Scenario Greatest Present Value is the sum of:
 - a) The greatest of the present values, as of the projection start date, of the projected Accumulated Deficiencies for the scenario; and
 - b) The Starting Asset Amount, as defined below.
- 4) Conditional Tail Expectation Amount. The Conditional Tail Expectation Amount is equal to the numerical average of the 30 percent largest values of the Scenario Greatest Present Values.
- 5) Working Reserve. The Working Reserve is the assumed reserve used in the projections of Accumulated Deficiencies supporting the calculation of the Scenario Greatest Present Values. At any point in the projections, including at the start of the projection, the Working Reserve shall equal the projected Cash Surrender Value.

For a variable payout annuity without a Cash Surrender Value, the Working Reserve shall equal the present value, at the valuation interest rate and the valuation mortality table specified for such a product by the Standard Valuation Law of future income payments projected using a return based on the valuation interest rate less appropriate asset based charges. For annuitizations that occur during the projection, the valuation interest rate as of the current valuation date may be used in determining the Working Reserve. Alternatively, if an integrated model of equity returns and interest rates is used, a future estimate of valuation interest rates may be incorporated into the Working Reserve.

For contracts not covered above, the actuary shall determine the Working Reserve in a manner that is consistent with the above requirements.

- 6) Accumulated Deficiency. Accumulated Deficiency is an amount measured as of the end of a projection year and equals the projected Working Reserve less the amount of

projected assets, both as of the end of the projection year. Accumulated Deficiencies may be positive or negative.⁶

- 7) Starting Asset Amount. The Starting Asset Amount equals the value of the assets at the start of the projection, as defined in section A1.4)A) of Appendix 1.
- 8) Prudent Estimate. The deterministic assumptions to be used for projections are to be the actuary's Prudent Estimate. This means that they are to be set at the conservative end of the actuary's confidence interval as to the true underlying probabilities for the parameter(s) in question, based on the availability of relevant experience and its degree of credibility.

A Prudent Estimate assumption is developed by applying a margin for uncertainty to the "Anticipated Experience" assumption. The margin for uncertainty shall provide for estimation error and margins for adverse deviation. The resulting Prudent Estimate assumption shall be reasonably conservative over the span of economic cycles and over a plausible range of expected experience, in recognition of the Principles described in Section I. "Anticipated Experience" would typically be the actuary's reasonable estimate of future experience for a risk factor given all available, relevant information pertaining to the contingencies being valued. Recognizing that assumptions are simply assertions of future unknown experience, the margin should be directly related to uncertainty in the underlying risk factor. The greater the uncertainty, the larger the margin. Each margin should serve to increase the Aggregate Reserve that would otherwise be held in its absence (i.e., using only the Anticipated Experience assumption).

For example, assumptions for circumstances that have never been observed require more margins for error than those for which abundant and relevant experience data are available.

This means that valuation assumptions not stochastically modeled are to be consistent with the stated Principles in Section I, be based on any relevant and credible experience that is available, and should be set to produce, in concert with other Prudent Estimate assumptions, a Conditional Tail Expectation Amount that is consistent with the stated CTE level.

The actuary shall follow the principles discussed in Appendices 9 and 10 in determining Prudent Estimate assumptions.

- 9) Gross Wealth Ratio. The Gross Wealth Ratio is the cumulative return for the indicated time period and percentile (e.g., 1.0 indicates that the index is at its original level).
- 10) Clearly Defined Hedging Strategy. The designation of Clearly Defined Hedging Strategy applies to strategies undertaken by a company to manage risks through the future purchase or sale of hedging instruments and the opening and closing of hedging positions. In order to qualify as a Clearly Defined Hedging Strategy, the strategy must meet the principles outlined in the Background section of the Guideline (particularly Principle 5) and shall, at a minimum, identify:
 - a) The specific risks being hedged (e.g., delta, rho, vega, etc.),
 - b) The hedge objectives,

⁶ Note that a positive Accumulated Deficiency means that there is a cumulative loss and a negative Accumulated Deficiency means that there is a cumulative gain.

- c) The risks not being hedged (e.g., variation from expected mortality, withdrawal, and other utilization or decrement rates assumed in the hedging strategy, etc.),
- d) The financial instruments that will be used to hedge the risks,
- e) The hedge trading rules including the permitted tolerances from hedging objectives,
- f) The metric(s) for measuring hedging effectiveness,
- g) The criteria that will be used to measure effectiveness,
- h) The frequency of measuring hedging effectiveness,
- i) The conditions under which hedging will not take place, and
- j) The person or persons responsible for implementing the hedging strategy.

The hedge strategy may be dynamic, static, or a combination thereof.

It is important to note that strategies involving the offsetting of the risks associated with variable annuity guarantees with other products outside of the scope of the Guideline (e.g., equity-indexed annuities) do not currently qualify as a Clearly Defined Hedging Strategy under the Guideline.

- 11) Revenue Sharing. Revenue Sharing, for purposes of the Guideline, means any arrangement or understanding by which an entity responsible for providing investment or other types of services makes payments to the company (or to one of its affiliates). Such payments are typically in exchange for administrative services provided by the company (or its affiliate), such as marketing, distribution and recordkeeping. Only payments that are attributable to charges or fees taken from the underlying variable funds or mutual funds supporting the contracts that fall under the scope of the Guideline shall be included in the definition of Revenue Sharing.
- 12) Domiciliary Commissioner. For purposes of the Guideline, this term refers to the chief insurance regulatory official of the state of domicile of the company.
- 13) Aggregate Reserve. The minimum reserve requirement as of the valuation date for the contracts falling within the scope of the Guideline.
- 14) 1994 Variable Annuity MGDB Mortality Table. This mortality table is shown in Appendix 11.

Section IV) **Definition of General Reserve Methodology**

- A) General Description. The Aggregate Reserve for contracts falling within the scope of the Guideline shall equal the Conditional Tail Expectation Amount but not less than the Standard Scenario Amount, where the Aggregate Reserve is calculated as the Standard Scenario Amount plus the excess, if any, of the Conditional Tail Expectation Amount over the Standard Scenario Amount.
- B) Impact of Reinsurance Ceded. Where reinsurance is ceded for all or a portion of the contracts, both components in the above general description (and thus the Aggregate Reserve) shall be determined net of any reinsurance treaties that meet the statutory requirements that would allow the treaty to be accounted for as reinsurance.

An Aggregate Reserve before reinsurance shall also be calculated if needed for regulatory reporting or other purposes, using methods described in Appendix 2.

- C) The Standard Scenario Amount. The Standard Scenario Amount is the aggregate of the reserves determined by applying the Standard Scenario method to each of the contracts falling within the scope of the Guideline. The Standard Scenario method is outlined in Appendix 3.
- D) The Conditional Tail Expectation Amount. The Conditional Tail Expectation Amount shall be determined based on a projection of the contracts falling within the scope of the Guideline, and the assets supporting these contracts, over a broad range of stochastically generated projection scenarios and using Prudent Estimate assumptions.

The stochastically generated projection scenarios shall meet the Scenario Calibration Criteria described in Appendix 5.

The Conditional Tail Expectation Amount may be determined in aggregate for all contracts falling within the scope of the Guideline (i.e., a single grouping). At the option of the company, it may be determined by applying the methodology outlined below to sub-groupings of contracts, in which case, the Conditional Tail Expectation Amount shall equal the sum of the amounts computed for each such sub-grouping.

The Conditional Tail Expectation Amount shall be determined using the following steps:

- 1) For each scenario, projected aggregate Accumulated Deficiencies are determined at the start of the projection (i.e., “time 0”) and at the end of each projection year as the sum of the Accumulated Deficiencies for each contract grouping.
- 2) The Scenario Greatest Present Value is determined for each scenario based on the sum of the aggregate Accumulated Deficiencies⁷ and aggregate Starting Asset Amounts for the contracts for which the Aggregate Reserve is being computed.
- 3) The Scenario Greatest Present Values for all scenarios are then ranked from smallest to largest and the Conditional Tail Expectation Amount is the average of the largest 30 percent of these ranked values.

The projections shall be performed in accordance with Appendix 1. The actuary shall document the assumptions and procedures used for the projections and summarize the results obtained as described in Appendix 2 and Appendix 8.

- E) Alternative Methodology. For variable deferred annuity contracts that contain either no guaranteed benefits or only GMDBs (i.e., no VAGLBs), the Conditional Tail Expectation Amount may be determined using the Alternative Methodology described in Appendix 4 rather than using the approach described in subsection D) above. However, in the event the approach described in subsection D) has been used in prior valuations the Alternative Methodology may not be used without approval from the Domiciliary Commissioner.

The Conditional Tail Expectation Amount for the group of contracts to which the Alternative Methodology is applied shall not be less than the aggregate Cash Surrender Value of those contracts.

The actuary shall document the assumptions and procedures used for the Alternative Methodology and summarize the results obtained as described in Appendix 2 and Appendix 8.

⁷ The Scenario Greatest Present Value is therefore based on the greatest projected Accumulated Deficiency, in aggregate, for all contracts for which the Aggregate Reserve is computed hereunder, rather than based on the sum of the greatest projected Accumulated Deficiency for each grouping of contracts.

- F) Allocation of Results to Contracts. The Aggregate Reserve shall be allocated to the contracts falling within the scope of the Guideline using the method outlined in Appendix 6.
- G) Reserve as of January 1, 2009. The reserve as of January 1, 2009 shall be the sum of the reserves from the asset adequacy analysis requirements in Actuarial Guideline XXXIV and Actuarial Guideline XXXIX.

Section V) Effective Date

The Guideline affects all contracts issued on or after January 1, 1981, effective December 31, 2009. Where the application of the Guideline produces higher reserves than the company had otherwise established by their previously used interpretation, such company may request a grade-in period, not to exceed three (3) years, from the Domiciliary Commissioner upon satisfactory demonstration of the previous interpretation and that such delay of implementation will not cause a hazardous financial condition or potential harm to its policyholders. The grading shall be done only on the reserves on the contracts in-force as of December 31, 2009. The reserves under the old basis and new basis shall be compared each year - $\frac{2}{3}$ of the difference shall be subtracted from the reserve under the new basis in 2009 and $\frac{1}{3}$ of the difference shall be subtracted from the reserve under the new basis in 2010.

APPENDIX 1 - Determination of Conditional Tail Expectation Amount Based on Projections

A1.1) Projection of Accumulated Deficiencies

- A) General Description of Projection. The projection of Accumulated Deficiencies shall be made ignoring Federal Income Tax and reflect the dynamics of the expected cash flows for the entire group of contracts, reflecting all product features, including the guarantees provided under the contracts. Insurance company expenses (including overhead and investment expense), fund expenses, contractual fees and charges, revenue sharing income received by the company (net of applicable expenses) and cash flows associated with any reinsurance or hedging instruments are to be reflected on a basis consistent with the requirements herein. Cash flows from any fixed account options shall also be included. Any market value adjustment assessed on projected withdrawals or surrenders shall also be included (whether or not the Cash Surrender Value reflects market value adjustments). Throughout the projection, where estimates are used, such estimates shall be on a Prudent Estimate basis.

Federal Income Tax shall not be included in the projection of Accumulated Deficiencies.

- B) Grouping of Variable Funds and Subaccounts. The portion of the Starting Asset Amount held in the Separate Account represented by the variable funds and the corresponding account values may be grouped for modeling using an approach that recognizes the investment guidelines and objectives of the funds. In assigning each variable fund and the variable subaccounts to a grouping for projection purposes, the fundamental characteristics of the fund shall be reflected and the parameters shall have the appropriate relationship to the required calibration points of the S&P 500. The grouping shall reflect characteristics of the efficient frontier (i.e., returns generally cannot be increased without assuming additional risk).

An appropriate proxy for each variable subaccount shall be designed in order to develop the investment return paths. The development of the scenarios for the proxy funds is a fundamental step in the modeling and can have a significant impact on results. As such, the actuary must map each variable account to an appropriately crafted proxy fund normally expressed as a linear combination of recognized market indices (or sub-indices).

- C) Grouping of Contracts. Projections may be performed for each contract in force on the date of valuation or by grouping contracts into representative cells of model plans using all characteristics and criteria having a material impact on the size of the reserve. Grouping shall be the responsibility of the actuary but may not be done in a manner that intentionally understates the resulting reserve.
- D) Modeling of Hedges. The appropriate costs and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of the Guideline shall be included in the projections. If the company is following a Clearly Defined Hedging Strategy and the hedging strategy meets the requirements of Appendix 7, the projections shall take into account the appropriate costs and benefits of hedge positions expected to be held in the future through the execution of that strategy.

To the degree either the currently held hedge positions or the hedge positions expected to be held in the future introduce basis, gap, price, or assumption risk, a suitable reduction for effectiveness of hedges shall be made. The actuary is responsible for verifying compliance with a Clearly Defined Hedging Strategy and the requirements in Appendix 7 for all hedge instruments included in the projections.

While hedging strategies may change over time, any change in hedging strategy shall be documented and include an effective date of the change in strategy.

The use of products not falling under the scope of the Guideline (e.g., equity-indexed annuities) as a hedge shall not be recognized in the determination of Accumulated Deficiencies.

These requirements do not supersede any statutes, laws, or regulations of any state or jurisdiction related to the use of derivative instruments for hedging purposes and should not be used in determining whether a company is permitted to use such instruments in any state or jurisdiction.

Upon request of the company's domiciliary commissioner and for information purposes to show the effect of including future hedge positions in the projections, the company shall show the results of performing an additional set of projections reflecting only the hedges currently held by the company in support of the contracts falling under the scope of the Guideline. Because this additional set of projections excludes some or all of the derivative instruments, the investment strategy used may not be the same as that used in the determination of the Conditional Tail Expectation Amount.

E) Revenue Sharing.

- 1) Projections of Accumulated Deficiencies may include income from projected future Revenue Sharing, as defined in Section III) net of applicable projected expenses ("Net Revenue Sharing Income") if the following requirements are met:
 - a) The Net Revenue Sharing Income is received⁸ by the company,⁹
 - b) Signed contractual agreement or agreements are in place as of the valuation date and support the current payment of the Net Revenue Sharing Income; and
 - c) The Net Revenue Sharing Income is not already accounted for directly or indirectly as a company asset.
- 2) The amount of Net Revenue Sharing Income to be used shall reflect the actuary's assessment of factors that include but are not limited to the following (not all of these factors will necessarily be present in all situations):
 - a) The terms and limitations of the agreement(s), including anticipated revenue, associated expenses and any contingent payments incurred or made by either the company or the entity providing the Net Revenue Sharing as part of the agreement(s);
 - b) The relationship between the company and the entity providing the Net Revenue Sharing Income that might affect the likelihood of payment and the level of expenses;
 - c) The benefits and risks to both the company and the entity paying the Net Revenue Sharing Income of continuing the arrangement.

⁸ For purposes of this section, Net Revenue Sharing Income is considered to be received by the company if it is paid directly to the company through a contractual agreement with either the entity providing the Net Revenue Sharing Income or an affiliated company that receives the Net Revenue Sharing Income. Net Revenue Sharing Income would also be considered to be received, if it is paid to a subsidiary that is owned by the company and if 100% of the statutory income from that subsidiary is reported as statutory income of the company. In this case the actuary needs to assess the likelihood that future Net Revenue Sharing Income is reduced due to the reported statutory income of the subsidiary being less than future Net Revenue Sharing Income received.

⁹ As in other sections of the Guideline, the term "the company" is used exclusively as a reference to the insurance company writing the business falling under the scope of the Guideline. The term "entity providing the Net Revenue Sharing Income" is self-explanatory and is used consistently in this subsection.

- d) The likelihood that the company will collect the Net Revenue Sharing Income during the term(s) of the agreement(s) and the likelihood of continuing to receive future revenue after the agreement(s) has ended;
 - e) The ability of the company to replace the services provided to it by the entity providing the Net Revenue Sharing Income or to provide the services itself, along with the likelihood that the replaced or provided services will cost more to provide; and
 - f) The ability of the entity providing the Net Revenue Sharing Income to replace the services provided to it by the company or to provide the services itself, along with the likelihood that the replaced or provided services will cost more to provide.
- 3) The amount of projected Net Revenue Sharing Income shall also reflect a margin (which decreases the assumed Net Revenue Sharing Income) directly related to the uncertainty of the revenue. The greater the uncertainty, the larger the margin. Such uncertainty is driven by many factors including the potential for changes in the securities laws and regulations, mutual fund board responsibilities and actions, and industry trends. Since it is prudent to assume that uncertainty increases over time, a larger margin shall be applied as time that has elapsed in the projection increases.
- 4) All expenses required or assumed to be incurred by the company in conjunction with the arrangement providing the Net Revenue Sharing Income, as well as any expenses assumed to be incurred by the company in conjunction with the assumed replacement of the services provided to it (as discussed in subsection 2)e) above) shall be included in the projections as a company expense under the requirements of section A1.1)A). In addition, expenses incurred by either the entity providing the Net Revenue Sharing Income or an affiliate of the company shall be included in the applicable expenses discussed in section A1.1)A) and A1.1)E)1) that reduce the Net Revenue Sharing Income.
- 5) The actuary is responsible for reviewing the revenue sharing agreements, verifying compliance with these requirements, and documenting the rationale for any source of Net Revenue Sharing Income used in the projections.
- 6) The amount of Net Revenue Sharing Income assumed in a given scenario shall not exceed the sum of a) and b), where:
- a) Is the contractually guaranteed Net Revenue Sharing Income projected under the scenario, and
 - b) Is the actuary's estimate of non-contractually guaranteed Net Revenue Sharing Income before reflecting any margins for uncertainty multiplied by the following factors:
 - (i) 1.0 in the first projection year;
 - (ii) 0.9 in the second projection year;
 - (iii) 0.8 in the third projection year;
 - (iv) 0.7 in the fourth projection year;
 - (v) 0.6 in the fifth projection year;
 - (vi) 0.5 in the sixth and all subsequent projection years. The resulting amount of non-contractually guaranteed Net Revenue Sharing Income after application of this factor shall not exceed 0.25% per year on separate account assets in the sixth and all subsequent projection years.

- F) Length of Projections. Projections of Accumulated Deficiencies shall be run for as many future years as needed so that no materially greater reserve value would result from longer projection periods.
- G) AVR/IMR. The AVR and the IMR shall be handled consistently with the treatment in the company's cash flow testing.

A1.2) Determination of Scenario Greatest Present Values

- A) Scenario Greatest Present Values. For a given scenario, the Scenario Greatest Present Value is the sum of:
- 1) The greatest present value, as of the projection start date, of the projected Accumulated Deficiencies defined in Section III)B)6); and
 - 2) The Starting Asset Amount.
- B) Discount Rates. In determining the Scenario Greatest Present Values, Accumulated Deficiencies shall be discounted using the same interest rates at which positive cash flows are invested, as determined in section A1.4)D). Such interest rates shall be reduced to reflect expected credit losses. Note that the interest rates used do not include a reduction for Federal Income Taxes.

A1.3) Projection Scenarios

- A) Minimum Required Scenarios. The number of scenarios for which projected greatest present values of Accumulated Deficiencies shall be computed shall be the responsibility of the actuary and shall be considered to be sufficient if any resulting understatement in total reserves, as compared with that resulting from running additional scenarios, is not material.
- B) Scenario Calibration Criteria. Returns for the groupings of variable funds shall be determined on a stochastic basis such that the resulting distribution of the Gross Wealth Ratios of the scenarios meets the Scenario Calibration Criteria specified in Appendix 5.

A1.4) Projection Assets

- A) Starting Asset Amount. For the projections of Accumulated Deficiencies, the value of assets at the start of the projection shall be set equal to the approximate value of statutory reserves at the start of the projection. Assets shall be valued consistently with their annual statement values. The amount of such asset values shall equal the sum of the following items, all as of the start of the projection:
- 1) All of the Separate Account assets supporting the contracts;
 - 2) An amount of assets held in the General Account equal to the approximate value of statutory reserves as of the start of the projections less the amount in 1), above.

In many instances the initial General Account assets may be negative, resulting in a projected interest expense. General Account assets chosen for use as described above shall be selected on a consistent basis from one reserve valuation hereunder to the next.

Any hedge assets meeting the requirements described in section A1.1)D) shall be reflected in the projections and included with other General Account assets under item 2) above. To the extent the sum of the value of such hedge assets and the value of assets in item 1) above is greater than

the approximate value of statutory reserves as of the start of the projections, then item 2) above may include enough negative General Account assets or cash such that the sum of items 1) and 2) above equals the approximate value of statutory reserves as of the start of the projections.¹⁰

The actuary shall document which assets were used as of the start of the projection, the approach used to determine which assets were chosen and shall verify that the value of the assets equals the approximate value of statutory reserves at the start of the projection.

- B) Valuation of Projected Assets. For purposes of determining the projected Accumulated Deficiencies, the value of projected assets shall be determined in a manner consistent with their value at the start of the projection. For assets assumed to be purchased during a projection, the value shall be determined in a manner consistent with the value of assets at the start of the projection that have similar investment characteristics.
- C) Separate Account Assets. For purposes of determining the Starting Asset Amounts in subsection A) and the valuation of projected assets in subsection B), assets held in a Separate Account shall be summarized into asset categories determined by the actuary as discussed in section A1.1)B).
- D) General Account Assets. General Account assets shall be projected, net of projected defaults, using assumed investment returns consistent with their book value and expected to be realized in future periods as of the date of valuation. Initial assets that mature during the projection and positive cash flows projected for future periods shall be invested at interest rates, which, at the option of the actuary, are one of the following:
- 1) The forward interest rates implied by the swap curve¹¹ in effect as of the valuation date,
 - 2) The 200 interest rate scenarios available as prescribed for Phase I, C-3 Risk Based Capital calculation, coupled with the Separate Account return scenarios by mating them up with the first 200 such scenarios and repeating this process until all Separate Account return scenarios have been mated with a Phase I scenario, or
 - 3) Interest rates developed for this purpose from a stochastic model that integrates the development of interest rates and the Separate Account returns.

When the option described in 1) above (the forward interest rates implied by the swap curve) is used, an amount shall be subtracted from the interest rates to reflect the current market expectations about future interest rates using the process described in section A1.5)A).

The actuary may switch from 1) to 2), from 1) to 3) or from 2) to 3) from one valuation date to the next, but may not switch in the other direction without approval from the Domiciliary Commissioner.

A1.5) Projection of Annuitization Benefits (including GMIBs)

- A) Assumed Annuitization Purchase Rates at Election. For purposes of projecting annuitization benefits (including annuitizations stemming from the election of a GMIB), the projected annuitization purchase rates shall be determined assuming that market interest rates available at the time of election are the interest rates used to project General Account Assets, as determined in

¹⁰ Further elaboration on potential practices with regard to this issue may be included in a practice note.

¹¹ The swap curve is based on the Federal Reserve H.15 interest swap rates. The rates are for a Fixed Rate Payer in return for receiving three month LIBOR. One place where these rates can be found is <http://www.federalreserve.gov/releases/h15/default.htm>.

A1.4)D). However, where the interest rates used to project General Account Assets are based upon the forward interest rates implied by the swap curve in effect as of the valuation date (i.e., the option described in section A1.4)D)1) is used, herein referred to as a point estimate), the margin between the cost to purchase an annuity using the guaranteed purchase basis and the cost using the interest rates prevailing at the time of annuitization shall be adjusted as discussed below.

If a point estimate is being used, it is important that the margin assumed reflects the current market expectations about future interest rates at the time of annuitization, as described more fully below, and a downward adjustment to the interest rate assumed in the purchase rate basis. The latter adjustment is necessary since a greater proportion of contractholders will select an annuitization benefit when it is worth more than the cash surrender value than when it is not. As a practical matter, this effect can be approximated by using an interest rate assumption in the purchase rate basis that is 0.30 percent below that implied by the forward swap curve, as described below.

To calculate market expectations of future interest rates, the par or current coupon swap curve is used (documented daily in Federal Reserve H.15 with some interpolation needed). Deriving the expected rate curve from this swap curve at a future date involves the following steps:

- 1) Calculate the implied zero-coupon rates. This is a well documented “bootstrap” process. For this process we use the equation $100 = C^n * (v + v^2 + \dots + v^n) + 100v^n$ where the “v” terms are used to stand for the discount factors applicable to cash flows 1,2,...n years hence and C^n is the n-year swap rate. Each of these discount factors are based on the forward curve and therefore are based on different rates, however (i.e. “v²” does not equal v times v). Given the one year swap rate, one can solve for v. Given v and the two year swap rate one can then back into v², and so on.
- 2) Convert the zero coupon rates to one year forward rates by calculating the discount factor needed to get from v^{t-1} to v^t.
- 3) Develop the expected rate curve.

This recognizes that, for example, the five-year forward one-year rate is not the rate the market expects on one year instruments five years from now. The reason is that as the bond gets shorter the “risk premium” in the rate diminishes. This is sometimes characterized as “rolling down” the yield curve. Table A shows the historic average risk premium at various durations. From this table, one can see that to get the rate the market expects a 1 year swap to have five years from now; one must subtract the risk premium associated with six year rates (.95%) and add back that associated with 1 year rates (.50%). This results in a net reduction of .45%.

Table A: Risk Premium by Duration

Duration	Risk Premium	Duration	Risk Premium
1	0.500%	6	0.950%
2	0.750%	7	1.000%
3	0.750%	8	1.100%
4	0.850%	9+	1.150%
5	0.900%		

The Exhibit below combines the three steps. Columns A through D convert the swap curve to the implied forward rate for each future payment date. Columns E through H remove the current risk premium, add the risk premium t years in the future (the Exhibit shows the rate curve five years in the future), and uses that to get the discount factors to apply to the 1 year, 2 year,...5 year cash flows 5 years from now.

Exhibit: Derivation of discount rates expected in the future

A	B	C	D	E	F	G	H
Projection Years	Swap Curve Rate	PV of Zero Coupon	Forward 1 Year Rate	Risk Premium	Risk Premium 5 Years Out	Expected Forward Rate In 5 Years	PV of Zero Coupon In 5 Years
1	2.57%	0.97494	2.5700%	0.50000%			
2	3.07%	0.94118	3.5879%	0.75000%			
3	3.44%	0.90302	4.2251%	0.75000%			
4	3.74%	0.86231	4.7208%	0.85000%			
5	3.97%	0.82124	5.0010%	0.90000%			
6	4.17%	0.77972	5.3249%	0.95000%	0.50000%	4.8749%	0.95352
7	4.34%	0.73868	5.5557%	1.00000%	0.75000%	5.3057%	0.90547
8	4.48%	0.69894	5.6860%	1.10000%	0.75000%	5.3360%	0.85961
9	4.60%	0.66050	5.8209%	1.15000%	0.85000%	5.5209%	0.81463
10	4.71%	0.62303	6.0131%	1.15000%	0.90000%	5.7631%	0.77024
Cell formulas for Projection Year 10:		$= (1 - B13 * \text{SUM}(\$C\$4:C12)) / (1 + B13)$	$= C12 / C13 - 1$		$= E8$	$= D13 - E13 + F13$	$= H12 / (1 + G13)$

Where interest rates are projected stochastically using an integrated model, although one would “expect” the interest rate n years hence to be that implied for an appropriate duration asset by the forward swap curve as described above, there is a steadily widening confidence interval about that point estimate with increasing time until the annuitization date. The “expected margin” in the

purchase rate is less than that produced by the point estimate based on the expected rate, since a greater proportion of contractholders will have an annuitization benefit whose worth is in excess of cash surrender value when margins are low than when margins are high. As a practical matter, this effect can be approximated by using a purchase rate margin based on an earnings rate .30 percent below that implied by the forward swap curve. If a stochastic model of interest rates is used instead of a point estimate then no such adjustment is needed.

B) Projected Election of Guaranteed Minimum Income Benefit and other Annuitization Options. For contracts projected to elect annuitization options (including annuitizations stemming from the election of a GMIB), the projections may assume one of the following at the actuary's option:

- 1) The contract is treated as if surrendered at an amount equal to the statutory reserve that would be required at such time for the payout annuity benefits, or
- 2) The contract is assumed to stay in force, the projected periodic payments are paid, and the Working Reserve is equal to one of the following:
 - a) The statutory reserve required for the payout annuity, if it is a fixed payout annuity, or
 - b) If it is a variable payout annuity, the Working Reserve for a variable payout annuity as defined in Section III)B)5).

If the projected payout annuity is a variable payout annuity containing a floor guarantee (such as a GPAF) under a specified contractual option, only option 2) above shall be used.

Where mortality improvement is used to project future annuitization purchase rates, as discussed in A) above, mortality improvement shall also be reflected on a consistent basis in either the determination of the reserve in 1) above or the projection of the periodic payments in 2) above.

A1.6) Relationship to Risk Based Capital Requirements

- A) The Guideline anticipates that the projections described herein may be used for the determination of Risk Based Capital (the "RBC requirements") for some or all of the contracts falling within the scope of the Guideline. There are several differences between the requirements of the Guideline and the RBC requirements, and among them are two major differences. First, the Conditional Tail Expectation level is different (CTE (70) for the Guideline and CTE (90) for the RBC requirements). Second, the projections described in the Guideline are performed on a basis that ignores Federal Income Tax. That is, under the Guideline, the Accumulated Deficiencies do not include projected Federal Income Tax and the interest rates used to discount the Scenario Greatest Present Value (i.e., the interest rates determined in section A1.4)D)) contain no reduction for Federal Income Tax. Under the RBC requirements, the projections do include projected Federal Income Tax and the discount interest rates used in the RBC requirement do contain a reduction for Federal Income Tax.
- B) To further aid the understanding of the Guideline and any instructions relating to the RBC requirement, it is important to note the equivalence in meaning between the following terms, subject to the differences noted above:
 - 1) The amount that is added to the Starting Asset Amount in Section III)B)6) of the Guideline is similar to the Additional Asset Requirement referenced in the RBC requirement.

- 2) The Conditional Tail Expectation Amount referenced in the Guideline is similar to the Total Asset Requirement referenced in the RBC requirement.

A1.7) Compliance with Actuarial Standards of Practice (ASOPs)

When determining the Conditional Tail Expectation Amount using projections, the analysis shall conform to the Actuarial Standards of Practice as promulgated from time to time by the Actuarial Standards Board.

A1.8) Compliance with Principles

When determining the Conditional Tail Expectation Amount using projections, any interpretation and application of the requirements of the Guideline shall follow the principles discussed in the Section I) Background.

Not for Distribution

APPENDIX 2 - Reinsurance and Statutory Reporting Issues**A2.1) Treatment of Reinsurance Ceded in the Aggregate Reserve**

- A) Aggregate Reserve Net of and Prior to Reinsurance Ceded. As noted in Section IV)B), the Aggregate Reserve is determined net of reinsurance ceded. Therefore, it is necessary to determine the components needed to determine the Aggregate Reserve (i.e., the Standard Scenario Amount, and either the Conditional Tail Expectation Amount determined using projections or the Conditional Tail Expectation Amount determined using the Alternative Methodology) on a net of reinsurance basis. In addition, as noted in Section IV)B), it may be necessary to determine the Aggregate Reserve determined on a “direct” basis, or prior to reflection of reinsurance ceded. Where this is needed, each of these components shall be determined prior to reinsurance. Sections B) through D) below discuss methods necessary to determine these components on both a “net of reinsurance” and a “prior to reinsurance” basis. Note that due allowance for reasonable approximations may be used where appropriate.
- B) Conditional Tail Expectation Amount Determined using Projections. In order to determine the Aggregate Reserve net of reinsurance ceded, Accumulated Deficiencies, Scenario Greatest Present Values, and the resulting Conditional Tail Expectation Amount shall be determined reflecting the effects of reinsurance treaties that meet the statutory requirements that would allow the treaty to be accounted for as reinsurance within the projections. This involves including, where appropriate, all anticipated reinsurance premiums or other costs and all reinsurance recoveries, where both premiums and recoveries are determined by recognizing any limitations in the reinsurance treaties, such as caps on recoveries or floors on premiums.
- In order to determine the Conditional Tail Expectation Amount prior to reinsurance ceded, Accumulated Deficiencies, Scenario Greatest Present Values, and the resulting Conditional Tail Expectation Amount shall be determined ignoring the effects of reinsurance within the projections. One acceptable approach involves a projection based on the same Starting Asset Amount as for the Aggregate Reserve net of reinsurance and by ignoring, where appropriate, all anticipated reinsurance premiums or other costs and all reinsurance recoveries in the projections.
- C) Conditional Tail Expectation Amount Determined using the Alternative Methodology. If a company chooses to use the Alternative Methodology, as allowed in Section IV)E), it is important to note that the methodology produces reserves on a prior to reinsurance ceded basis. Therefore, where reinsurance is ceded, the Alternative Methodology must be modified to reflect the reinsurance costs and reinsurance recoveries under the reinsurance treaties in the determination of the Aggregate Reserve net of reinsurance. In addition, the Alternative Methodology, unadjusted for reinsurance, shall be applied to the contracts falling under the scope of the Guideline to determine the Aggregate Reserve prior to reinsurance.
- D) Standard Scenario Amount. Where reinsurance is ceded, the Standard Scenario Amount shall be calculated as described in Appendix 3 to reflect the reinsurance costs and reinsurance recoveries under the reinsurance treaties. If it is necessary, the Standard Scenario Amount shall be calculated prior to reinsurance ceded using the methods described in Appendix 3, but ignoring the effects of the reinsurance ceded.

A.2.2) Aggregate Reserve to be held in the General Account

The amount of the reserve held in the General Account shall not be less than the excess of the Aggregate Reserve over the sum of the Basic Reserve, as defined in section A3.2), attributable to the variable portion of all such contracts.

A.2.3) Actuarial Certification and Memorandum

- A) Actuarial Certification. Actuarial Certification of the work done to determine the Aggregate Reserve shall be required. The actuary shall certify that the work performed has been done in a way that substantially complies with all applicable Actuarial Standards of Practice. The scope of this certification does not include an opinion on the adequacy of the Aggregate Reserve,¹² the company's surplus or the company's future financial condition. The actuary shall also note any material change in the model or assumptions from that used previously and the estimated impact of such changes.

Appendix 8 contains more information on the contents of the required Actuarial Certification.

- B) Required Memorandum. An actuarial memorandum shall be constructed documenting the methodology and assumptions upon which the Aggregate Reserve is determined. The memorandum shall also include sensitivity tests that the actuary feels appropriate, given the composition of the company's block of business (i.e., identifying the key assumptions that, if changed, produce the largest changes in the Aggregate Reserve). This memorandum shall have the same confidential status as the actuarial memorandum supporting the actuarial opinion¹³ and shall be available to regulators upon request.

Appendix 8 contains more information on the contents of the required memorandum.

- C) Conditional Tail Expectation Amount Determined using the Alternative Methodology. Where the Alternative Methodology is used, there is no need to discuss the underlying assumptions and model in the required memorandum. Certification that expense, revenue, fund mapping, and product parameters have been properly reflected, however, shall be required.

Appendix 8 contains more information on the contents of the required Actuarial Certification and memorandum.

- D) Material Changes. If there is a material change in results due to a change in assumptions from the previous year, the memorandum shall include a discussion of such change in assumptions and an estimate of the impact it has on the results.

¹² The adequacy of total company reserves, which includes the Aggregate Reserve, is addressed in the company's Actuarial Opinion as required by the NAIC Model Actuarial Opinion and Memorandum Regulation.

¹³ This is consistent with Section 3D(8) of the Standard Valuation Law, which states: "Except as provided in Paragraphs (12), (13) and (14), documents, materials or other information in the possession or control of the Department of Insurance that are a memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, shall be confidential by law and privileged, shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action. However, the commissioner is authorized to use the documents, materials or other information in the furtherance of any regulatory or legal action brought as a part of the commissioner's official duties."

APPENDIX 3 - Standard Scenario Requirements**A3.1) Overview**

- A) Application to Determine Reserves. A Standard Scenario Reserve shall be determined for each of the contracts falling under the scope of the Guideline by applying section A3.3). This includes those contracts to which the Alternative Methodology is applied.

The Standard Scenario Reserve for a contract with guaranteed living benefits or guaranteed death benefits is based on a projection of the account value based on specified returns for supporting assets equal to the account value. An initial drop is applied to the supporting assets and account value on the valuation date. Subsequently, account values are projected at specified rates earned by the supporting assets less contract and fund charges. The assumptions for the projection of account values and margins are prescribed in section A3.3)C). For any contract with guarantees the Standard Scenario Reserve includes the greatest present value of the benefit payments in excess of account values applied over the present value of revenue produced by the margins.

B) The Standard Scenario Amount

- 1) The Standard Scenario Amount is defined in Section IV)C) of this Guideline as the aggregate of the reserves determined by applying the Standard Scenario Method to each of the contracts falling under the scope of the Guideline. Except as provided in subsection A3.3)B)1), the Standard Scenario Amount equals the sum over all contracts of the Standard Scenario Reserve determined for each contract as of the statement date as described in A3.1)B)2).
- 2) The Standard Scenario Method requires the Standard Scenario Amount to not be less than the sum over all contracts of the Standard Scenario Reserve determined for the contract as of the statement date as described in section A3.3), where the Discount Rate is equal to *DR*, which is defined as the valuation interest rate specified by the Standard Valuation Law for annuities valued on an issue year basis, using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years. The presence of guarantees of interest on future premiums and/or cash settlement options is to be determined using the terms of the contracts.

- C) Illustrative Application of the Standard Scenario to a Projection or Model Office. If the Conditional Tail Expectation Amount is determined based on a projection of an inforce prior to the statement date and/or by the use of a model office, which is a grouping of contracts into representative cells, then additional determinations of A3.1)B)2) shall be performed on the prior inforce and/or model office. The calculations are for illustrative purposes to assist in validating the reasonableness of the projection and/or the model office.

The following table identifies the illustrative additional determinations required by this section using the Discount Rate, *DR*, as defined in A3.1)B)2). The additional determinations required are based on how the Conditional Tail Expectation projection or Alternative Methodology is applied. For completeness, the table also includes the determinations required by section A3.1)B)2).

- 1) Run A in the table is required for all companies by section A3.1)B)2). No additional determinations are required if a company's stochastic or alternative methodology result is calculated on individual contracts as of the statement date.
- 2) A company that uses a model office as of the statement date to determine its stochastic or alternative methodology result must provide an additional determination for the model office based on the Discount Rate *DR*, run B.

- 3) A company that uses a contract by contract listing of a prior inforce to determine its stochastic or alternative methodology with result PS and then projects requirements to the statement date with result S must provide an additional determination for the prior inforce based on the Discount Rate *DR*, run C.
- 4) A company that uses a model office of a prior inforce to determine its stochastic or alternative methodology requirements with result PM and then projects requirements to the statement date with result S must provide an additional determination for the prior model office based on the Discount Rate *DR*, run D.

Standard Scenario Run	Guideline Variations	Validation Measures	
		Model Office Projection	Projection of Prior Inforce
A. Valuation on the statement date on inforce contracts with discount rate <i>DR</i>	None	None	None
B. Valuation on the statement date on the model office with discount rate <i>DR</i>	If not material to model office validation	A/B compare to 1.00	None
C. Valuation on a prior inforce date on prior inforce contracts with discount rate <i>DR</i>	If not material to projection validation	None	A/C - S/PS compare to 0
D. Valuation on a prior inforce date on a model office with discount rate <i>DR</i>	If not material to model office or projection validation.	(A/D – S/PM) compare to 0	

Modification of the requirements in section A3.3) when applied to a prior inforce or a model office is permitted if such modification facilitates validating the projection of inforce or the model office. All such modifications should be documented.

A3.2) Basic and Basic Adjusted Reserve - Application of Actuarial Guideline XXXIII

- A) The Basic Reserve for a given contract shall be determined by applying statutory statement valuation requirements applicable immediately prior to adoption of the Guideline to the contract ignoring any guaranteed death benefits in excess of account values or guaranteed living benefits applying proceeds in excess of account values.
- B) The calculation of the Basic Reserve shall assume a return on separate account assets based on the year of issue statutory valuation rate less appropriate asset based charges, including charges for any guaranteed death benefits or guaranteed living benefits. It shall also assume a return for any fixed separate account and general account options equal to the rates guaranteed under the contract.
- C) The Basic Reserve shall be no less than the Cash Surrender Value on the valuation date, as defined in Section III)B) of the Guideline.
- D) The Basic Adjusted Reserve shall be that determined based on A3.2)A) and A3.2)B) except in A3.2)A) free partial withdrawal provisions shall be disregarded when determining surrender charges in applying the statutory statement valuation requirement prior to adoption of the Guideline. Section A3.2)C) shall not apply to the Basic Adjusted Reserve.

A3.3) Standard Scenario Reserve - Application of the Standard Scenario Method

- A) General. Where not inconsistent with the guidance given here, the process and methods used to determine the Standard Scenario Reserve under the Standard Scenario Method shall be the same as required in the calculation of the Conditional Tail Expectation Amount as described in Section IV) of the Guideline. Any additional assumptions needed to determine the Standard Scenario Reserve shall be explicitly documented.
- B) Results for the Standard Scenario Method. For each contract, the Standard Scenario Reserve is the reserve based on 1) or 2) where:
- 1) For contracts without any guaranteed benefits, as defined in Section III)A) of the Guideline and where not subsequently disapproved by the Domiciliary Commissioner, the Standard Scenario Reserve is the Basic Reserve described in section A3.2)A), A3.2)B) and A3.2)C).
 - 2) For all other contracts the Standard Scenario Reserve is equal to the greater of Cash Surrender Value on the valuation date, as defined in Section III)B) of the Guideline, and the quantity a) + b) - c), where:
 - a) Is the Basic Adjusted Reserve calculated for the contract, as described in section A3.2)D);
 - b) Is the greater of zero and the greatest present value at the Discount Rate measured as of the end of each projection year of the negative of the Accumulated Net Revenue described below using the assumptions described in A3.3)C). The Accumulated Net Revenue at the end of a projection year is equal to (i) + (ii) - (iii), where:
 - (i) Is the Accumulated Net Revenue at the end of the prior projection year accumulated at the Discount Rate to the end of the current projection year; the Accumulated Net Revenue at the beginning of the projection (i.e., time 0) is zero;
 - (ii) Are the margins generated during the projection year on account values accumulated at the Discount Rate to the end of the projection year (the factors and assumptions to be used in calculating the margins and account values are in A3.3)C)); and
 - (iii) Are the contract benefits in excess of account values applied, Individual reinsurance premiums and Individual reinsurance benefits payable or receivable during the projection year accumulated at the Discount Rate to the end of the projection year. Individual reinsurance is defined in A3.3)C)2).
 - c) Is the contract's allocation of the value of hedges and Aggregate reinsurance as described in section A3.3)D). Aggregate reinsurance is defined in section A3.3)C)2).

No reinsurance shall be considered in the Standard Scenario Amount if such reinsurance does not meet the statutory requirements that would allow the treaty to be accounted for as reinsurance. The actuary shall determine the projected reinsurance premiums and benefits reflecting all treaty limitations and assuming any options in the treaty to the other party are exercised to decrease the value of reinsurance to the reporting company (e.g., options to increase premiums or terminate coverage). The positive value of any reinsurance treaty that is not guaranteed to the insurer or its successor shall be excluded from the value of reinsurance. The commissioner may require the exclusion of a reinsurance treaty or any portion of a reinsurance treaty if the terms of the

reinsurance) treaty or the portion required to be excluded serves solely to reduce the calculated Standard Scenario Reserve without also reducing risk on scenarios similar to those used to determine the Conditional Tail Expectation Reserve. Any reinsurance reflected in the Standard Scenario Reserve shall be appropriate to the business and not merely constructed to exploit ‘foreknowledge’ of the components of the Standard Scenario Method.

C) Assumptions for use in paragraph A3.3)B)2)b) for Accumulated Net Revenue and Account Values.

- 1) Account Value Return Assumptions. The bases for return assumptions on assets supporting the Account Value are shown in Table I. The “Initial” returns shall be applied to the account value supported by each asset class on the valuation date as immediate drops, resulting in the Account Value at time 0. The “Year 1,” “Years 2 – 5,” and “Year 6+” returns for the equity, bond and balanced classes are gross annual effective rates of return and are used (along with other decrements and/or increases) to produce the Account Value as of the end of each projection interval. For purposes of this section, money market funds supporting Account Value shall be considered part of the Bond class.

The Fixed Fund rate is the greater of the minimum rate guaranteed in the contract or 4% but not greater than the current rates being credited to Fixed Funds on the valuation date.

Account Values shall be projected using the appropriate gross rates from Table I for equity, bond and balanced classes applied to the supporting assets less all fund and contract charges according to the provisions of the funds and contract and applying the Fixed funds rate from Table I as if it were the resulting net rate after deduction for fund or contract charges.

The annual margins on Account Value are defined as follows:

- a) During the Surrender Charge Amortization Period, as determined following the step outlined in section A3.3)E) below:
- (i) 0.20% of Account Value; plus
 - (ii) Any Net Revenue Sharing Income, as defined in section A1.1)E), that is contractually guaranteed to the insurer and its liquidator, receiver, and statutory successor; plus
 - (iii) For all of the guaranteed living benefits of a given contract combined,¹⁴ the greater of:
 - 0.20% of Account Value; or
 - Explicit and optional contract charges for guaranteed living benefits; plus
 - (iv) For all guaranteed death benefits of a given contract combined,¹⁵ the greater of:
 - 0.20% of Account Value; or
 - Explicit and optional contract charges for guaranteed death benefits.
- b) After the Surrender Charge Amortization Period:

¹⁴ This excludes any guaranteed living benefit that is added to the contract simply for the purpose of increasing the revenue allowed under this section.

¹⁵ This excludes any guaranteed death benefit that is added to the contract simply for the purpose of increasing the revenue allowed under this section.

The amount determined in a) above; plus 50% of the excess, if any, of all contract charges (excluding Net Revenue Sharing Income) over the sum of a)(i) , a)(iii) and a)(iv) above.

However, on fixed funds after the surrender charge period, a margin of up to the amount in a) above plus .4% may be used.

Table I

	Initial	Year 1	Years 2 – 5	Year 6+
Equity Class	-13.5%	0%	4.0%	5.50%
Bond Class	0%	0%	4.85%	4.85%
Balanced Class	-8.1%	0%	4.34%	5.24%
Fixed Separate Accounts and General Account (net)	0%	Fixed Fund Rate	Fixed Fund Rate	Fixed Fund Rate

- 2) Reinsurance Credit. Individual reinsurance is defined as reinsurance where the total premiums for and benefits of the reinsurance can be determined by applying the terms of the reinsurance to each contract covered without reference to the premiums or benefits of any other contract covered and summing the results over all contracts covered. Reinsurance that is not Individual is Aggregate.

Individual reinsurance premiums projected to be payable on ceded risk and receivable on assumed risk shall be included in the Projected Net Revenue. Similarly, Individual reinsurance benefits projected to be receivable on ceded risk and payable on assumed risk shall be included in the Projected Net Revenue. No Aggregate reinsurance shall be included in Projected Net Revenue.

- 3) Lapses, Partial Withdrawals, and In-The-Moneyiness. Partial withdrawals elected as guaranteed living benefits, see A3.3)C)7), or required contractually (e.g., a contract operating under an automatic withdrawal provision on the valuation date) are to be deducted from the Account Value in each projection interval consistent with the projection frequency used, as described in A3.3)C)6), and according to the terms of the contract. No other partial withdrawals, including free partial withdrawals, are to be deducted from Account Value. All lapse rates should be applied as full contract surrenders.

For purposes of determining the dynamic lapse assumptions shown in Table II below, a guaranteed living benefit is in the money (ITM) for any projection interval if the Account Value at the beginning of the projection interval is less than the Current Value of the guaranteed living benefit (as defined below) also at the beginning of that projection interval.

The Current Value of the guaranteed living benefit at the beginning of any projection interval is either the amount of the current lump sum payment (if exercisable) or the present value of future lump sum or income payments. More specific guidance is provided below. For the purpose of determining the present value, the discount rate shall be equal *DR* as defined in A3.1)B)2). If future living benefit payments are life contingent (i.e., either the right of future exercise or the right to future income benefits expires with

the death of the annuitant or the owner), then the company shall determine the present value of such payments using the mortality table specified in A3.3)C)5).

If a guaranteed living benefit is exercisable (withdrawal can start or, in the case of a GMWB, has begun) at the beginning of the projection interval, then the Current Value of the guaranteed living benefit shall be determined assuming immediate or continued exercise of that benefit.

If a guaranteed living benefit is not exercisable (e.g., due to minimum age or duration requirements) at the beginning of that projection interval, then the Current Value of the guaranteed living benefit shall be determined assuming exercise of the guaranteed living benefit at the earliest possible future projection interval. If the right to exercise the guaranteed living benefit is contingent on the survival of the annuitant or the owner, then the Current Value of the guaranteed living benefit shall assume survival to the date of exercise using the mortality table specified in A3.3)C)5).

Determination of the Current Value of a guaranteed living benefit that is exercisable or payable at a future projection interval shall take account of any guaranteed growth in the basis for the guarantee (e.g., where the basis grows according to an index or an interest rate).

For a GMWB, the Current Value shall be determined assuming the earliest penalty-free withdrawal of guaranteed benefits after withdrawals begin and by applying the constraints of any applicable maximum or minimum withdrawal provisions. If the GMWB is currently exercisable and the right to future GMWB payments is contingent upon the survival of the annuitant or owner, then the Current Value shall assume survival using the mortality table specified in A3.3)C)5). After a GMWB that has payments that are contingent upon the survival of the annuitant or owner has commenced, then the Current Value shall assume survival using the Annuity 2000 Mortality Table.

For an unexercised GMIB, the Current Value shall be determined assuming the option with a reserve closest to the reserve for a 10 year certain and life option. The reserve values and the value of the GMIB on the assumed date of exercise shall be determined using the discount rate *DR* specified in A3.1)B)2) and for life contingent payments, the Annuity 2000 Mortality Table. The Current Value of an unexercised GMIB, however, shall be set equal to the Account Value if the contractholder can receive higher income payments on the assumed date of exercise by electing the same option under the normal settlement option provisions of the contract.

For the purpose of applying the lapse assumptions specified in Table II below or contractholder elections rates specified in A3.3)C)7), the contract shall be considered “out of the money” (OTM) for a projection interval if the Current Value of the guaranteed living benefit at the beginning of the projection interval is less than or equal to the Account Value at the beginning of the same projection interval. If the Current Value of the guaranteed living benefit at the beginning of the projection interval is greater than the Account Value also at the beginning of the projection interval, the contract shall be considered ‘in the money’ (ITM) and the percent ITM shall equal:

$$100 * ((\text{Current Value of the guaranteed living benefit} / \text{Account Value}) - 1)$$

If a contract has multiple living benefit guarantees then the guarantee having the largest Current Value shall be used to determine the percent in the money.

Table II - Lapse Assumptions

	During Surrender Charge Period	After Surrender Charge Period		
Death Benefit Only Contracts	5%	10%		
All Guaranteed Living Benefits OTM	5%	10%		
		ITM < 10%	10% ≤ ITM < 20%	20% ≤ ITM
Any Guaranteed Minimum Accumulation Benefit ITM	2%	2%	0%	0%
Any Other Guaranteed Living Benefits ITM	3%	7%	5%	2%

- 4) Account Transfers and Future Deposits. No transfers between funds shall be assumed in the projection used to determine the greatest present value amount required under section A3.3)B)2)b) unless required by the contract (e.g., transfers from a dollar cost averaging fund or contractual rights given to the insurer to implement a contractually specified portfolio insurance management strategy or a contract operating under an automatic re-balancing option). When transfers must be modeled, to the extent not inconsistent with contract language, the allocation of transfers to funds must be in proportion to the contract's current allocation to funds.

Margins generated during a projection interval on funds supporting account value are transferred to the Accumulation of Net Revenue and are subsequently accumulated at the Discount Rate. Assets for each class supporting account values are to be reduced in proportion to the amount held in each asset classes at the time of transfer of margins or any portion of Account Value applied to the payment of benefits.

No future deposits to Account Value shall be assumed unless required by the terms of the contract to prevent contract or guaranteed benefit lapse, in which case they must be modeled. When future deposits must be modeled, to the extent not inconsistent with contract language, the allocation of the deposit to funds must be in proportion to the contract's current allocation to such funds.

- 5) Mortality. Mortality at 70% of the 1994 Variable Annuity MGDB Mortality Tables (1994 MGDB tables) through age 85 increasing by 1% each year to 100% of the 1994 MGDB tables at age 115 shall be assumed in the projection used to determine the greatest present value amount required under section A3.3)B)2)b).
- 6) Projection Frequency. The projection used to determine the greatest present value amount required under section A3.3)B)2)b) shall be calculated using an annual or more frequent time step, such as quarterly. For time steps more frequent than annual, assets supporting Account Values at the start of a year may be retained in such funds until year-end (i.e., margin earned during the year will earn the fund rates instead of the Discount Rate until year end) or removed after each time step. However, the same approach shall be applied for all years. Similarly, projected benefits, lapses, elections and other contractholder activity can be assumed to occur annually or at the end of each time step, but the approach shall be consistent for all years.

- 7) Contractholder Election Rates. Contractholder election rates for exercisable ITM guaranteed living benefits other than GMWBs shall be 5% per annum in every projection interval where the living benefit is less than 10% ITM, 15% per annum in every projection interval where the living benefit is 10% or more ITM and less than 20% ITM, and 25% per annum in every projection interval where the living benefit is more than 20% ITM. In addition, the election rate for an exercisable ITM guaranteed living benefit shall be 100% at the last model duration to elect such benefit. This 100% election rate shall be used when a Guaranteed Minimum Accumulation Benefit is at the earliest date that the benefit is exercisable and in-the-money. However, the contractholder election rate for any exercisable ITM guaranteed living benefit shall be zero if exercise would cause the extinction of a guaranteed living benefit having a larger Current Value. For this purpose, GMDBs are not benefits subject to election.

For guaranteed minimum withdrawal benefits, a partial withdrawal, if allowed by contract provisions, equal to the applicable percentage in Table III applied to the contract's maximum allowable partial withdrawal shall be assumed. However, if the contract's minimum allowable partial withdrawal exceeds the partial withdrawal from applying the rate in Table III to the contract's maximum allowable partial withdrawal, then the contract's minimum allowable partial withdrawal shall be assumed.

Table III - Guaranteed Withdrawal Assumptions			
	Attained Age less than 50	Attained Age 50 to 59	Attained Age 60 or Greater
Withdrawals do not reduce other elective Guarantees that are in the money	50%	75%	100%
Withdrawals reduce elective Guarantees that are in the money	25%	50%	75%

- 8) Indices. If an interest index is required to determine projected benefits or reinsurance obligations, the index must assume interest rates have not changed since the last reported rates before the valuation date. If an equity index is required the index shall be consistent with the last reported index before the valuation date, the initial drop in equity returns and the subsequent equity returns in the standard scenario projection. The sources of information and how they are used to determine the indexes shall be documented and, to the extent possible, consistent from year to year.
- D) Assumptions for use in Section A3.3)B)2)c).

- 1) The Value of Aggregate Reinsurance. The value of Aggregate reinsurance shall be calculated separately from the Accumulated Net Revenue. The value of Aggregate reinsurance is the discounted value, using the statutory valuation rate described in the following paragraph, of the excess of (a) the projected benefit payments from the reinsurance; over (b) the projected gross reinsurance premiums, where (a) and (b) are determined under the assumptions described in section A3.3)C) for all applicable contracts in aggregate.

In order for the value of the Aggregate reinsurance to be consistent with the underlying Standard Scenario reserve, the discount rate shall be a weighted average of the valuation

rates (*DR*) of the contracts that are supported by the Aggregate reinsurance treaty. The weights used to determine this discount rate shall be reasonably related to the risks that are being covered by the Aggregate reinsurance (e.g., account value or values of guaranteed benefits) and shall be applied consistently from year to year. If an appropriate method to determine this discount rate does not exist, the value of the Aggregate reinsurance shall be determined using the statutory valuation rate in effect on the valuation date for annuities valued on an issue year basis using Plan Type A and a Guarantee Duration greater than 10 years but not more than 20 years, determined assuming there are cash settlement options but no interest guarantees on future premiums.

- 2) The Value of Approved Hedges. The value of approved hedges shall be calculated separately from the Accumulated Net Revenue. The value of approved hedges is the difference between: a) the discounted value at the 1-year CMT¹⁶ as of the valuation date of the pre-tax cash flows from the approved hedges; less b) their statement values on the valuation date.

To be an approved hedge for purposes of the Standard Scenario Reserve, a derivative or other investment has to be an actual asset held by the company on the valuation date, be used as a hedge supporting the contracts falling under the scope of the Guideline, and comply with any statutes, laws, or regulations (including applicable documentation requirements) of the domiciliary state or jurisdiction related to the use of derivative instruments.

The Domiciliary Commissioner may require the exclusion of any portion of the value of approved hedges upon a finding that the company's documentation, controls, measurement, execution of strategy or historical results are not adequate to support a future expectation of risk reduction commensurate with the value of approved hedges.

The cash flow projection for approved hedges that expire in less than one year from the valuation date should be based on holding the hedges to their expiration. For hedges with an expiration of more than 1 year, the value of hedges should be based on liquidation of the hedges one year from the valuation date. Where applicable, the liquidation value of hedges shall be consistent with the assumed returns in the Standard Scenario from the start of the projection to the date of liquidation, Black-Scholes pricing, a risk free rate equal to the 5-year CMT as of the valuation date and the annual volatility implicit as of the valuation date in the statement value of the hedges when the statement value of hedges are valued with Black-Scholes pricing and a risk-free rate equal to the 5-year CMT as of the valuation date.¹⁷

There is no credit in the Standard Scenario for dynamic hedging beyond the credit that results from hedges actually held on the valuation date.

- 3) Allocation of the Value of Hedges and the Value of Aggregate Reinsurance. The value of approved hedges and Aggregate reinsurance shall be allocated to the contracts which are

¹⁶ For purposes of this Appendix, the term CMT refers to the nominal yields on actively traded non-inflation-indexed issues adjusted to constant maturities, as released daily by the Federal Reserve Board. As of this writing, the current and historical one-year rates may be found at <http://www.federalreserve.gov/datadownload/Build.aspx?rel=H15> and the current and historical five-year rates may be found at http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y5.txt.

¹⁷ Conceptually, the item being hedged, the contract guarantees, and the approved hedges are accounted for at the average present value of the worst 30% of all scenarios, the tail scenarios for a CTE (70) measure. However, the statement value of approved hedges is at market. Therefore, the standard scenario value of approved hedges is a proxy of the adjustment needed to move approved hedges from a market value to a tail value.

supported by the applicable Aggregate reinsurance agreements and approved hedges. A contract's allocation shall be the lesser of the amount in A3.3)B)2)b) for the contract or the product of a) and b) where:

- a) Is the sum of the value of the applicable approved hedges plus the value of the applicable Aggregate reinsurance for all contracts supported by the same hedges and/or the Aggregate reinsurance agreement; and
- b) Is the ratio of the amount in A3.3)B)2)b) for the contract to the sum of the amount in A3.3)B)2)b) for all contracts supported by the same hedges and/or the Aggregate reinsurance agreement.

4) Retention of components. For the seriatim Standard Scenario Reserve on the statement date under each of Sections A3.1)B)1) and A3.1)B)2), the actuary should have available to the Commissioner the following values for each contract:

- a) The Standard Scenario Reserve prior to adjustment under paragraph A3.3)D)3)
- b) The Standard Scenario Reserve net of the adjustment in A3.3)D)3).

E) Determination of the Surrender Charge Amortization Period to be used in section A3.3)C)1)a) and b).

The purpose of the Surrender Charge Amortization Period is to help determine how much of the surrender charge is amortized in the Basic Adjusted Reserve portion of the Standard Scenario Amount and how much needs to be amortized in the Accumulated Net Revenue portion. Once determined, the Surrender Charge Amortization Period determines the duration over which the lower level of margins, as described in A3.3)C)1)a), is used. After that duration, the higher level of margins, as described in A3.3)C)1)b), is used.

A separate Surrender Charge Amortization Period is determined for each contract and is based on amounts determined in the calculation of the Basic Adjusted Reserve for that contract. A key component of the calculation is the amount of the surrender charge that is not amortized in the Basic Adjusted Reserve calculation for that contract. This is represented by the difference between the account value and the cash surrender value projected within the Basic Adjusted Reserve calculation for the contract.

The Surrender Charge Amortization Period for a given contract is determined by following the steps:

- 1) Measure the duration of the greatest present value used in the Basic Adjusted Reserve. The Basic Adjusted Reserve is determined for a contract by taking the greatest present value of a stream of projected benefits. The benefit stream that determines the greatest present value typically includes an "ultimate" event (e.g., 100% surrender, 100% annuitization, or maturity). The "BAR Duration" is the length of time between the valuation date and the projected "ultimate" event.
- 2) Determine the amount of the surrender charge not amortized in the Basic Adjusted Reserve. The surrender charge not amortized in the Basic Adjusted Reserve is the difference between the projected account value and the projected cash surrender value at the BAR Duration (i.e., at the time of that projected "ultimate" event). This value for a given contract shall not be less than zero.
- 3) Determine the Surrender Charge Amortization Period before rounding. This equals a) time b) plus c), where:

- a) Equals the ratio of the amount determined in step 2 to the Account Value on the valuation date;
 - b) Equals 100; and
 - c) Equals the BAR Duration determined in step 1.
- 4) Determine the Surrender Charge Amortization Period for the contract. This is the amount determined in step 3, rounded to the nearest number that represents a projection duration, taking into account the projection frequency described in A3.3)C)6). For example, step 3 produces a value of 2.15 and the projection frequency is quarterly, the Surrender Charge Amortization Period for the contract is 2.25.

Not for Distribution

APPENDIX 4 - Alternative Methodology

A4.1) General Methodology

- A) General Methodology Description. For variable deferred annuity contracts that either contain no guaranteed benefits or only GMDBs¹⁸ (i.e., no VAGLBs), the Conditional Tail Expectation Amount may be determined by using the method outlined below rather than by using the approach described in Section IV)D) (i.e., based on projections), provided the approach described in Section IV)D) has not been used in prior valuations or else approval has been obtained from the Domiciliary Commissioner.

The Conditional Tail Expectation Amount determined using the Alternative Methodology for a group of contracts with GMDBs shall be determined as the sum of amounts obtained by applying factors to each contract in force as of a valuation date and adding this to the contract's Cash Surrender Value.¹⁹ The resulting Conditional Tail Expectation Amount shall not be less than the Cash Surrender Value in aggregate for the group of contracts to which the Alternative Methodology is applied.

The Conditional Tail Expectation Amount determined using the Alternative Methodology for a group of contracts that contain no guaranteed benefits²⁰ shall be determined using an application of Actuarial Guideline XXXIII, as described below.

For purposes of performing the Alternative Methodology, materially similar contracts within the group may be combined together into subgroups to facilitate application of the factors. Specifically, all contracts comprising a "subgroup" must display substantially similar characteristics for those attributes expected to affect reserves (e.g., definition of guaranteed benefits, attained age, contract duration, years-to-maturity, market-to-guaranteed value, asset mix, etc.). Grouping shall be the responsibility of the actuary but may not be done in a manner that intentionally understates the resulting reserve.

- B) Definitions of Terms Used in this Appendix.

- 1) Annualized Account Charge Differential. This term is the charge as percentage account value (revenue for the company) minus the expense as percentage of account value.
- 2) Asset Exposure. Asset Exposure refers to the greatest possible loss to the insurance company from the value of assets underlying general or separate account contracts falling to zero.
- 3) Benchmark. Benchmarks have similar risk characteristics to the entity (e.g., asset class, index, or fund) to be modeled.
- 4) Deterministic Calculations. In a Deterministic Calculation, a given event (e.g., asset returns going up by 7% then down by 5%) is assumed to occur with certainty. In a stochastic calculation, events are assigned probabilities.

¹⁸ This includes "earnings enhanced death benefits," as discussed in Section III(A)1).

¹⁹ The amount that is added to a contract's Cash Surrender Value may be negative, zero or positive, thus resulting in a reserve for a given contract that could be less than, equal to, or greater than, the Cash Surrender Value.

²⁰ The term "contracts that contain no guaranteed benefits" means that there are no guaranteed benefits at any time during the life of the contract (past, present or future).

- 5) Foreign Securities. Securities issued by entities outside the United States and Canada.
- 6) Grouped Fund Holdings. Grouped Fund Holdings relate to guarantees that apply across multiple deposits or for an entire contract instead of on a deposit-by-deposit basis.
- 7) Guaranteed Value. The Guaranteed Value is the benefit base or a substitute for the account value (if greater than the account value) in the calculation of living benefits or death benefits. The methodology for setting the Guaranteed Value is defined in the variable annuity contract.
- 8) High-Yield Bonds. High-Yield Bonds are below investment grade, with NAIC designations (if assigned) of 3, 4, 5, or 6. Compared to investment grade bonds, these bonds have higher risk of loss due to credit events. Funds containing securities predominately containing securities that are not NAIC designated as 1 or 2 (or similar agency ratings) are considered to be High-Yield.
- 9) Investment Grade Fixed Income Securities. Securities with NAIC designations of 1 or 2 are Investment Grade. Funds containing securities predominately with NAIC designations of 1 or 2 or with similar agency ratings are considered to be Investment Grade.
- 10) Liquid Securities. These securities can be sold and converted into cash at a price close to its true value in a short period of time.
- 11) Margin Offset. Margin Offset is the portion of charges plus any Revenue Sharing allowed under section A1.1)E) available to fund claims and amortization of the unamortized surrender charges allowance.
- 12) Multi-Point Linear Interpolation. This methodology is documented in mathematical literature and calculates factors based on multiple attributes categorized with discrete values where the attributes' actual values may be between the discrete values.
- 13) Model Office. A Model Office converts many contracts with similar features into one contract with specific features for modeling purposes.
- 14) Pre-Packaged Scenarios. The Pre-Packaged Scenarios are the year-by-year asset returns that may be used (but are not mandated) in projections related to the alternative methodology. These scenarios are available on an American Academy of Actuaries website.
- 15) Quota-Share Reinsurance. In this type of reinsurance treaty, the same proportion is ceded on all cessions. The reinsurer assumes a set percentage of risk for the same percentage of the premium, minus an allowance for the ceding company's expenses.
- 16) Resets. A Reset benefit results in a future minimum guaranteed benefit being set equal to the contract's account value at previous set date(s) after contract inception.
- 17) Risk Mitigation Strategy. A Risk Mitigation Strategy is a device to reduce the probability and/or impact of a risk below an acceptable threshold.
- 18) Risk Profile. Risk Profile in the Guideline relates to the prescribed asset class categorized by the volatility of returns associated with that class.

- 19) Risk Transfer Arrangements. A Risk Transfer Arrangement shifts risk exposures (e.g., the responsibility to pay at least a portion of future contingent claims) away from the original insurer.
 - 20) Roll-Up. A Roll-Up benefit results in the guaranteed value associated with a minimum contractual guarantee increasing at a contractually defined interest rate.
 - 21) Volatility. Volatility refers to the annualized standard deviation of asset returns.
- C) Contract-by-Contract Application for Contracts that Contain No Guaranteed Living or Death Benefits. The Alternative Methodology reserve for each contract that contains no guaranteed living or death benefits shall be determined by applying Actuarial Guideline XXXIII. The application shall assume a return on separate account assets equal to the year of issue valuation interest rate less appropriate asset based charges. It shall also assume a return for any fixed separate account and general account options equal to the rates guaranteed under the contract.
- The reserve for such contracts shall be no less than the Cash Surrender Value on the valuation date, as defined in Section III)B).
- D) Contract-by-Contract Application for Contracts that Contain GMDBs only. For each contract, factors are used to determine a dollar amount, equal to $R \times (CA + FE) + GC$ (as described below), that is to be added to that contract's Cash Surrender Value as of the valuation date. The dollar amount to be added for any given contract may be negative, zero, or positive. The factors that are applied to each contract shall reflect the following attributes as of the valuation date:
- 1) The contractual features of the variable annuity product,
 - 2) The actual issue age, period since issue, attained age, years-to-maturity, and gender applicable to the contract,
 - 3) The account value and composition by type of underlying variable or fixed fund,
 - 4) Any surrender charges,
 - 5) The GMDB and the type of adjustment made to the GMDB for partial withdrawals (e.g., proportional or dollar-for-dollar adjustment), and
 - 6) Expenses to be incurred and revenues to be received by the company as estimated on a Prudent Estimate basis as described in Section III)B)8) and complying with the requirements for Revenue Sharing as described in section A1.1)E).
- E) Factor Components. Factors shall be applied to determine each of the following components.²¹
- CA = Provision for amortization of the unamortized surrender charges calculated by the insurer based on each contract's surrender charge schedule, using prescribed assumptions, except that lapse rates shall be based on the insurer's Prudent Estimate, but with no provision for Federal Income Taxes or mortality;

²¹ Material to assist in the calculation of the components is available on the American Academy of Actuaries' website, at <https://www.actuary.org/content/c3-phase-ii-rbc-and-reserves-project>.

- FE* = Provision for fixed dollar expenses less fixed dollar revenue calculated using prescribed assumptions, the contract's actual expense charges, the insurer's anticipated actual expenses and lapse rates, both estimated on a Prudent Estimate basis, and with no provision for Federal Income Taxes or mortality;
- GC* = Provision for the costs of providing the GMDB less net available spread-based charges determined by the formula $F \times GV - G \times AV \times R$, where *GV* and *AV* are as defined in section A4.3)A);
- R* = A scaling factor that is a linear function of the ratio of the margin offset to Total Account Charges (*W*) and takes the form $R(\beta_0, \beta_1) = \beta_0 + \beta_1 \times W$. The intercept and slope factors for this linear function vary according to:
- a) Product type,
 - b) Pro-rata or dollar-for-dollar reductions in guaranteed value following partial withdrawals,
 - c) Fund class,
 - d) Attained age,
 - e) Contract duration,
 - f) Asset-based charges, and
 - g) 90% of the ratio of account value to guaranteed value, determined in the aggregate for all contracts sharing the same product characteristics.

Tables of factors for *F*, *G*, β_0 , and β_1 values, reflecting a 65% confidence level and ignoring Federal Income Tax, are available from the National Association of Insurance Commissioners. In calculating $R(\beta_0, \beta_1)$ directly from the linear function provided above, the margin ratio *W* must be constrained to values greater than or equal to 0.2 and less than or equal to 0.6.

Interpolated values of *F*, *G* and *R* (calculated using the linear function described above) for all contracts having the same product characteristics and asset class shall be derived from the pre-calculated values using multi-point linear interpolation over the following four contract-level attributes:

- 1) Attained age,
- 2) Contract duration,
- 3) Ratio of account value to GMDB, and
- 4) The total of all asset based charges, including any fund management fees or allowances based on the underlying variable annuity funds received by the insurer.

The gross asset-based charges for a product shall equal the sum of all contractual asset-based charges plus fund management fees or allowances based on the underlying variable annuity funds received by the insurer determined by complying with the requirements for Prudent Estimate described in Section III)B)8) and Revenue Sharing described in section A1.1)E). Net asset-based charges equal gross asset-based charges less any company expenses assumed to be incurred expressed as a percentage of account value. All expenses that would be assumed if the Conditional Tail Expectation Amount were being computed as described in section A1.1)A) should be reflected either in the calculation of the net asset based charges or in the expenses reflected in the calculation of the amount *FE*.

No adjustment is made for Federal Income Taxes in any of the components listed above.

For purposes of determining the Conditional Tail Expectation Amount using the Alternative Methodology, any interpretation and application of the requirements of the Guideline shall follow the principles discussed in the Section I) Background.

A4.2) Calculation of *CA* and *FE*

- A) General Description. Components *CA* and *FE* shall be calculated for each contract, thus reflecting the actual account value and GMDB, as of the valuation date, which is unique to each contract.

Components *CA* and *FE* are defined by deterministic “single-scenario” calculations that account for asset growth, interest and inflation at prescribed rates. Mortality is ignored for these two components. Lapse rates shall be determined on a Prudent Estimate basis as described in Section III)B)8). Lapse rates shall be adjusted by the formula shown below (the Dynamic Lapse Multiplier, λ), which bases the relationship of the GMDB (denoted as *GV* in the formula) to the account value (denoted as *AV* in the formula) on the valuation date. Thus, projected lapse rates are smaller when the GMDB is greater than the account value and larger when the GMDB is less than the account value.

$$\lambda = \text{MIN} \left[U, \text{MAX} \left[L, 1 - M \times \left(\frac{GV}{AV} - D \right) \right] \right],$$

where $U=1$, $L=0.5$, $M=1.25$, and $D=1.1$.

Present values shall be computed over the period from the valuation date to contract maturity at a discount rate of 5.75%.

Projected fund performance underlying the account values is as shown in the table below. Unlike the *GC* component, which requires the entire account value to be mapped, using the Fund Categorization Rules set forth in section A4.4, to a single “equivalent” asset class (as described in A4.4C)), the *CA* and *FE* calculation separately projects each variable subaccount (as mapped to the 8 prescribed categories shown in section A4.4)) using the net asset returns shown in the following table. If surrender charges are based wholly on deposits or premiums as opposed to account value, use of this table may not be necessary.

Asset Class / Fund	Net Annualized Return
Fixed Account	Guaranteed Rate
Money Market	0%
Fixed Income (Bond)	0%
Balanced	–1%
Diversified Equity	–2%
Diversified International Equity	–3%
Intermediate Risk Equity	–5%
Aggressive or Exotic Equity	–8%

- B) Component CA. Component *CA* is computed as the present value of the projected change in surrender charges plus the present value of an implied borrowing cost of 25 basis points at the beginning of each future period applied to the surrender charge at such time.

This component can be interpreted as the “amount needed to amortize the unamortized surrender charge allowance for the *persisting* policies plus the implied borrowing cost.” By definition, the amortization for non-persisting lives in each time period is exactly offset by the collected surrender charge revenue (ignoring timing differences and any waiver upon death). The unamortized balance must be projected to the end of the surrender charge period using the net asset returns and Dynamic Lapse Multiplier, λ , both as described above and the year-by-year amortization discounted also as described above. For simplicity, mortality is ignored in the calculations. Surrender charges and free partial withdrawal provisions are as specified in the contract. Lapse and withdrawal rates are determined on a Prudent Estimate basis, and may vary according to the attributes of the business being valued, including, but not limited to, attained age, contract duration, etc.

- C) Component FE. Component *FE* establishes a provision for fixed dollar expenses (e.g., allocated costs, including overhead expressed as “per contract” and those expenses defined on a “per contract” basis) less any fixed dollar revenue (e.g., annual administrative charges or contract fees) through the earlier of contract maturity or 30 years. *FE* is computed as the present value of the company’s assumed fixed expenses projected at an assumed annual rate of inflation starting in the second projection year. This rate grades uniformly from the current inflation rate (“CIR”) into an ultimate inflation rate of 3% per annum in the 8th year after the valuation date. The CIR is the greater of 3% and the inflation rate assumed for expenses in the company’s most recent asset adequacy analysis for similar business.

A4.3) Calculation of the GC Component

- A) GC Factors. *GC* is calculated as $F \times GV - G \times AV \times R$, where *GV* is the amount of GMDB and *AV* is the contract account value, both as of the valuation date. *F*, *G* and the slope and intercept for the linear function used to determine *R* (identified symbolically as β_0 and β_1) are pre-calculated factors available from the National Association of Insurance Commissioners and known herein as the “Pre-Calculated Factors.” These factors shall be interpolated as described in subsection F), below, and modified as necessary as described in sections A4.3)G) and A4.3)H).
- B) Five Steps. There are five major steps in determining the *GC* component for a given contract:
- 1) Classifying the asset exposure (as specified in subparagraph C), below);
 - 2) Determining the risk attributes (as specified in subparagraphs D) and E), below);
 - 3) Retrieving the appropriate nodal factors from the factor grid (as described in subparagraph F) below;
 - 4) Interpolating the nodal factors, where applicable (optional) also as described in subparagraph F), below; and
 - 5) Applying the factors to the contract values.
- C) Classifying Asset Exposure. For purposes of calculating *GC* (unlike what is done for components *CA* and *FE*), the entire account value for each contract must be assigned to one of the eight prescribed fund classes shown in section A4.4), using the Fund Categorization rules in section A4.4).

D) Product Designs. Factors F , G and $R(\beta_1, \beta_2)$ are available within the Pre-Calculated Factors for the following GMDB product designs:

- 1) Return of Premium (“ROP”),
- 2) Premiums less withdrawals accumulated at 3% per annum, capped at 2.5 times premiums less withdrawals, with no further increase beyond age 80 (“ROLL3”),
- 3) Premiums less withdrawals accumulated at 5% per annum, capped at 2.5 times premiums less withdrawals, with no further increase beyond age 80 (“ROLL5”),
- 4) An annual ratchet design (maximum anniversary value), for which the guaranteed benefit never decreases and is increased to equal the previous contract anniversary account value, if larger, with no further increases beyond age 80 (“MAV”),
- 5) A design having a guaranteed benefit equal to the larger of the benefits in designs 3 and 4, above (“HIGH”),
- 6) An enhanced death benefit (“EDB”) equal to 40% of the net earnings on the account (i.e., 40% of account value less total premiums paid plus withdrawals made) with this latter benefit capped at 40% of premiums less withdrawals (“EDB”),

E) Other Attributes. Factors F , G and $R(\beta_1, \beta_2)$ are available within the Pre-Calculated Factors for the following set of attributes:

- 1) Two Partial Withdrawal Rules – one for contracts having a pro-rata reduction in the GMDB and another for contracts having a dollar-for-dollar reduction,
- 2) The eight asset classes described in section A4.4)B),
- 3) Eight attained ages, with a 5-year age setback for females,
- 4) Five contract durations,
- 5) Seven values of GV/AV , and
- 6) Three levels of asset-based income.

F) Interpolation of F , G and $R(\beta_1, \beta_2)$.

- 1) Values of F , G and $R(\beta_1, \beta_2)$ apply to a contract having the product characteristics listed in section A4.5)A) and shall be determined by selecting values for the appropriate partial withdrawal rule and asset class and then using multi-point linear interpolation among published values for the last four attributes shown in section A4.3)E).
- 2) Interpolation over all four dimensions is not required, but if not performed over one or more dimensions, the factor used must result in a conservative (higher) value of GC . However, simple linear interpolation using the $AV \div GV$ ratio is mandatory. In this case, the company must choose nodes for the other three dimensions according to the following rules: next highest attained age, nearest duration, and nearest Annualized

Account Charge Differential, as listed in A4.5)C) (i.e., capped at +100 and floored at – 100 bps).

- 3) For $R(\beta_1, \beta_2)$, the interpolation should be performed on the Scaling Factors R calculated using β_1 , β_2 , using the ratio of Margin Offset to Total Asset Charges (W), not on the factors β_1 and β_2 themselves.
 - 4) An Excel® workbook, Excel® add-in and companion dynamic link library (.dll) program is available from the National Association of Insurance Commissioners that can be used to determine the correct values and perform the multi-point linear interpolation.
 - 5) Alternatively, published documentation can be referenced on performing multi-point linear interpolation and the required sixteen values determined using a key that is documented in the table “*Components of Key Used for GC Factor Look-Up*” located in section A4.5)C).
- G) Adjustments to GC for Product Variations & Risk Mitigation/Transfer. In some cases, it may be necessary to make adjustments to the published factors due to:
- 1) A variation in product form wherein the definition of the guaranteed benefit is materially different from those for which factors are available (see section A4.3)H)); and/or
 - 2) A risk mitigation or other management strategy, other than a hedging strategy, that cannot be accommodated through a straightforward and direct adjustment to the published values.

Adjustments may not be made to GC for hedging strategies.

Any adjustments to the published factors must be fully documented and supported through stochastic analysis. Such analysis may require stochastic simulations, but would not ordinarily be based on full inforce projections. Instead, a representative “model office” should be sufficient. Use of these adjusted factors must be supported by a periodic review of the appropriateness of the assumptions and methods used to perform the adjustments, with changes made to the adjustments when deemed necessary by such review.

Note that minor variations in product design do not necessarily require additional effort. In some cases, it may be reasonable to use the factors/formulas for a different product form (e.g., for a roll-up GMDB near or beyond the maximum reset age or amount, the ROP GMDB factors/formulas shall be used, possibly adjusting the guaranteed value to reflect further resets, if any). In other cases, the reserves may be based on two different guarantee definitions and the results interpolated to obtain an appropriate value for the given contract/cell. Likewise, it may be possible to adjust the Alternative Methodology results for certain risk transfer arrangements without significant additional work (e.g., quota-share reinsurance without caps, floors or sliding scales would normally be reflected by a simple pro-rata adjustment to the “gross” GC results).

However, if the contract design is sufficiently different from those provided and/or the risk mitigation strategy is non-linear in its impact on the Conditional Tail Expectation Amount, and there is no practical or obvious way to obtain a good result from the prescribed factors/formulas, any adjustments or approximations must be supported using stochastic modeling. Notably this modeling need not be performed on the whole portfolio, but can be undertaken on an appropriate set of representative policies.

H) Adjusting F and G for Product Design Variations. This subsection describes the typical process for adjusting F and G factors due to a variation in product design. Note that R (as determined by the slope and intercept terms in the factor table) would not be adjusted.

- 1) Select a contract design among those described in section A4.3)D) that is similar to the product being valued. Execute cash flow projections using the documented assumptions (see table of *Liability Modeling Assumptions & Product Characteristics* in section A4.5)A) and table of *Asset Based Fund Charges* in section A4.5)B)) and the pre-packaged scenarios for a set of representative cells (combinations of attained age, contract duration, asset class, AV/GMDB ratio and asset-based charges). These cells should correspond to nodes in the table of pre-calculated factors. Rank (order) the sample distribution of results for the present value of net cost.²² Determine those scenarios that comprise CTE (65).
- 2) Using the results from step 1, average the present value of cost for the CTE (65) scenarios and divide by the current guaranteed value. For the J^{th} cell, denote this value by F_J . Similarly, average the present value of margin offset revenue for the same subset of scenarios and divide by account value. For the J^{th} cell, denote this value by G_J .
- 3) Extract the corresponding pre-calculated factors. For each cell, calibrate to the published tables by defining a “model adjustment factor” (denoted by asterisk) separately for the “cost” and “margin offset” components:

$$F_J^* = \frac{f(\tilde{\theta})}{F_J} \text{ and } G_J^* = \frac{g(\tilde{\theta})}{G_J}$$
- 4) Execute “product specific” cash flow projections using the documented assumptions and pre-packaged scenarios for the same set of representative cells. Here, the company should model the actual product design. Rank (order) the sample distribution of results for the present value of net cost. Determine those scenarios that comprise CTE (65).
- 5) Using the results from step 4, average the present value of cost for the CTE (65) scenarios and divide by the current guaranteed value. For the J^{th} cell, denote this value by $\bar{F}_J$. Similarly, average the present value of margin offset revenue for the same subset of scenarios and divide by account value. For the J^{th} cell, denote this value by $\bar{G}_J$.
- 6) To calculate the Conditional Tail Expectation Amount for the specific product in question, the company should implement the Alternative Methodology as documented, but use $\bar{F}_J \times F_J^*$ in place of F and $\bar{G}_J \times G_J^*$ instead of G . The same R factors as appropriate for the product evaluated in step 1 shall be used for this step (i.e., the product used to calibrate the cash flow model).

I) Adjusting GC for Mortality Experience. The factors that have been developed for use in determining GC assume male mortality at 100% of the 1994 Variable Annuity MGDB ALB Mortality Table. Companies electing to use the Alternative Methodology that have not conducted an evaluation of their mortality experience shall use these factors. Other companies should use the procedure described below to adjust for the actuary’s Prudent Estimate of mortality. The development of Prudent Estimate mortality shall follow the requirements and guidance of

²² Present value of net cost = PV [guaranteed benefit claims in excess of account value] – PV [margin offset]. The discounting includes cash flows in all future years (i.e., to the earlier of contract maturity and the end of the horizon).

Appendix 10. Once a company uses the modified method for a block of business, the option to use the unadjusted factors is no longer available for that part of its business. In applying the factors to actual inforce business, a 5-year age setback should be used for female annuitants.

- 1) Develop a set of mortality assumptions based on Prudent Estimate. In setting these assumptions, the actuary shall be guided by the definition of Prudent Estimate and the principles discussed in Appendices 9 and 10 of the Guideline.
- 2) Calculate two sets of net single premiums (NSP) at each attained age: one valued using 100% of the 1994 Variable Annuity MGDB ALB Mortality Table (with the aforementioned 5-year age setback for females) and the other using Prudent Estimate mortality. These calculations shall assume an interest rate of 3.75% and a lapse rate of 7% per year.
- 3) The *GC* factor is multiplied by the ratio, for the specific attained age being valued, of the NSP calculated using the Prudent Estimate mortality to the NSP calculated using the 1994 Variable Annuity MGDB ALB Mortality Table (with the aforementioned 5-year age setback for females).

A4.4) Fund Categorization

- A) Criteria. The following criteria should be used to select the appropriate factors, parameters and formulas for the exposure represented by a specified guaranteed benefit. When available, the volatility of the long-term annualized total return for the fund(s) – or an appropriate benchmark – should conform to the limits presented. For this purpose, “long-term” is defined as twice the average projection period that would be applied to test the product in a stochastic model (generally, at least 30 years).

Where data for the fund or benchmark are too sparse or unreliable, the fund exposure should be moved to the next higher volatility class than otherwise indicated. In reviewing the asset classifications, care should be taken to reflect any additional volatility of returns added by the presence of currency risk, liquidity (bid-ask) effects, short selling and speculative positions.

- B) Asset Classes. Variable subaccounts must be categorized into one of the following eight (8) asset classes. For purposes of calculating *CA* or *FE*, each contract will have one or more of the following asset classes represented, whereas for component *GC*, all subaccounts will be mapped into a single asset class.
- 1) Fixed Account. This class is credited interest at guaranteed rates for a specified term or according to a ‘portfolio rate’ or ‘benchmark’ index. This class offers a minimum positive guaranteed rate that is periodically adjusted according to company policy and market conditions.
 - 2) Money Market/Short-Term. This class is invested in money market instruments with an average remaining term-to-maturity of less than 365 days.
 - 3) Fixed Income. This class is invested primarily in investment grade fixed income securities. Up to 25% of the funds within this class may be invested in diversified equities or high-yield bonds. The expected volatility of the returns for this class will be lower than the Balanced fund class.

- 4) Balanced. This class is a combination of fixed income securities with a larger equity component. The fixed income component should exceed 25% of the portfolio. Additionally, any aggressive or ‘specialized’ equity component should not exceed one-third (33.3%) of the total equities held. Should the fund violate either of these constraints, it should be categorized as an equity fund. This class usually has a long-term volatility in the range of 8% – 13%.
 - 5) Diversified Equity. This class is invested in a broad-based mix of U.S. and foreign equities. The foreign equity component (maximum 25% of total holdings) must be comprised of liquid securities in well-developed markets. Funds in this class would exhibit long-term volatility comparable to that of the S&P500. These funds should usually have a long-term volatility in the range of 13% – 18%.
 - 6) Diversified International Equity. This class is similar to the Diversified Equity class, except that the majority of fund holdings are in foreign securities. This class should usually have a long-term volatility in the range of 14% – 19%.
 - 7) Intermediate Risk Equity. This class has a mix of characteristics from both the Diversified and Aggressive Equity Classes. This class has a long-term volatility in the range of 19% – 25%.
 - 8) Aggressive or Exotic Equity. This class comprises more volatile funds where risk can arise from: underdeveloped markets, uncertain markets, high volatility of returns, narrow focus (e.g., specific market sector), etc. This class (or market benchmark) either does not have sufficient history to allow for the calculation of a long-term expected volatility, or the volatility is very high. This class would be used whenever the long-term expected annualized volatility is indeterminable or exceeds 25%.
- C) Selecting Appropriate Investment Classes. The selection of an appropriate investment type should be done at the level for which the guarantee applies. For guarantees applying on a deposit-by-deposit basis, the fund selection is straightforward. However, where the guarantee applies across deposits or for an entire contract, the approach can be more complicated. In such instances, the approach is to identify for each contract where the “grouped holdings” fit within the categories listed and to classify the associated assets on this basis.

A seriatim process is used to identify the “grouped” fund holdings, to assess the risk profile of the current fund holdings (possibly calculating the expected long-term volatility of the funds held with reference to the indicated market proxies), and to classify the entire ‘asset exposure’ into one of the specified choices. Here, ‘asset exposure’ refers to the underlying assets (separate and/or general account investment options) on which the guarantee will be determined. For example, if the guarantee applies separately for each deposit year within the contract, then the classification process would be applied separately for the exposure of each deposit year.

In summary, mapping the benefit exposure (i.e., the asset exposure that applies to the calculation of the guaranteed minimum death benefits) to one of the prescribed asset classes is a multi-step process:

- 1) Map each separate and/or general account investment option to one of the prescribed asset classes. For some funds, this mapping will be obvious, but for others it will involve a review of the fund’s investment policy, performance benchmarks, composition and expected long-term volatility.

- 2) Combine the mapped exposure to determine the expected long-term “volatility of current fund holdings.” This will require a calculation based on the expected long-term volatility for each fund and the correlations between the prescribed asset classes as given in the table “*Correlation Matrix for Prescribed Asset Classes*,” in section A4.4)D).
- 3) Evaluate the asset composition and expected volatility (as calculated in step 2) of current holdings to determine the single asset class that best represents the exposure, with due consideration to the constraints and guidelines presented earlier in this section.

In step 1, the company should use the fund’s actual experience (i.e., historical performance, inclusive of reinvestment) only as a guide in determining the expected long-term volatility. Due to limited data and changes in investment objectives, style and/or management (e.g., fund mergers, revised investment policy, different fund managers, etc.); the company may need to give more weight to the expected long-term volatility of the fund’s benchmarks. In general, the company should exercise caution and not be overly optimistic in assuming that future returns will consistently be less volatile than the underlying markets.

In step 2, the company should calculate the “volatility of current fund holdings” (for the exposure being categorized) by the following formula:

$$\sigma = \sqrt{\sum_{i=1}^n \sum_{j=1}^n w_i w_j \rho_{ij} \sigma_i \sigma_j}$$

using the volatilities and correlations in the following table where $w_i = \frac{AV_i}{\sum_k AV_k}$ is the relative value of fund i expressed as a proportion of total contract value, ρ_{ij} is the correlation between asset classes i and j and σ_i is the volatility of asset class i. An example is provided after the table.

D) Correlation Matrix for Prescribed Asset Classes.

ANNUAL VOLATILITY		FIXED ACCOUNT	MONEY MARKET	FIXED INCOME	BALANCED	DIVERSE EQUITY	INTL EQUITY	INTERM EQUITY	AGGR EQUITY
1.0%	FIXED ACCOUNT	1	0.50	0.15	0	0	0	0	0
1.5%	MONEY MARKET	0.50	1	0.20	0	0	0	0	0
5.0%	FIXED INCOME	0.15	0.20	1	0.30	0.10	0.10	0.10	0.05
10.0%	BALANCED	0	0	0.30	1	0.95	0.60	0.75	0.60
15.5%	DIVERSE EQUITY	0	0	0.10	0.95	1	0.60	0.80	0.70
17.5%	INTL EQUITY	0	0	0.10	0.60	0.60	1	0.50	0.60
21.5%	INTERM EQUITY	0	0	0.10	0.75	0.80	0.50	1	0.70
26.0%	AGGR EQUITY	0	0	0.05	0.60	0.70	0.60	0.70	1

- E) Fund Categorization Example. As an example, suppose three funds (Fixed Income, diversified U.S. Equity and Aggressive Equity) are offered to clients on a product with a contract level guarantee (i.e., across all funds held within the contract). The current fund holdings (in dollars) for five sample contracts are shown in the following table.

	1	2	3	4	5
MV Fund X (Fixed Income):	5,000	4,000	8,000	-	5,000
MV Fund Y (Diversified Equity):	9,000	7,000	2,000	6,000	-
MV Fund Z (Aggressive Equity):	1,000	4,000	-	4,000	5,000
Total Market Value:	15,000	15,000	10,000	10,000	10,000
Total Equity Market Value:	10,000	11,000	2,000	10,000	5,000
Fixed Income % (A):	33%	27%	80%	0%	50%
Fixed Income Test (A>75%):	No	No	Yes	No	No
Aggressive % of Equity (B):	10%	36%	n/a	40%	100%
Balanced Test (A>25% & B<33.3%):	Yes	No	n/a	No	No
Volatility of Current Fund Holdings:	10.9%	13.2%	5.3%	19.2%	13.4%
Fund Classification:	Balanced	Diversified*²³	Fixed Income	Intermediate	Diversified

²³ Although the volatility suggests “Balanced Fund,” the Balanced Fund criteria were not met. Therefore, this ‘exposure’ is moved “up” to Diversified Equity. For those funds classified as Diversified Equity, additional analysis would be required to assess whether they should be instead designated as “Diversified International Equity.”

As an example, the “Volatility of Current Fund Holdings” for contract #1 is calculated as $\sqrt{A+B}$ where:

$$A = \left(\frac{5}{15} \times 0.05\right)^2 + \left(\frac{9}{15} \times 0.155\right)^2 + \left(\frac{1}{15} \times 0.26\right)^2$$

$$B = 2 \cdot \left(\frac{5}{15} \cdot \frac{9}{15}\right)(0.1 \times 0.05 \times 0.155) + 2 \cdot \left(\frac{5}{15} \cdot \frac{1}{15}\right)(0.05 \times 0.05 \times 0.26) + 2 \cdot \left(\frac{9}{15} \cdot \frac{1}{15}\right)(0.7 \times 0.155 \times 0.26)$$

So the volatility for contract #1 = $\sqrt{0.0092 + 0.0026} = 0.109$ or 10.9%.

A4.5) Tables

A) Liability Modeling Assumptions & Product Characteristics used for GC Factors.

Asset Based Charges (MER)	Vary by fund class. See section A4.5)B).
Base Margin Offset	100 basis points per annum.
GMDB Description	1. ROP = return of premium ROP. 2. ROLL3 = 3% roll-up, capped at $2.5 \times$ premium, frozen at age 80. 3. ROLL5 = 5% roll-up, capped at $2.5 \times$ premium, frozen at age 80. 4. MAV = annual ratchet (maximum anniversary value), frozen at age 80. 5. HIGH = Higher of 5% roll-up and annual ratchet. 6. EDB = 40% Enhanced Death Benefit (capped at 40% of deposit). Note that the Pre-Calculated Factors were originally calculated with a combined ROP benefit, but they have been adjusted to remove the effect of the ROP. Thus, the factors for this benefit 5 are solely for the Enhanced Death Benefit.
Adjustment to GMDB Upon Partial Withdrawal	Separate factors for “Pro-Rata by Market Value” and “Dollar-for-Dollar.”
Surrender Charges	Ignored (i.e., zero). Included in the <i>CA</i> component.
Single Premium / Deposit	\$100,000. No future deposits; no intra-contract fund rebalancing.
Base Contract Lapse Rate (Total Surrenders)	• Pro-rata by MV: 10% p.a. at all contract durations (before dynamics) • Dollar-for-dollar: 2% p.a. at all contract durations (no dynamics)
Partial Withdrawals	• Pro-rata by MV: None (i.e., zero) • Dollar-for-dollar: Flat 8% p.a. at all contract durations (as a % of AV). No dynamics or anti-selective behavior.
Mortality	100% of the 1994 Variable Annuity MGDB Mortality Table (MGDB 94 ALB). For reference, $1000 \times q_x$ rates at ages 65 and 70 for 100% of MGDB 94 ALB Male are 18.191 and 29.363 respectively. Note that section A4.3)I) allows modification to this assumption.
Gender /Age Distribution	100% male. Methodology accommodates different attained ages. A 5-year age setback will be used for female annuitants.
Max. Annuitization Age	All policies terminate at age 95.
Fixed Expenses	Ignored (i.e., zero). Included in the <i>FE</i> component.

Annual Fee and Waiver	Ignored (i.e., zero). Included in the <i>FE</i> component.
Discount Rate	5.75% pre-tax.
Dynamic Lapse Multiplier (Applies only to policies where GMDB is adjusted “pro-rata by MV” upon withdrawal)	$\lambda = \text{MIN} \left[U, \text{MAX} \left[L, 1 - M \times \left(\frac{GV}{AV} - D \right) \right] \right]$ $U=1, L=0.5, M=1.25, D=1.1$ - Applied to the ‘Base Contract Lapse Rate’ - Does not apply to partial withdrawals.

B) Asset-Based Fund Charges (bps per annum).

Asset Class / Fund	Account Value Charge
Fixed Account	0
Money Market	110
Fixed Income (Bond)	200
Balanced	250
Diversified Equity	250
Diversified International Equity	250
Intermediate Risk Equity	265
Aggressive or Exotic Equity	275

C) Components of Key Used for GC Factor Look-Up.

(First Digit Always “1”)

Contract Attribute	Key : Possible Values & Description	
Product Definition, P	0 : 0	Return-of-premium.
	1 : 1	Roll-up (3% per annum).
	2 : 2	Roll-up (5% per annum).
	3 : 3	Maximum Anniversary Value (MAV).
	4 : 4	High of MAV and 5% Roll-up.
	5 : 5	Enhanced Death Benefit (excludes the ROP GMDB, which would have to be added separately if the contract in question has an ROP benefit.)
GV Adjustment Upon Partial Withdrawal, A	0 : 0	Pro-rata by market value.
	1 : 1	Dollar-for-dollar.
Fund Class, F	0 : 0	Fixed Account.
	1 : 1	Money Market.
	2 : 2	Fixed Income (Bond).
	3 : 3	Balanced Asset Allocation.
	4 : 4	Diversified Equity.
	5 : 5	International Equity.
	6 : 6	Intermediate Risk Equity.
	7 : 7	Aggressive / Exotic Equity.

Attained Age (Last Birthday), X	0 : 35 1 : 45 2 : 55 3 : 60	4 : 65 5 : 70 6 : 75 7 : 80
Contract Duration (years-since-issue), D	0 : 0.5 2 : 6.5 4 : 12.5	1 : 3.5 3 : 9.5
Account Value-to-Guaranteed Value Ratio, ϕ	0 : 0.25 1 : 0.50 2 : 0.75 3 : 1.00	4 : 1.25 5 : 1.50 6 : 2.00
Annualized Account Charge Differential from A4.5)B) Assumptions	0 : -100 bps 1 : +0 2 : +100	

Not for Distribution

APPENDIX 5 - Scenario Calibration Criteria

A5.1) General

This Appendix outlines the requirements for the stochastic models used to simulate fund performance.²⁴ Specifically, it sets certain standards that must be satisfied and offers guidance to the actuary in the development and validation of the scenario models. Background material and analysis are presented to support the recommendation. The Appendix focuses on the S&P 500 as a proxy for returns on a broadly diversified U.S. equity fund, but there is also advice on how the techniques and requirements would apply to other types of funds. General modeling considerations such as the number of scenarios and projection frequency are also discussed.

The calibration points given in this Appendix are applicable to gross returns (before the deduction of any fees or charges). To determine the net returns appropriate for the projections required by the Guideline, the actuary shall reflect applicable fees and contractholder charges in the development of projected account values. The projections shall also include the costs of managing the investments and converting the assets into cash when necessary.

As a general rule, funds with higher expected returns should have higher expected volatilities and in the absence of well-documented mitigating factors (e.g., a highly reliable and favorable correlation to other fund returns), should lead to higher reserve requirements.²⁵

State or path dependent models are not prohibited, but must be justified by the historic data and meet the calibration criteria. To the degree that the model uses mean-reversion or path-dependent dynamics, this must be well supported by research and clearly documented in the Memorandum supporting the required actuarial certification.

The equity scenarios used to determine reserves must be available in an electronic format to facilitate any regulatory review.

A5.2) Gross Wealth Ratios

Gross Wealth Ratios derived from the stochastic return scenarios for use with a Separate Account variable fund category for diversified U.S. equities must satisfy calibration criteria consistent with that for the S&P 500 shown in the following table. Under these calibration criteria, Gross Wealth Ratios for quantiles less than 50 percent may not exceed the value from the table corresponding to the quantile, while at quantiles greater than 50 percent; Gross Wealth Ratios may not be less than the corresponding value for the quantile from the table. Gross Wealth Ratios must be tested for holding period 1, 5, 10 and 20 years throughout the projections, except as noted in section A5.3).

The “wealth factors” are defined as gross accumulated values (i.e., before the deduction of fees and charges) with complete reinvestment of income and maturities, starting with a unit investment. These can be less than 1, with “1” meaning a zero return over the holding period.

S&P 500 Total Return Gross Wealth Ratios at the Calibration Points

²⁴ For more details on the development of these requirements, including the development of the calibration points, see the American Academy of Actuaries recommendation on C-3 Phase II risk-based capital.

²⁵ While the model need not strictly adhere to ‘mean-variance efficiency,’ prudence dictates some form of consistent risk/return relationship between the proxy investment funds. In general, it would be inappropriate to assume consistently ‘superior’ expected returns (i.e., risk/return point above the frontier).

Calibration Point	One Year	Five Year	Ten Year	Twenty Year
2.5%	0.78	0.72	0.79	
5.0%	0.84	0.81	0.94	1.51
10.0%	0.90	0.94	1.16	2.10
90.0%	1.28	2.17	3.63	9.02
95.0%	1.35	2.45	4.36	11.70
97.5%	1.42	2.72	5.12	

The scenarios need not strictly satisfy all calibration points, but the actuary should be satisfied that any differences do not materially reduce the resulting reserves.²⁶ In particular, the actuary should be mindful of which tail most affects the business being valued. If reserves are less dependent on the right (left) tail for all products under consideration (e.g., a return of premium guarantee would primarily depend on the left tail, an enhanced death benefit equal to a percentage of the gain would be most sensitive to the right tail, etc.), it is not necessary to meet the right (left) calibration points.

For models that require starting values for certain state variables,²⁷ long-term (‘average’ or ‘neutral’) values should be used for calibration. The same values should normally be used to initialize the models for generating the actual projection scenarios unless an alternative assumption can be clearly justified.²⁸ It should be noted that a different set of initialization parameters might produce scenarios that do not satisfy all the calibration points shown in the above table. However, the S&P 500 scenarios used to determine reserves must meet the calibration criteria.

A5.3) Calibration Requirements Beyond Twenty Years

It is possible to parameterize some path and/or state dependent models to produce higher volatility (and/or lower expected returns) in the first 20 years in order to meet the calibration criteria, but with lower volatility (and/or higher expected returns) for other periods during the forecast horizon. While this property may occur for certain scenarios (e.g., the state variables would evolve over the course of the projection and thereby affect future returns), it would be inappropriate and unacceptable for a company to alter the model parameters and/or its characteristics for periods beyond year 20 in a fashion not contemplated at the start of the projection and primarily for the purpose(s) of reducing the volatility and/or severity of ultimate returns.²⁹

A5.4) Other Funds

Calibration of other markets (funds) is left to the judgment of the actuary, but the scenarios so generated must be consistent with the calibration points in the table in section A5.2). This does not imply a strict functional relationship between the model parameters for various markets/funds, but it would generally be inappropriate to assume that a market or fund consistently “outperforms” (lower risk, higher expected return relative to the efficient frontier) over the long term.

²⁶ See the Preamble to the *Accounting Practices and Procedures Manual* for an explanation of materiality.

²⁷ For example, a stochastic log volatility (“SLV”) model requires the starting volatility. Also, the regime-switching lognormal model requires an assumption about the starting regime.

²⁸ A clear justification exists when state variables are observable or “known” to a high degree of certainty and not merely estimated or inferred based on a “balance of probabilities.”

²⁹ Such adjustments must be clearly documented and justified by the historic data.

The actuary shall document the actual 1-, 5-, 10- and 20-year wealth factors of the scenarios at the same frequencies as in the “S&P 500 Total Return Gross Wealth Ratios at the Calibration Points” table in section A5.2). The annualized mean and standard deviation of the wealth factors for the 1-, 5-, 10- and 20-year holding periods must also be provided. For equity funds, the actuary shall explain the reasonableness of any significant differences from the S&P500 calibration points.

When parameters are fit to historic data without consideration of the economic setting in which the historic data emerged, the market price of risk may not be consistent with a reasonable long-term model of market equilibrium. One possibility for establishing ‘consistent’ parameters (or scenarios) across all funds would be to assume that the market price of risk is constant (or nearly constant) and governed by some functional (e.g., linear) relationship. That is, higher expected returns can only be garnered by assuming greater risk.³⁰

Specifically, two return distributions X and Y would satisfy the following relationship:

$$\text{Market Price of Risk} = \left(\frac{E[R_X] - r}{\sigma_X} \right) = \left(\frac{E[R_Y] - r}{\sigma_Y} \right)$$

where $E[R]$ and σ are respectively the (unconditional) expected returns and volatilities and r is the expected risk-free rate over a suitably long holding period commensurate with the projection horizon. One approach to establish consistent scenarios would set the model parameters to maintain a near-constant market price of risk.

A closely related method would assume some form of ‘mean-variance’ efficiency to establish consistent model parameters. Using the historic data, the mean-variance (alternatively, ‘drift-volatility’) frontier could be constructed from a plot of (mean, variance) pairs from a collection of world market indices. The frontier could be assumed to follow some functional form,³¹ with the coefficients determined by standard curve fitting or regression techniques. Recognizing the uncertainty in the data, a ‘corridor’ could be established for the frontier. Model parameters would then be adjusted to move the proxy market (fund) inside the corridor.

Clearly, there are many other techniques that could be used to establishing consistency between the scenarios. While appealing, the above approaches do have drawbacks³² and the actuary should not be overly optimistic in constructing the model parameters or the scenarios.

Funds can be grouped and projected as a single fund if such grouping is not anticipated to materially reduce reserves. However, care should be taken to avoid exaggerating the benefits of diversification. The actuary must document the development of the investment return scenarios and be able to justify the mapping of the company’s variable accounts to the proxy funds used in the modeling.

³⁰ As an example, the standard deviation of log returns is often used as a measure of risk.

³¹ Quadratic polynomials and logarithmic functions tend to work well.

³² For example, mean-variance measures ignore the asymmetric and fat-tailed profile of most equity market returns.

A5.5) Correlation of Fund Returns

In constructing the scenarios for the proxy funds, the company may require parameter estimates for a number of different market indices. When more than one index is projected, it is generally necessary to allow for correlations in the simulations. It is not necessary to assume that all markets are perfectly positively correlated, but an assumption of independence (zero correlation) between the equity markets would inappropriately exaggerate the benefits of diversification. An examination of the historic data suggests that correlations are not stationary and that they tend to increase during times of high volatility or negative returns. As such, the actuary should take care not to underestimate the correlations in those scenarios used for the reserve calculations.

If the projections include the simulation of interest rates (other than for discounting surplus strain) as well as equity returns, the processes may be independent provided that the actuary can demonstrate that this assumption (i.e., zero correlation) does not materially underestimate the resulting reserves.

A5.6) Number of Scenarios and Efficiency in Estimation

For straight Monte Carlo simulation (with equally probable “paths” of fund returns), the number of scenarios should typically equal or exceed 1000. The appropriate number will depend on how the scenarios will be used and the materiality of the results. The actuary should use a number of scenarios that will provide an acceptable level of precision.

Fewer than 1000 scenarios may be used provided that the actuary has determined through prior testing (perhaps on a subset of the portfolio) that the CTE values so obtained materially reproduce the results from running a larger scenario set.

Variance reduction and other sampling techniques are intended to improve the accuracy of an estimate more efficiently than simply increasing the number of simulations. Such methods can be used provided the actuary can demonstrate that they do not lead to a material understatement of results. Many of the techniques are specifically designed for estimating means, not tail measures, and could in fact reduce accuracy (and efficiency) relative to straight Monte Carlo simulation.³³

The above requirements and warnings are not meant to preclude or discourage the use of valid and appropriate sampling methods, such as Quasi Random Monte Carlo (QRM), importance sampling or other techniques designed to improve the efficiency of the simulations (relative to pseudo-random Monte Carlo methods). However, the actuary should maintain documentation that adequately describes any such techniques used in the projections. Specifically, the documentation should include the reasons why such methods can be expected not to result in systematic or material under-statement of the resulting reserves compared to using pseudo-random Monte Carlo numbers.

A5.7) Frequency of Projection and Time Horizon

Use of an annual cashflow frequency (“timestep”) is generally acceptable for benefits/features that are not sensitive to projection frequency. The lack of sensitivity to projection frequency should be validated by testing wherein the actuary should determine that the use of a more frequent (i.e., shorter) time step does not materially increase reserves. A more frequent time increment should always be used when the product features are sensitive to projection period frequency.

³³ However, with careful implementation, many variance reduction techniques can work well for CTE estimators. For example, see Manistre, B.J. and Hancock, G. (2003), “Variance of the CTE Estimator,” 2003 Stochastic Modeling Symposium, Toronto, ON, September 2003.

Care must be taken in simulating fee income and expenses when using an annual time step. For example, recognizing fee income at the end of each period after market movements, but prior to persistency decrements, would normally be an inappropriate assumption. It is also important that the frequency of the investment return model be linked appropriately to the projection horizon in the liability model. In particular, the horizon should be sufficiently long so as to capture the vast majority of costs (on a present value basis) from the scenarios.³⁴

A5.8) Pre-Packaged Scenarios

The American Academy of Actuaries has provided 10,000 scenarios on its website³⁵ for the following nineteen asset classes.³⁶

- 1) 3-month U.S. Treasury yields
- 2) 6-month U.S. Treasury yields
- 3) 1-year U.S. Treasury yields
- 4) 2-year U.S. Treasury yields
- 5) 3-year U.S. Treasury yields
- 6) 5-year U.S. Treasury yields
- 7) 7-year U.S. Treasury yields
- 8) 10-year U.S. Treasury yields
- 9) 20-year U.S. Treasury yields
- 10) 30-year U.S. Treasury yields
- 11) Money Market / Short-Term
- 12) U.S. Intermediate Term Government Bonds
- 13) U.S. Long Term Corporate Bonds
- 14) Diversified Fixed Income
- 15) Diversified Balanced Allocation
- 16) Diversified Large Capitalized U.S. Equity

³⁴ As a general guide, the forecast horizon should not be less than 20 years.

³⁵ The pre-packaged scenarios can be found at <https://www.soa.org/resources/tables-calcs-tools/research-scenario/> and are fully documented at http://www.actuary.org/pdf/life/c3supp_march05.pdf.

³⁶ Because the reserves calculated using projections involve cash flow projections, the pre-packaged scenarios were developed under the “real world” probability measure (as opposed to a “risk-neutral” basis). Therefore, the pre-packaged scenarios may not be appropriate for purposes of projecting the market value of future hedge instruments within a projection (to the extent such instruments are used in the projections). For this purpose, it may be more appropriate to use risk neutral scenarios to determine the market value of hedge instruments in the cash flow projections that are based on real world scenarios.

- 17) Diversified International Equity
- 18) Intermediate Risk Equity
- 19) Aggressive or Specialized Equity

The scenarios are available as gross monthly accumulation factors (or U.S. Treasury yields) over a 30-year horizon in comma-separated value format (*.csv). These scenarios have been appropriately correlated so that the K^{th} scenario for each asset class must be used together and considered one ‘future investment return scenario.’³⁷ Hence, the scenarios can be combined (by blending the accumulation factors³⁸) to create additional ‘proxy’ scenarios for the company’s funds.

For example, suppose the actuary wanted to construct scenarios for a ‘balanced fund’ that targets a 60/40 allocation between bonds and U.S. equities. If we denote $[AF^X]$ as the matrix of accumulation factors for asset class X, then the balanced scenarios would be defined by $[AF^{BAL}] = 0.60 \times [AF^{BOND}] + 0.40 \times [AF^{S\&P500}]$. Care should be taken to avoid exaggerating the benefits of diversification. The actuary shall document the development of the investment return scenarios and be able to justify the mapping of the company’s variable accounts to the proxy funds used in the modeling.

The U.S. Treasury yields are expressed as nominal semi-annual bond equivalent yields in decimal format. All other returns are expressed as periodic (not cumulative) market accumulation factors (i.e., monthly “gross wealth ratios”). Interest rates are assumed to change at the start of each month, hence the value in column T applies for month T-1. The market accumulation factor in column T represents the growth in month T-1.

If all or a portion of these scenarios are used, then the actuary shall verify that the scenario calibration criteria are met.

³⁷ It is inappropriate to misalign the ordering of scenarios (e.g., scenario J for “Diversified U.S. Equity” cannot be combined with scenario K for “Diversified International Equity,” where $J \neq K$).

³⁸ It is important to blend the accumulation factors (not the returns) in order to achieve the desired asset mix.

APPENDIX 6 - Allocation of the Aggregate Reserves to the Contract Level

Section IV states that the Aggregate Reserve shall be allocated to the contracts falling within the scope of the Guideline. When the Conditional Tail Expectation Amount is greater than the Standard Scenario Amount, this allocation requires that the excess be allocated to the contracts falling within the scope of the Guideline.

A6.1) Allocation when the Aggregate Reserve equals the Conditional Tail Expectation Amount

- A) Single sub-grouping. When the Aggregate Reserve is equal to the Conditional Tail Expectation Amount and the Conditional Tail Expectation Amount is determined in aggregate for all contracts falling within the scope of the Guideline (i.e., a single grouping), as described in Section IV)D), the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount shall be allocated to each contract on the basis of the difference between the Standard Scenario Reserve and the Cash Surrender Value³⁹ on the valuation date for the contract. If the cash surrender value is not defined or not available, the Standard Scenario Amount will be the basis of allocation.
- B) Multiple sub-groupings. When the Aggregate Reserve is equal to the Conditional Tail Expectation Amount and the Conditional Tail Expectation Amount is determined using more than one sub-grouping, as described in Section IV)D), the allocation of the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount shall reflect that sub-grouping of contracts used to determine the Conditional Tail Expectation Amount, as described in Section IV)D).

For example, when the Conditional Tail Expectation Amount is determined using sub-grouping, the excess of the aggregate (i.e., the total for all contracts within the scope of the Guideline) Conditional Tail Expectation Amount over the aggregate Standard Scenario Amount shall be allocated only to those contracts that are part of sub-groupings whose contributions to the Conditional Tail Expectation Amount exceed their contribution to the Standard Scenario Amount.

In the case of such sub-groupings, the excess of the aggregate Conditional Tail Expectation Amount over the aggregate Standard Scenario Amount shall be allocated to each sub-grouping in proportion to the difference between the Conditional Tail Expectation and the Standard Scenario Reserve for each sub-grouping for which that excess is positive.

Once the allocation to each sub-grouping is determined, the excess of the reserve allocated to such sub-grouping over the Standard Scenario Amount determined for that sub-grouping shall be allocated to each contract within that sub-grouping on the basis of the difference between the Standard Scenario Reserve and the Cash Surrender Value on the valuation date for the contracts. If the cash surrender value is not defined or not available, the Standard Scenario Amount will be the basis of allocation.

³⁹ Note that since the Standard Scenario Reserve for a contract is, by definition, greater than or equal to the Cash Surrender Value, it is understood that the difference between the Standard Scenario Reserve and the Cash Surrender Value for each contract will never be less than zero.

As an example, consider a company with the results of the following three sub-groupings:

Sub-grouping	A	B	C	Total
Conditional Tail Expectation Amount	28	40	52	120
Standard Scenario Amount	20	45	30	95
Aggregate Reserve				120
(1) – (2)	8	-5	22	25
Allocation	6.67	0	18.33	25

In this example, the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount, in aggregate, equals 25 (i.e., the “Total” column of row 1 less row 2, or 120 – 95). This excess of 25 would be allocated only to those contracts that are part of sub-groupings whose contributions to the Conditional Tail Expectation Amount exceed their contributions to the Standard Scenario Amount. In this example, that would be contracts in sub-groupings A and C (since in sub-grouping B, the contribution to the Standard Scenario Amount exceeds the contribution to the Conditional Tail Expectation Amount). Therefore, the excess of 25 would be allocated to the contracts in sub-groupings A and C in proportion to the difference between the Conditional Tail Expectation Amount and the Standard Scenario Reserve for those sub-groupings (i.e. row 4). In this example, the total difference between the Conditional Tail Expectation Amount and the Standard Scenario Reserve for the contracts in sub-groupings A and C equals 8 + 22, or 30. This would result in 8/30 of the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount (or 6.67) to be allocated to the contracts in sub-groupings A and 22/30 of the excess of the Conditional Tail Expectation Amount over the Standard Scenario Amount (or 18.33) to be allocated to the contracts in sub-groupings C as shown on line (5) above.

In this example, the allocation of the Aggregate Reserve to contracts within sub-grouping B would equal the Standard Scenario Reserve for those contracts (as described in section A6.2) below). For sub-groupings A and C, the difference between the allocation of the Aggregate Reserve to each of those sub-grouping and the Standard Scenario Amount determined for each of those sub-grouping would be allocated to each contract within each of those sub-groupings based on the difference between the Standard Scenario Reserve and the Cash Surrender Value for each of the contracts within the relevant sub-group. The result would be an allocated Aggregate Reserve for a given contract that would be equal to the Standard Scenario Reserve for that contract plus the amount of the difference between 1) and 2) below that is allocated to that contract, where:

- 1) Equals the allocation of the Aggregate Reserve to that contract’s sub-grouping; and
- 2) Equals the Standard Scenario Amount determined for that contract’s sub-grouping.

A6.2) Allocation when the Aggregate Reserve equals the Standard Scenario Amount

The Standard Scenario Amount, as required by Section IV)C), is calculated on a contract-by-contract basis, as described in Appendix 3. Therefore, when the Aggregate Reserve is equal to the Standard Scenario Amount, the reserve allocated to each contract shall be the reserve calculated for each contract under the Standard Scenario method.

APPENDIX 7 – Modeling of Hedges

A7.1) Initial Considerations

The appropriate costs and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of the Guideline (excluding those that involve the offsetting of the risks associated with variable annuity guarantees with other products outside of the scope of the Guideline, such as equity-indexed annuities) shall be included in the calculation of the Conditional Tail Expectation Amount, determined in accordance with Section IV)D) and section A1.4) of the Guideline (i.e., Conditional Tail Expectation Amount using projections). If the company is following a Clearly Defined Hedging Strategy (“hedging strategy”), as defined in Section III, in accordance with an investment policy adopted by the Board of Directors, or a committee of Board members, the company is eligible to reduce the amount of the Conditional Tail Expectation Amount using projections otherwise calculated. The investment policy must clearly articulate the company’s hedging objectives, including the metrics that drive rebalancing/trading. This specification could include maximum tolerable values for investment losses, earnings, volatility, exposure, etc. in either absolute or relative terms over one or more investment horizons vis-à-vis the chance of occurrence. Company management is responsible for developing, documenting, executing and evaluating the investment strategy, including the hedging strategy, used to implement the investment policy.

For this purpose, the investment assets refer to all the assets including derivatives supporting covered products and guarantees. This is also referred to as the investment portfolio. The investment strategy is the set of all asset holdings at all points in time in all scenarios. The hedging portfolio, which is also referred to as the hedging assets, is a subset of the investment assets. The hedging strategy is the hedging asset holdings at all points in time in all scenarios. There is no attempt to distinguish what is the hedging portfolio and what is the investment portfolio in this Appendix. Nor is the distinction between investment strategy and hedging strategy formally made here. Where necessary to give effect to the intent of this Appendix, the requirements applicable to the hedging portfolio or the hedging strategy are to apply to the overall investment portfolio and investment strategy.

This particularly applies to restrictions on the reasonableness or acceptability of the models that make up the stochastic cash flow model used to perform the projections, since these restrictions are inherently restrictions on the joint modeling of the hedging and non-hedging portfolio. To give effect to these requirements, they must apply to the overall investment strategy and investment portfolio.

The cost and benefits of hedging instruments that are currently held by the company in support of the contracts falling under the scope of the Guideline shall be included in the stochastic cash flow model used to calculate the Conditional Tail Expectation Amount in accordance with Section IV)D) (the “model”). If the company is following a Clearly Defined Hedging Strategy, the model shall take into account the cost and benefits of hedge positions expected to be held by the company in the future based on the operation of the hedging strategy.

Before either a new or revised hedging strategy can be used to reduce the amount of the Conditional Tail Expectation Amount otherwise calculated, the hedging strategy should be in place (i.e., effectively implemented by the company) for at least three months. The company may meet the time requirement by having evaluated the effective implementation of the hedging strategy for at least three months without actually having executed the trades indicated by the hedging strategy (e.g., mock testing or by having effectively implemented the strategy with similar annuity products for at least three months).

These requirements do not supersede any statutes, laws, or regulations of any state or jurisdiction related to the use of derivative instruments for hedging purposes and should not be used in determining whether a company is permitted to use such instruments in any state or jurisdiction.

A7.2) Background

The analysis of the impact of the hedging strategy on cash flows is typically performed using either one of two methods as described below. Although a hedging strategy would normally be expected to reduce risk provisions, the nature of the hedging strategy and the costs to implement the strategy may result in an increase in the amount of the Conditional Tail Expectation Amount otherwise calculated.

The fundamental characteristic of the first method is that all hedging positions, both the currently held positions and those expected to be held in the future, are included in the stochastic cash flow model used to determine the Scenario Greatest Present Value, as discussed in Section IV)D), for each scenario.

The fundamental characteristic of the second method is that the effectiveness of the current hedging strategy (including currently held hedge positions) on future cash flows is evaluated, in part or in whole, outside of the stochastic cash flow model. In this case, the reduction to the Conditional Tail Expectation Amount otherwise calculated should be commensurate with the degree of effectiveness of the hedging strategy in reducing accumulated deficiencies otherwise calculated.

Regardless of the methodology used by the company, the ultimate effect of the current hedging strategy (including currently held hedge positions), on the Conditional Tail Expectation Amount needs to recognize all risks, associated costs, imperfections in the hedges and hedging mismatch tolerances associated with the hedging strategy. The risks include, but are not limited to: basis, gap, price, parameter estimation, and variation in assumptions (mortality, persistency, withdrawal, annuitization, etc.). Costs include, but are not limited to: transaction, margin (opportunity costs associated with margin requirements) and administration. In addition, the reduction to the Conditional Tail Expectation Amount attributable to the hedging strategy may need to be limited due to the uncertainty associated with the company's ability to implement the hedging strategy in a timely and effective manner. The level of operational uncertainty varies indirectly with the amount of time that the new or revised strategy has been in effect or mock tested.

No hedging strategy is perfect. A given hedging strategy may eliminate or reduce some but not all risks, transforms some risks into others, introduces new risks or has other imperfections. For example, a delta-only hedging strategy does not adequately hedge the risks measured by the "Greeks" other than delta. Another example is that financial indices underlying typical hedging instruments typically do not perform exactly like the separate account funds, and hence the use of hedging instruments has the potential for introducing basis risk.

A7.3) Calculation of CTE Amount (reported)

The company should begin by calculating "CTE Amount (best efforts)" – the results obtained when the Conditional Tail Expectation Amount (or "CTE Amount") is based on incorporating the hedging strategy (including currently held hedge positions) into the stochastic cash flow model, including all of the factors and assumptions needed to execute the hedging strategy (e.g., stochastic implied volatility).

Because most models will include at least some approximations or idealistic assumptions, CTE Amount (best efforts) may overstate the impact of the hedging strategy. To compensate for potential overstatement of the impact of the hedging strategy, the company shall recalculate the Conditional Tail Expectation Amount assuming the company has no dynamic hedging strategy (i.e., reflect only hedge positions held by the company on the valuation date. The result so obtained is called "CTE Amount (adjusted)." In some situations the determination of CTE Amount (adjusted) may include both direct and indirect techniques.

Finally, the reported value for the Conditional Tail Expectation Amount is given by:

$$\text{CTE Amount (reported)} = E \times \text{CTE Amount (best efforts)} + (1 - E) \times \text{CTE Amount (adjusted)}$$

The value for E (an “effectiveness factor”) reflects the actuary’s view as to the level of sophistication of the stochastic cash flow model and its ability to properly reflect the parameters of the hedging strategy (i.e., the “Greeks” being covered by the strategy) as well as the associated costs, risks, and benefits E will be no greater than 0.70. As the sophistication of the stochastic cash flow model increases, the value for E increases (i.e., the greater the ability of the CTE Amount (best efforts) model to capture all risks and uncertainties, the higher the value of E). If the model used to determine the “CTE Amount (best efforts)” effectively reflects all of the parameters used in the hedging strategy, the value of E may be up to 0.70. If certain economic risks are not hedged, yet the model does not generate scenarios that sufficiently capture those risks, E must be in the lower end of the range. If hedge cash flows are not modeled directly, E will be no greater than 0.30. Simplistic hedge cash flow models will have a value of E in the low range between 0.00 and 0.70.

Additionally, the company shall demonstrate that, based on an analysis of at least the most recent 12 months, the model is able to replicate the hedging strategy in a way that justifies the value used for E. A company that does not have 12 months of experience to date shall set E to a value no greater than 0.30.

A7.4) Specific Considerations and Requirements

As part of the process of choosing a methodology and assumptions for estimating the future effectiveness of the current hedging strategy (including currently held hedge positions) for purposes of reducing the Conditional Tail Expectation Amount, the actuary should review actual historical hedging effectiveness. The actuary shall evaluate the appropriateness of the assumptions on future trading, transaction costs, and other elements of the model, the strategy, the mix of business, and other items that are likely to result in materially adverse results. This includes an analysis of model assumptions that, when combined with the reliance on the hedging strategy, are likely to result in adverse results relative to those modeled. The parameters and assumptions shall be adjusted (based on testing contingent on the strategy used and other assumptions) to levels that fully reflect the risk based on historical ranges and foreseeable future ranges of the assumptions and parameters. If this is not possible by parameter adjustment, the model shall be modified to reflect them at either Anticipated Experience or adverse estimates of the parameters.

A discontinuous hedging strategy is a hedging strategy where the relationships between the sensitivities to equity markets and interest rates (commonly referred to as the Greeks) associated with the guaranteed contractholder options embedded in the variable annuities and other in-scope products and these same sensitivities associated with the hedging assets are subject to material discontinuities. This includes, but is not limited to, a hedging strategy where material hedging assets will be obtained when the variable annuity account balances reach a predetermined level in relationship to the guarantees. Any hedging strategy, including a delta hedging strategy, can be a discontinuous hedging strategy if implementation of the strategy permits material discontinuities between the sensitivities to equity markets and interest rates associated with the guaranteed contractholder options embedded in the variable annuities and other in-scope products and these same sensitivities associated with the hedging assets. There may be scenarios that are particularly costly to discontinuous hedging strategies, especially where those result in large discontinuous changes in sensitivities (Greeks) associated with the hedging assets. Where discontinuous hedging strategies contribute materially to a reduction in the Conditional Tail Expectation Amount, the actuary must evaluate the interaction of future trigger definitions and the discontinuous hedging strategy, in addition to the items mentioned in the previous paragraph. This includes an analysis of model assumptions that, when combined with the reliance on the discontinuous hedging strategy, may result in adverse results relative to those modeled.

Implementing a strategy that has a strong dependence on acquiring hedging assets at specific times that depend on specific values of an index or other market indicators may not be implemented as precisely as planned.

The combination of elements of the stochastic cash flow model, including the initial actual market asset prices, prices for trading at future dates, transaction costs, and other assumptions should be analyzed by the actuary as to whether the stochastic cash flow model permits hedging strategies that make money in some scenarios without losing a reasonable amount in some other scenarios. This includes, but is not limited to:

- A) Hedging strategies with no initial investment that never lose money in any scenario and in some scenarios make money; or
- B) Hedging strategies that with a given amount of initial money never make less than accumulation at the one-period risk free rates in any scenario but make more than this in one or more scenarios.

If the stochastic cash flow model allows for such situations, the actuary should be satisfied that the results do not materially rely directly or indirectly on the use of such strategies. In addition, the actuary should disclose the situations and provide supporting documentation as to why the actuary believes the situations are not material for determining the Conditional Tail Expectation Amount. If the results do materially rely directly or indirectly on the use of such strategies, the strategies may not be used to reduce the Conditional Tail Expectation Amount otherwise calculated.

In addition to the above, the method used to determine prices of financial instruments for trading in scenarios should be compared to actual initial market prices. If there are substantial discrepancies, the actuary should disclose the substantial discrepancies and provide supporting documentation as to why the model-based prices are appropriate for determining the Conditional Tail Expectation Amount. In addition to comparisons to initial market prices, there should be testing of the pricing models that are used to determine subsequent prices when scenarios involve trading financial instruments. This testing should consider historical relationships. For example, if a method is used where recent volatility in the scenario is one of the determinants of prices for trading in that scenario, then that model should approximate actual historic prices in similar circumstances in history.

A7.5) Certification and Documentation

The actuary must provide a certification that the values for E, CTE Amount (adjusted) and CTE Amount (best efforts) were calculated using the process discussed above and the assumptions used in the calculations were reasonable for the purpose of determining the Conditional Tail Expectation Amount. The actuary shall document the method(s) and assumptions (including data) used to determine CTE Amount (adjusted) and CTE Amount (best efforts) and maintain adequate documentation as to the methods, procedures and assumptions used to determine the value of E.

The actuary must provide a certification as to whether the Clearly Defined Hedging Strategy is fully incorporated into the stochastic cash flow model and any supplementary analysis of the impact of the hedging strategy on the Conditional Tail Expectation Amount. The actuary must document the extent to which elements of the hedging strategy (e.g., time between portfolio rebalancing) are not fully incorporated into the stochastic cash flow model and any supplementary analysis to determine the impact, if any. In addition, the actuary must provide a certification and maintain documentation to support the certification that the hedging strategy designated as the Clearly Defined Hedging Strategy meets the requirements of a Clearly Defined Hedging Strategy including that the implementation of the hedging strategy in the stochastic cash flow model and any supplementary analysis does not include knowledge of

events that occur after any action dictated by the hedging strategy (i.e. the model cannot use information about the future that would not be known in actual practice).

A financial officer of the company (e.g., Chief Financial Officer, Treasurer or Chief Investment Officer) or a person designated by them who has direct or indirect supervisory authority over the actual trading of assets and derivatives must certify that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day to day risk mitigation efforts.

Not for Distribution

APPENDIX 8 – Certification Requirements**A8.1) Management Certification**

Management must provide signed and dated written representations as part of the valuation documentation that the valuation appropriately reflects management's intent and ability to carry out specific courses of actions on behalf of the entity where such is relevant to the valuation. This certification will be submitted no later than March 1. Upon written request by the company, the commissioner may grant an extension of the date for submission of the certification.

A8.2) Actuarial Certification

- A) General Description. The certification shall be provided by a qualified actuary and consist of at least the following:
- 1) A paragraph identifying the actuary and his or her qualifications;
 - 2) A scope paragraph identifying the reserves as of the valuation date for contracts included in the certification categorized by the approaches used to determine the reserves (e.g., Alternative Methodology, Projections, Standard Scenario);
 - 3) A reliance paragraph describing those areas, if any, where the certifying actuary has relied on other experts;
 - a) A reliance statement from each of those relied on should accompany the certification.
 - b) The reliance statements should note the information being provided and a statement as to the accuracy, completeness or reasonableness, as applicable, of the information.
 - 4) A paragraph certifying that the reserve was calculated in accordance with the principles and requirements of the Guideline;
 - 5) A paragraph certifying that the assumptions used for these calculations are Prudent Estimate assumptions for the products, scenarios, and purpose being tested; and
 - 6) A paragraph stating that the qualified actuary is not opining on the adequacy of the company's surplus or its future financial condition.
 - 7) This certification will be submitted no later than March 1. Upon written request by the company, the commissioner may grant an extension of the date for submission of the certification.

A8.3) Supporting Memorandum

- A) General Description. A supporting memorandum shall be created to document the methodology and assumptions used to determine the Aggregate Reserve. The information shall include the comparison of the Standard Scenario Amount to the Conditional Tail Expectation Amount required by Section IV)A) in the determination of the Aggregate Reserve.
- B) Alternative Methodology using Published Factors.
- 1) If a seriatim approach was not used, disclose how contracts were grouped.

- 2) Disclosure of assumptions to include:
 - a) Component CA
 - (i) Mapping to prescribed asset categories
 - (ii) Lapse and withdrawal rates
 - b) Component FE
 - (i) Determination of fixed dollar costs and revenues
 - (ii) Lapse and withdrawal rates
 - (iii) Inflation rates
 - c) Component GC
 - (i) Disclosure of contract features and how the company mapped the contract form to those forms covered by the Alternative Methodology factors
 - Product Definition - If not conservatively assigned to a published factor, company specific factors or stochastic modeling is required.
 - Partial Withdrawal Provision
 - Fund Class - Disclose the process used to determine the single asset class that best represents the exposure for a contract. If individual funds are mapped into prescribed categories, the process used to map the individual funds should be disclosed.
 - Attained Age
 - Contract Duration
 - Ratio of Account Value to Guaranteed Value
 - Annualized Account Charge Differential from Base Assumption
 - (ii) Derivation of Equivalent Account Charges
 - (iii) Derivation of margin offset
 - (iv) Disclosure of interpolation procedures and confirmation of node determination
 - 3) Disclosure, if applicable, of reinsurance that exists and how it was handled in applying published factors (For some reinsurance, creation of company-specific factors or stochastic modeling may be required.).
 - a) Discuss how reserves before reinsurance were determined.
- C) Alternative Factors based on Company-Specific Factors.
- 1) Disclosure of requirements consistent with Published Factors, as noted in subsection B) above.
 - 2) Stochastic analysis supporting adjustments to published factors should be fully documented. This analysis needs to be submitted when initially used and be available upon request in subsequent years. Adjustments may include:
 - a) Contract design;
 - b) Risk mitigation strategy (excluding hedging); and
 - c) Reinsurance.
- D) Stochastic Modeling.
- 1) Assets
 - a) Description including type and quality
 - b) Investment & disinvestment assumptions

- c) Describe assets used at the start of the projection
 - d) Source of asset data
 - e) Asset valuation basis
 - f) Documentation of assumptions
 - (i) Default costs
 - (ii) Prepayment functions
 - (iii) Market value determination
 - (iv) Yield on assets acquired
 - (v) Mapping and grouping of funds to modeled asset classes
 - g) Hedging Strategy
 - (i) Documentation of strategy
 - (ii) Identification of current positions
 - (iii) Description on how strategy was incorporated into modeling
 - Basis risk, gap risk, price risk, assumption risk
 - Document the methods and criterion used to estimate the a priori effectiveness of the hedging strategy
 - (iv) Documentation required for specific consideration raised in section A7.4).
 - (v) Documentation and certification required by section A7.5).
- 2) Liabilities
- a) Product descriptions
 - b) Source of Liabilities
 - c) Grouping of contracts
 - d) Reserve method and modeling (e.g., Working Reserves were set to CSV)
 - e) Investment Reserves
 - f) Describe how reinsurance was handled in the models, including how reserves gross of reinsurance were modeled.
 - g) Documentation of assumptions (i.e., list assumptions, discuss the sources and the rationale for using the assumptions).
 - (i) Premiums and subsequent deposits
 - (ii) Withdrawal, Lapse and Termination Rates
 - Partial Withdrawal (including treatment of dollar-for-dollar offsets on GMDBs and VAGLBs, and Required Minimum Distributions
 - Lapses / Surrenders
 - (iii) Crediting Strategy
 - (iv) Mortality
 - (v) Annuitization rates
 - (vi) Income Purchase rates
 - (vii) GMIB and GMWB Utilization rates
 - (viii) Commissions
 - (ix) Expenses
 - (x) Persistency Bonuses
 - (xi) Investment / Fund Choice
 - (xii) Revenue Sharing
 - (xiii) Asset Allocation, Rebalancing and Transfer Assumptions
 - Dollar Cost Averaging
 - h) The section showing the assumptions used for lapse and utilization assumptions for contracts with guaranteed living benefits in the development of the Conditional Tail Expectation Amount, as described in section A9.7).

- 3) Scenarios
 - a) Description of scenario generation for interest rates and equity returns
 - (i) Disclose the number “n” of scenarios used and the methods used to determine the sampling error of the CTE (70) statistic when using “n” scenarios.
 - (ii) Time step of model (e.g., monthly, quarterly, annual)
 - (iii) Correlation of fund returns
 - b) Calibration
 - (i) Gross Wealth Ratios for equity funds
 - Disclosure of adjustments to model parameters, if any.
 - Disclosure of 1-year, 5-year and 10-year wealth factors, as well as mean and standard deviation.
 - (ii) Consistency of other funds to equity funds
 - (iii) Correlation between all funds
 - (iv) Estimate of market return volatility assumptions underlying the generated scenarios compared to actual observed volatility underlying market values.
 - c) Extent of use of pre-packaged scenarios and support for mapping variable accounts to proxy funds
 - 4) Description and results of sensitivity tests performed. At the request of the domiciliary commissioner, the company shall provide a sensitivity test showing an estimate of the impact of the market return volatility assumption when market volatility is materially higher than assumed in the generated scenarios.
 - 5) Documentation of all material changes in the model or assumptions from that used previously and the estimated impact of such changes. This documentation, or a summary of this documentation, shall be included in an executive summary or some other prominent place in the memorandum.
 - 6) A description of the methods used to validate the model and a summary of the results of the validation testing.
- E) Standard Scenario.
- 1) For the amounts in 2), 3) and 4) below report the Basic Reserve in A3.3)B)2)a), the projection requirements in A3.3)B)2)b), the value of Aggregate reinsurance in A3.3)D)1), the value of hedges in A3.3)D)2), the total allocation of the value of hedges and Aggregate reinsurance in A3.3)B)2)c) and the Standard Scenario Reserve.
 - 2) Report the Standard Scenario Amount as of the valuation date.
 - 3) If applicable, report the Standard Scenario Amount on the inforce prior to the valuation date that was used to project the reserve requirements to the valuation date.
 - 4) If applicable, report the Standard Scenario Amount on the model office used to represent the inforce.
 - 5) Discuss modifications, if any, in the application of the standard scenario requirements to produce the amounts in 2), 3) and 4) above.

- 6) Document any assumptions, judgments or procedures not prescribed in the Standard Scenario Method or in the Guideline that are used to produce the Standard Scenario Amount.
 - 7) If applicable, documentation of approval by the commissioner to use the Basic Reserve as the Standard Scenario Amount.
 - 8) Document the company's calculation of DR.
 - 9) Document the allocation of funds to Equity, Bond, Balanced and Fixed classes.
 - 10) A statement by the actuary that none of the reinsurance treaties included in the Standard Scenario serve solely to reduce the calculated Standard Scenario Reserve without also reducing risk on scenarios similar to those used to determine the Conditional Tail Expectation Reserve. This should be accompanied by a description of any reinsurance treaties that have been excluded from the Standard Scenario along with an explanation of why the treaty was excluded.
- F) The memorandum shall be made available for examination by the commissioner upon his or her request but shall be returned to the company after such examination and shall not be considered a record of the insurance department or subject to automatic filing with the commissioner.

APPENDIX 9 – Contractholder Behavior

A9.1) General

Contractholder behavior assumptions encompass actions such as lapses, withdrawals, transfers, recurring deposits, benefit utilization, option election, etc. Contractholder behavior is difficult to predict and behavior assumptions can significantly impact the results. In the absence of relevant and fully credible empirical data, the actuary should set behavior assumptions on the conservative end of the plausible spectrum (consistent with the definition of Prudent Estimate).

In setting behavior assumptions, the actuary should examine, but not be limited by, the following considerations:

- 1) Behavior can vary by product, market, distribution channel, fund performance, time/product duration, etc.
- 2) Options embedded in the product may impact behavior.
- 3) Options may be elective or non-elective in nature. Living benefits are often elective and death benefit options are generally non-elective.
- 4) Elective contractholder options may be more driven by economic conditions than non-elective options.
- 5) As the value of a product option increases, there is an increased likelihood that contractholders will behave in a manner that maximizes their financial interest (e.g., lower lapses, higher benefit utilization, etc.).
- 6) Behavior formulas may have both rational and irrational components (irrational behavior is defined as situations where some contractholders may not always act in their best financial interest). The rational component should be dynamic but the concept of rationality need not be interpreted in strict financial terms and might change over time in response to observed trends in contractholder behavior based on increased or decreased financial efficiency in exercising their contractual options.
- 7) Options that are ancillary to the primary product features may not be significant drivers of behavior. Whether an option is ancillary to the primary product features depends on many things such as:
 - a) For what purpose was the product purchased?
 - b) Is the option elective or non-elective?
 - c) Is the value of the option well known?
- 8) External influences, including emergence of viatical / life settlement companies, may impact behavior.

A9.2) Aggregate vs. Individual Margins

As noted in Section III(B)8), Prudent Estimate assumptions are developed by applying a margin for uncertainty to the Anticipated Experience assumption. The issue of whether the level of the margin applied to the Anticipated Experience assumption is determined in aggregate or independently for each and every behavior assumption is discussed in Principle 3 in Section II) of this Guideline, which states:

The choice of a conservative estimate for each assumption may result in a distorted measure of the total risk. Conceptually, the choice of assumptions and the modeling decisions should be made so that the final result approximates what would be obtained for the Conditional Tail Expectation Amount at the required CTE level if it were possible to calculate results over the joint distribution of all future outcomes. In applying this concept to the actual calculation of the Conditional Tail Expectation Amount, the actuary should be guided by evolving practice and expanding knowledge base in the measurement and management of risk.

Although this Principle discusses the concept of determining the level of margins in aggregate, it notes that the application of this concept shall be guided by evolving practice and expanding knowledge. From a practical standpoint, it may not always be possible to completely apply this concept to determine the level of margins in aggregate for all behavior assumptions.

Therefore, the actuary shall determine Prudent Estimate assumptions independently for each behavior (e.g., mortality lapses, and benefit utilization), using the requirements and guidance in this Appendix and throughout the guideline, unless the actuary can demonstrate that an appropriate method was used to determine the level of margin in aggregate for two or more behaviors.

A9.3) Sensitivity Testing

The impact of behavior can vary by product, time period, etc. Sensitivity testing of assumptions is required and shall be more complex than e.g., base lapse assumption minus 1% across all contracts. A more appropriate sensitivity test in this example might be to devise parameters in a dynamic lapse formula to reflect more out-of-the-money contracts lapsing and/or more holders of in-the-money contracts persisting and eventually utilizing the guarantee. The actuary should apply more caution in setting assumptions for behaviors where testing suggests that stochastic modeling results are sensitive to small changes in such assumptions. For such sensitive behaviors, the actuary shall use higher margins when the underlying experience is less than fully relevant and credible.

A9.4) Specific Considerations and Requirements

Within materiality considerations, the actuary should consider all relevant forms of contractholder behavior and persistency, including but not limited to the following:

- 1) Mortality (additional guidance and requirements regarding mortality is contained in Appendix 10)
- 2) Surrenders
- 3) Partial Withdrawals (Systematic and Elective)
- 4) Fund Transfers (Switching/Exchanges)
- 5) Resets/Ratchets of the Guaranteed Amounts (Automatic and Elective)
- 6) Future Deposits

It may be acceptable to ignore certain items that might otherwise be explicitly modeled in an ideal world, particularly if the inclusion of such items reduces the calculated provisions. For example:

- 1) The impact of fund transfers (intra-contract fund “switching”) might be ignored, unless required under the terms of the contract (e.g., automatic asset re-allocation/rebalancing, dollar cost averaging accounts, etc.)
- 2) Future deposits might be excluded from the model, unless required by the terms of the contracts under consideration and then only in such cases where future premiums can reasonably be anticipated (e.g., with respect to timing and amount).

However, the actuary should exercise caution in assuming that current behavior will be indefinitely maintained. For example, it might be appropriate to test the impact of a shifting asset mix and/or consider future deposits to the extent they can reasonably be anticipated and increase the calculated amounts.

Normally, the underlying model assumptions would differ according to the attributes of the contract being valued. This would typically mean that contractholder behavior and persistency may be expected to vary according to such characteristics as (this is not an exhaustive list):

- 1) Gender
- 2) Attained age
- 3) Issue age
- 4) Contract duration
- 5) Time to maturity
- 6) Tax status
- 7) Fund value
- 8) Investment option
- 9) Guaranteed benefit amounts
- 10) Surrender charges, transaction fees or other contract charges
- 11) Distribution channel

Unless there is clear evidence to the contrary, behavior assumptions should be no less conservative than past experience. Margins for contractholder behavior assumptions shall assume, without relevant and credible experience or clear evidence to the contrary, that contractholders’ efficiency will increase over time.

In determining contractholder behavior assumptions, the company shall use actual experience data directly applicable to the business segment (i.e., direct data) if it is available. In the absence of direct data, the company should then look to use data from a segment that are similar to the business segment (i.e., other than direct experience), whether or not the segment is directly written by the company. If data from a similar business segment are used, the assumption shall be adjusted to reflect differences between the two segments. Margins shall reflect the data uncertainty associated with using data from a similar but not

identical business segment. The actuary shall document any significant similarities or differences between the two business segments, the data quality of the similar business segment and the adjustments and the margins applied.

Where relevant and fully credible empirical data do not exist for a given contractholder behavior assumption, the actuary shall set the contractholder behavior assumption to reflect the increased uncertainty such that the contractholder behavior assumption is shifted towards the conservative end of the plausible range of expected experience that serves to increase the Aggregate Reserve. If there are no relevant data, the actuary shall set the contractholder behavior assumption to reflect the increased uncertainty such that the contractholder behavior assumption is at the conservative end of the range. Such adjustments shall be consistent with the definition of Prudent Estimate, with the Principles described in Section I, and with the guidance and requirements in this Appendix.

Ideally, contractholder behavior would be modeled dynamically according to the simulated economic environment and/or other conditions. It is important to note, however, that contractholder behavior should neither assume that all contractholders act with 100% efficiency in a financially rational manner nor assume that contractholders will always act irrationally.

A9.5) Dynamic Assumptions

Consistent with the concept of Prudent Estimate assumptions described earlier, the liability model should incorporate margins for uncertainty for all risk factors which are not dynamic (i.e., the non-scenario tested assumptions) and are assumed not to vary according to the financial interest of the contractholder.

The actuary should exercise care in using static assumptions when it would be more natural and reasonable to use a dynamic model or other scenario-dependent formulation for behavior. With due regard to considerations of materiality and practicality, the use of dynamic models is encouraged, but not mandatory. Risk factors which are not scenario tested, but could reasonably be expected to vary according to a stochastic process, or future states of the world (especially in response to economic drivers) may require higher margins and/or signal a need for higher margins for certain other assumptions.

Risk factors that are modeled dynamically should encompass the plausible range of behavior consistent with the economic scenarios and other variables in the model, including the non-scenario tested assumptions. The actuary shall test the sensitivity of results to understand the materiality of making alternate assumptions and follow the guidance discussed above on setting assumptions for sensitive behaviors.

A9.6) Consistency with the CTE Level

All behaviors (i.e., dynamic, formulaic and non-scenario tested) should be consistent with the scenarios used in the CTE calculations (generally, the approximately top 1/3 of the loss distribution). To maintain such consistency, it is not necessary to iterate (i.e., successive runs of the model) in order to determine exactly which scenario results are included in the CTE measure. Rather, in light of the products being valued, the actuary should be mindful of the general characteristics of those scenarios likely to represent the tail of the loss distribution and consequently use Prudent Estimate assumptions for behavior that are reasonable and appropriate in such scenarios. For variable annuities, these “valuation” scenarios would typically display one or more of the following attributes:

- 1) Declining and/or volatile separate account asset values;
- 2) Market index volatility, price gaps and/or liquidity constraints;

- 3) Rapidly changing interest rates.

The behavior assumptions should be logical and consistent both individually and in aggregate, especially in the scenarios that govern the results. In other words, the actuary should not set behavior assumptions in isolation, but give due consideration to other elements of the model. The interdependence of assumptions (particularly those governing customer behaviors) makes this task difficult and by definition requires professional judgment, but it is important that the model risk factors and assumptions:

- 1) Remain logically and internally consistent across the scenarios tested;
- 2) Represent plausible outcomes; and
- 3) Lead to appropriate, but not excessive, asset requirements.

The actuary should remember that the continuum of “plausibility” should not be confined or constrained to the outcomes and events exhibited by historic experience.

Companies should attempt to track experience for all assumptions that materially affect their risk profiles by collecting and maintaining the data required to conduct credible and meaningful studies of contractholder behavior.

A9.7) Additional Considerations and Requirements for Assumptions Applicable to Guaranteed Living Benefits

Experience for contracts without guaranteed living benefits may be of limited use in setting a lapse assumption for contracts with in-the-money or at-the-money guaranteed living benefits. Such experience may only be used if it is appropriate (e.g., lapse experience on contracts without a living benefit may have relevance to the early durations of contracts with living benefits) and relevant to the business and is accompanied by documentation that clearly demonstrates the relevance of the experience, as discussed in the following paragraph.

The supporting memorandum required by Appendix 8 of this Guideline, shall include a separately identifiable section showing the assumptions used for lapse and utilization assumptions for contracts with guaranteed living benefits in the development of the Conditional Tail Expectation Amount. This section shall be considered part of the supporting memorandum and shall show the formulas used to set the assumptions and describe the key parameters affecting the level of the assumption (e.g., age, duration, in-the-moneyness, during and after the surrender charge period). The section shall include a summary that shows the lapse and utilization rates that result from various combinations of the key parameters. The section shall show any experience data used to develop the assumptions and describe the source, relevance and credibility of that data. If relevant and credible data were not available, the section should discuss how the assumption is consistent with the requirement that the assumption is to be on the conservative end of the plausible range of expected experience. The section shall also discuss the sensitivity tests performed to support the assumption. This separately identifiable section shall be made available on a standalone basis if requested by the Domiciliary Commissioner. If it is requested, the section shall have the same confidential status as the supporting memorandum and the actuarial memorandum supporting the actuarial opinion, as discussed in section A2.3)B).

Regarding lapse assumptions for contracts with guaranteed living benefits, the section shall include, at a minimum, the following:

- 1) Actual to expected lapses on two bases, where “expected” equals one of the following:
 - a) Prudent estimate assumptions used in the development of the Conditional Tail Expectation Amount;
 - b) The assumptions used in the Standard Scenario;
- 2) The lapse assumptions used in the development of Conditional Tail Expectation Amount and corresponding actual experience separated by:
 - a) Logical blocks of business (based on company’s assessment);
 - b) Duration (at a minimum this should show during the surrender charge period vs. after the surrender charge period);
 - c) In-the-moneyness (consistent with how dynamic assumptions are determined); and
 - d) Age (to the extent age impacts the election of benefits lapse).

This data shall be separated by experience incurred in the following periods:

- a) In the past year;
- b) In the past three years; and
- c) All years.

APPENDIX 10 – Specific Guidance and Requirements for Setting Prudent Estimate Mortality Assumptions

A10.1) Overview

- A) Intent. The guidance and requirements in this Appendix apply for setting Prudent Estimate mortality assumptions when determining the Conditional Tail Expectation Amount (whether using projections or the Alternative Methodology). The intent is for Prudent Estimate mortality assumptions to be based on facts, circumstances and appropriate actuarial practice (where more than one approach to appropriate actuarial practice exists, the actuary should select the practice that the actuary deems most appropriate under the circumstances) with only a limited role for unsupported actuarial judgment.
- B) Description. Prudent Estimate mortality assumptions are determined by first developing expected mortality curves based on either available experience or published tables. Where necessary, margins are applied to the experience to reflect data uncertainty. The expected mortality curves are then adjusted based on the credibility of the experience used to determine the expected mortality curve. Section A10.2) addresses guidance and requirements for determining expected mortality curves and section A10.3) addresses guidance and requirements for adjusting the expected mortality curves to determine Prudent Estimate mortality.

Finally, the credibility-adjusted tables shall be adjusted for mortality improvement (where such adjustment is permitted or required) using the guidance and requirements in section A10.4).

- C) Business Segments. For purposes of setting Prudent Estimate mortality assumptions, the products falling under the scope of the Guideline shall be grouped into business segments with different mortality assumptions. The grouping should generally follow the pricing, marketing, management and/or reinsurance programs of the company. Where less refined segments are used for setting the mortality assumption than is used in business management the documentation should address the impact, if material, of the less refined segmentation on the resulting reserves.
- D) Margin for Data Uncertainty. The expected mortality curves that are determined in section A10.2) may need to include a margin for data uncertainty. The margin could be in the form of an increase or a decrease in mortality, depending on the business segment under consideration. The margin shall be applied in a direction (i.e., increase or decrease in mortality) that results in a higher reserve. A sensitivity test may be needed to determine the appropriate direction of the provision for uncertainty to mortality. The test could be a prior year mortality sensitivity analysis of the business segment or an examination of current representative cells of the segment.

For purposes of this Appendix, if mortality must be increased (decreased) to provide for uncertainty the business segment is referred to as a plus (minus) segment.

It may be necessary, because of a change in the mortality risk profile of the segment, to reclassify a business segment from a plus (minus) segment to a minus (plus) segment to the extent compliance with this subsection requires such a reclassification.

A10.2) Determination of Expected Mortality Curves

- A) Experience Data. In determining expected mortality curves the company shall use actual experience data directly applicable to the business segment (i.e., direct data) if it is available. In the absence of direct data, the company should then look to use data from a segment that is similar to the business segment (i.e., other than direct experience). See section B) below for

additional considerations. Finally, if there is no data, the company shall use the applicable table, as required in subsection C) below.

- B) Data Other than Direct Experience. If expected mortality curves for a segment are being determined using data from a similar business segment (whether or not directly written by the company), the actuary shall document any similarities or differences between the two business segments (e.g., type of underwriting, marketing channel, average policy size, etc.). The actuary shall also document the data quality of the mortality experience of the similar business. Adjustments shall be applied to the data to reflect differences between the business segments and margins shall be applied to the adjusted expected mortality curves to reflect the data uncertainty associated with using data from a similar but not identical business segment. The actuary shall document the adjustments and the margins applied.

To the extent the mortality of a business segment is reinsured, any mortality charges that are consistent with the company's own pricing and applicable to a substantial portion of the mortality risk may also be a reasonable starting point for the determination of the company's expected mortality curves. The actuary shall document the application of such reinsurance charges and how they were used to set the company's expected mortality curves for the segment.

- C) No Data Requirements. When little or no experience or information is available on a business segment, the company shall use expected mortality curves that would produce expected deaths no less than using 100% of the 1994 Variable Annuity MGDB mortality table for a plus segment and expected deaths no greater than 100% of the Annuity 2000 table for a minus segment. If mortality experience on the business segment is expected to be atypical (e.g., demographics of target markets are known to have higher (lower) mortality than typical), these "no data" mortality requirements may not be adequate.
- D) Additional Considerations Involving Data. The following considerations shall apply to mortality data specific to the business segment for which assumptions are being determined (i.e., direct data discussed in subsection A) above or other than direct data discussed in subsection B) above).
- 1) Underreporting of deaths. Mortality data shall be examined for possible underreporting of deaths. Adjustments shall be made to the data if there is any evidence of underreporting. Alternatively, exposure by lives or amounts on contracts for which death benefits were in the money may be used to determine expected mortality curves. Underreporting on such exposures should be minimal; however, this reduced subset of data will have less credibility.
 - 2) Experience by contract duration. Experience of a plus segment shall be examined to determine if mortality by contract duration increases materially due to selection at issue. In the absence of information, the actuary shall assume that expected mortality will increase by contract duration for an appropriate select period. As an alternative, if the actuary determines that mortality is impacted by selection, the actuary could apply margins to the expected mortality in such a way that the actual mortality modeled does not depend on contract duration.
 - 3) Modification and Relevance of data. Even for a large company the quantity of life exposures and deaths are such that a significant amount of smoothing may be required to determine expected mortality curves from mortality experience. Expected mortality curves, when applied to the recent historic exposures (e.g., 3 to 7 years), should not result in an estimate of aggregate number of deaths less (greater) than the actual number deaths during the exposure period for plus (minus) segments. If this condition is not satisfied,

the actuary must document the rationale in support of using expected mortality that differs from recent mortality experience.

In determining expected mortality curves (and the credibility of the underlying data), older data may no longer be relevant. The “age” of the experience data used to determine expected mortality curves should be documented. There should be commentary in the documentation on the relevance of the data (e.g., any actual and expected changes in markets, products and economic conditions over the historic and projected experience).

- 4) Other considerations. In determining expected mortality curves, consideration should be given to factors that include, but are not limited to, trends in mortality experience, trends in exposure, volatility in year-to-year A/E mortality ratios, mortality by lives relative to mortality by amounts, changes in the mix of business and product features that could lead to mortality selection.

E) Documentation Requirements.

- 1) All Segments. The documentation should include any material considerations necessary to understand the development of mortality assumptions for the statutory valuation even if such considerations are not explicitly mentioned in this section. The documentation should be explicit when material judgments were required and such judgments had to be made without supporting historic experience.

The documentation shall:

- a) Explain the rationale for the grouping of contracts into different segments for the determination of mortality assumptions and characterize the type and quantity of business that constitute each segment.
- b) Describe how each segment was determined to be a plus or minus segment.
- c) Summarize any mortality studies used to support mortality assumptions, quantify the exposures and corresponding deaths, describe the important characteristics of the exposures and comment on unusual data points or trends.
- d) Document the age of the experience data used to determine expected mortality curves and comment on the relevance of the data.
- e) Document the mathematics used to adjust mortality based on credibility and summarize the result of applying credibility to the mortality segments.
- f) Discuss any assumptions made on mortality improvements, the support for such assumptions and how such assumptions adjusted the modeled mortality.
- g) Describe how the expected mortality curves compare to recent historic experience and comment on any differences.
- h) Discuss how the mortality assumptions are consistent with the goal of achieving the required CTE level over the joint distribution of all future outcomes, in keeping with Principle #3 and Appendix 9.

If the study was done on a similar business segment, identify the differences in the business segment on which the data were gathered and the business segment on which the data were used to determine mortality assumptions for the statutory valuation. Describe how these differences were reflected in the mortality used in modeling.

If mortality assumptions for the statutory valuation were based in part on reinsurance rates, document how the rates were used to set expected mortality (e.g., assumptions made on loadings in the rates and/or whether the assuming company provided their expected mortality and the rationale for their assumptions).

- 2) Plus Segments. For a plus segment, the documentation shall also discuss the examination of the mortality data for the underreporting of deaths and experience by duration, and describe any adjustments that were made as a result of the examination.
- 3) Minus Segments. For a minus segment the documentation shall also discuss how the mortality deviations on minus segments compare to those on any plus segments. To the extent the overall margin is reduced, the documentation should include support for this assumption.

A10.3) Adjustment for Credibility to Determine Prudent Estimate Mortality

- A) Adjustment for Credibility. The expected mortality curves determined in section A10.2) shall be adjusted based on the credibility of the experience used to determine the curves in order to arrive at Prudent Estimate mortality. The adjustment for credibility shall result in blending the expected mortality curves with a mortality table consistent with a statutory valuation mortality table. For a plus segment, the table shall be consistent with 100% of the 1994 Variable Annuity MGDB table (or a more recent mortality table adopted by the NAIC to replace this table). For a minus segment, the table shall be consistent with 100% of the 2000 Annuity table (or a more recent mortality table adopted by the NAIC to replace that table). The approach used to adjust the curves shall suitably account for credibility.⁴⁰
- B) Adjustment of Statutory Valuation Mortality for Improvement. For purposes of the adjustment for credibility, the statutory valuation mortality table for a plus segment may be and the statutory valuation mortality table for a minus segment must be adjusted for mortality improvement. Such adjustment shall reflect applicable published industrywide experience from the effective date of the respective statutory valuation mortality table to the experience weighted average date underlying the data used to develop the expected mortality curves (discussed in section A10.2)).
- C) Credibility Procedure. The credibility procedure used shall:
 - 1) Produce results that are reasonable in the professional judgment of the actuary,
 - 2) Not tend to bias the results in any material way,
 - 3) Be practical to implement,
 - 4) Give consideration to the need to balance responsiveness and stability,
 - 5) Take into account not only the level of aggregate claims but the shape of the mortality curve, and
 - 6) Contain criteria for full credibility and partial credibility that have a sound statistical basis and be appropriately applied.

Documentation of the credibility procedure used shall include a description of the procedure, the statistical basis for the specific elements of the credibility procedure, and any material changes from prior credibility procedures.

⁴⁰ For example, when credibility is zero, an appropriate approach should result in a mortality assumption consistent with 100% of the statutory valuation mortality table used in the blending.

- D) Further Adjustment of the Credibility-adjusted Table for Mortality Improvement. The credibility-adjusted table used for plus segments may be and the credibility adjusted date used for minus segments must be adjusted for applicable published industrywide experience from the experience weighted average date underlying the company experience used in the credibility process to the valuation date.

Any adjustment for mortality improvement beyond the valuation date is discussed in section A10.4).

A10.4) Future Mortality Improvement

The mortality assumption resulting from the requirements of section A10.3) shall be adjusted for mortality improvements beyond the valuation date if such an adjustment would serve to increase the resulting Conditional Tail Expectation Amount. If such an adjustment would reduce the Conditional Tail Expectation Amount, such assumptions are permitted, but not required. In either case, the assumption must be based on current relevant data with a margin for uncertainty (increasing assumed rates of improvement if that results in a higher reserve, reducing them otherwise).

Not for Distribution

APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

FEMALE Age Last Birthday

AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x
1	0.519	24	0.344	47	1.371	70	16.957	93	192.270
2	0.358	25	0.346	48	1.488	71	18.597	94	210.032
3	0.268	26	0.352	49	1.619	72	20.599	95	228.712
4	0.218	27	0.364	50	1.772	73	22.888	96	248.306
5	0.201	28	0.382	51	1.952	74	25.453	97	268.892
6	0.188	29	0.403	52	2.153	75	28.372	98	290.564
7	0.172	30	0.428	53	2.360	76	31.725	99	313.211
8	0.158	31	0.455	54	2.589	77	35.505	100	336.569
9	0.154	32	0.484	55	2.871	78	39.635	101	360.379
10	0.159	33	0.514	56	3.241	79	44.161	102	385.051
11	0.169	34	0.547	57	3.713	80	49.227	103	411.515
12	0.185	35	0.585	58	4.270	81	54.980	104	439.065
13	0.209	36	0.628	59	4.909	82	61.410	105	465.584
14	0.239	37	0.679	60	5.636	83	68.384	106	488.958
15	0.271	38	0.739	61	6.460	84	75.973	107	507.867
16	0.298	39	0.805	62	7.396	85	84.432	108	522.924
17	0.315	40	0.874	63	8.453	86	94.012	109	534.964
18	0.326	41	0.943	64	9.611	87	104.874	110	543.622
19	0.333	42	1.007	65	10.837	88	116.968	111	548.526
20	0.337	43	1.064	66	12.094	89	130.161	112	550.000
21	0.340	44	1.121	67	13.318	90	144.357	113	550.000
22	0.343	45	1.186	68	14.469	91	159.461	114	550.000
23	0.344	46	1.269	69	15.631	92	175.424	115	1000.000

APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

MALE Age Last Birthday

AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x
1	0.587	24	0.760	47	2.366	70	29.363	93	243.533
2	0.433	25	0.803	48	2.618	71	32.169	94	264.171
3	0.350	26	0.842	49	2.900	72	35.268	95	285.199
4	0.293	27	0.876	50	3.223	73	38.558	96	305.931
5	0.274	28	0.907	51	3.598	74	42.106	97	325.849
6	0.263	29	0.935	52	4.019	75	46.121	98	344.977
7	0.248	30	0.959	53	4.472	76	50.813	99	363.757
8	0.234	31	0.981	54	4.969	77	56.327	100	382.606
9	0.231	32	0.997	55	5.543	78	62.629	101	401.942
10	0.239	33	1.003	56	6.226	79	69.595	102	422.569
11	0.256	34	1.005	57	7.025	80	77.114	103	445.282
12	0.284	35	1.013	58	7.916	81	85.075	104	469.115
13	0.327	36	1.037	59	8.907	82	93.273	105	491.923
14	0.380	37	1.082	60	10.029	83	101.578	106	511.560
15	0.435	38	1.146	61	11.312	84	110.252	107	526.441
16	0.486	39	1.225	62	12.781	85	119.764	108	536.732
17	0.526	40	1.317	63	14.431	86	130.583	109	543.602
18	0.558	41	1.424	64	16.241	87	143.012	110	547.664
19	0.586	42	1.540	65	18.191	88	156.969	111	549.540
20	0.613	43	1.662	66	20.259	89	172.199	112	550.000
21	0.642	44	1.796	67	22.398	90	188.517	113	550.000
22	0.677	45	1.952	68	24.581	91	205.742	114	550.000
23	0.717	46	2.141	69	26.869	92	223.978	115	1000.000

APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

FEMALE Age Nearest Birthday

AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x
1	0.628	24	0.344	47	1.316	70	16.239	93	184.435
2	0.409	25	0.344	48	1.427	71	17.687	94	201.876
3	0.306	26	0.348	49	1.549	72	19.523	95	220.252
4	0.229	27	0.356	50	1.690	73	21.696	96	239.561
5	0.207	28	0.372	51	1.855	74	24.107	97	259.807
6	0.194	29	0.392	52	2.050	75	26.832	98	281.166
7	0.181	30	0.415	53	2.256	76	29.954	99	303.639
8	0.162	31	0.441	54	2.465	77	33.551	100	326.956
9	0.154	32	0.470	55	2.713	78	37.527	101	350.852
10	0.155	33	0.499	56	3.030	79	41.826	102	375.056
11	0.163	34	0.530	57	3.453	80	46.597	103	401.045
12	0.175	35	0.565	58	3.973	81	51.986	104	428.996
13	0.195	36	0.605	59	4.569	82	58.138	105	456.698
14	0.223	37	0.652	60	5.250	83	64.885	106	481.939
15	0.256	38	0.707	61	6.024	84	72.126	107	502.506
16	0.287	39	0.771	62	6.898	85	80.120	108	518.642
17	0.309	40	0.839	63	7.897	86	89.120	109	531.820
18	0.322	41	0.909	64	9.013	87	99.383	110	541.680
19	0.331	42	0.977	65	10.215	88	110.970	111	547.859
20	0.335	43	1.037	66	11.465	89	123.714	112	550.000
21	0.339	44	1.091	67	12.731	90	137.518	113	550.000
22	0.342	45	1.151	68	13.913	91	152.286	114	550.000
23	0.344	46	1.222	69	15.032	92	167.926	115	1000.000

APPENDIX 11 - 1994 Variable Annuity MGDB Mortality Table

MALE Age Nearest Birthday

AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x	AGE	1000q _x
1	0.701	24	0.738	47	2.246	70	28.068	93	234.658
2	0.473	25	0.782	48	2.486	71	30.696	94	255.130
3	0.393	26	0.824	49	2.751	72	33.688	95	276.308
4	0.306	27	0.860	50	3.050	73	36.904	96	297.485
5	0.280	28	0.892	51	3.397	74	40.275	97	317.953
6	0.268	29	0.922	52	3.800	75	44.013	98	337.425
7	0.257	30	0.948	53	4.239	76	48.326	99	356.374
8	0.238	31	0.971	54	4.706	77	53.427	100	375.228
9	0.230	32	0.992	55	5.234	78	59.390	101	394.416
10	0.233	33	1.003	56	5.854	79	66.073	102	414.369
11	0.245	34	1.004	57	6.601	80	73.366	103	436.572
12	0.267	35	1.006	58	7.451	81	81.158	104	460.741
13	0.302	36	1.020	59	8.385	82	89.339	105	484.644
14	0.352	37	1.054	60	9.434	83	97.593	106	506.047
15	0.408	38	1.111	61	10.629	84	105.994	107	522.720
16	0.463	39	1.182	62	12.002	85	115.015	108	534.237
17	0.509	40	1.268	63	13.569	86	125.131	109	542.088
18	0.544	41	1.367	64	15.305	87	136.815	110	546.908
19	0.573	42	1.481	65	17.192	88	150.191	111	549.333
20	0.599	43	1.599	66	19.208	89	164.944	112	550.000
21	0.627	44	1.725	67	21.330	90	180.886	113	550.000
22	0.658	45	1.867	68	23.489	91	197.834	114	550.000
23	0.696	46	2.037	69	25.700	92	215.601	115	1000.000

Actuarial Guideline XLIII

CARVM FOR VARIABLE ANNUITIES

Table of Contents

Section I	Background
Section II	Scope
Section III	Reserve Requirements
Section IV	Effective Date and Transition

Section I) Background

This Actuarial Guideline (Guideline) interprets the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The Guideline codifies the basic interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the assumptions and methodologies that will comply with the intent of the Standard Valuation Law. It also applies similar assumptions and methodologies to contracts that contain characteristics similar to those described in the scope, but that are not directly subject to CARVM.

In developing the Guideline, two regulatory sources provided guidance. First, the Standard Valuation Law defines CARVM as the greatest present value of future guaranteed benefits. Second, the NAIC Model Variable Annuity Regulation (VAR) states that the “reserve liability for variable annuities shall be established pursuant to the requirements of the Standard Valuation Law in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.”

During 2019 this Guideline was amended to follow the reserve requirements provided in VM-21 of the *Valuation Manual*. This was done for uniformity for all coverages within scope regardless of whether they were issued prior to or on and after the operative date of the *Valuation Manual*. This was also done to reflect the extensive analysis carried out by the NAIC, Oliver Wyman consulting for the NAIC, and industry participants for improvements to the variable annuity framework.

Section II) Scope

- A) The Guideline applies to contracts, and product features on contracts, issued on or after January 1, 1981, and prior to the date that the *Valuation Manual* becomes effective in the applicable jurisdiction, whether directly written or assumed through reinsurance, falling into any of the following categories:
- 1) Variable deferred annuity contracts subject to the Commissioner’s Annuity Reserve Valuation Method (CARVM), whether or not such contracts contain Guaranteed Minimum Death Benefits (GMDBs), or Variable Annuity Guaranteed Living Benefits (VAGLBs);
 - 2) Variable immediate annuity contracts, whether or not such contracts contain GMDBs or VAGLBs;
 - 3) Group annuity contracts that are not subject to CARVM, but contain guarantees similar in nature¹ to GMDBs, VAGLBs, or any combination thereof; and

¹ The term “similar in nature,” as used in sections II(A)3) and II(A)4) is intended to capture both current products and benefits as well as product and benefit designs that may emerge in the future. Examples of the currently known designs are listed in footnote 2. Any product or benefit design that does not clearly fit the Scope should be evaluated on a case-by-case basis taking into consideration factors that include, but are not limited to, the nature of the guarantees, the definitions of GMDB and VAGLB in

- 4) All other products that contain guarantees similar in nature to GMDBs or VAGLBs, even if the insurer does not offer the mutual funds or variable funds to which these guarantees relate, where there is no other explicit reserve requirement.²

If such a benefit is offered as part of a contract that has an explicit reserve requirement and that benefit does not currently have an explicit reserve requirement:

- a) The Guideline shall be applied to the benefit on a standalone basis (i.e., for purposes of the reserve calculation, the benefit shall be treated as a separate contract);
 - b) The reserve for the underlying contract is determined according to the explicit reserve requirement; and
 - c) The reserve held for the contract shall be the sum of a) and b).
- B) The company may elect to apply these requirements to contracts and product features on contracts, whether directly written or assumed through reinsurance, falling into any of the categories defined in Section II.A. and issued prior to January 1, 1981.
- C) The Guideline does not apply to contracts falling under the scope of the NAIC Model Modified Guaranteed Annuity Regulation (Model #255); however, it does apply to contracts listed above that include one or more subaccounts containing features similar in nature to those contained in Modified Guaranteed Annuities (e.g., market value adjustments).
- D) Separate account annuity contracts that guarantee an index and do not offer GMDBs or VAGLBs are excluded from the scope of the Guideline.

Section III) Reserve Requirements

- A) Reserves shall be determined by following the requirements in VM-21 from the version of the NAIC *Valuation Manual* applicable for that valuation date. For purposes of determining reserves, at the election of the company, the contracts subject to this Guideline may be aggregated with the contracts subject to VM-21 of the *Valuation Manual*. Alternatively, the company may elect to not aggregate the contracts subject to this Guideline with those subject to VM-21 of the *Valuation Manual*, and value these as a separate group of contracts.
- B). The development of the reserves shall be documented following the requirements in VM-31 of the NAIC *Valuation Manual* applicable for that valuation date.

Section IV) Effective Date and Transition

- A) This Actuarial Guideline applies for valuations on or after January 1, 2020. The phase-in provisions of VM-21 also apply for the contracts and product features subject to the Guideline.

VM-01 and whether the contractual amounts paid in the absence of the guarantee are based on the investment performance of a market-value fund or market-value index (whether or not part of the company's separate account).

² For example, a group life contract that wraps a GMDB around a mutual fund would generally fall under the scope of the Guideline since there is not an explicit reserve requirement for this type of group life contract. However, for an individual variable life contract with a GMDB and a benefit similar in nature to a VAGLB, the Guideline would generally apply only to the VAGLB-type benefit, since there is an explicit reserve requirement that applies to the variable life contract and the GMDB.

- B) A company may elect to apply these requirements for the valuation on December 31, 2019, in lieu of the requirements of the prior version of this Guideline. If so elected, the reserves will be established by following the requirements of VM-21 from the 2020 NAIC *Valuation Manual* and the documentation requirements of VM-31 from the 2020 NAIC *Valuation Manual*.

Not for Distribution

Actuarial Guideline XLIV

GROUP TERM LIFE WAIVER OF PREMIUM DISABLED LIFE RESERVES

I. Background

Section 4.G. of the Standard Valuation Law establishes tables approved by the commissioner as the minimum standard for computing reserves for group life insurance and special benefits. The purpose of this Actuarial Guideline (Guideline) is to determine the minimum standard of valuation for group term life waiver of premium disabled life benefits and to recognize the 2023 Group Term Life Waiver (GTLW) Mortality and Recovery Valuation Tables. The Guideline also maintains recognition of the 2005 Group Term Life Waiver Mortality and Recovery Tables for purposes outlined in Section V of the Guideline.

Claims subject to Section V of the Guideline (applicable to individuals who become disabled on or after January 1, 2009, and on or before December 31, 2022) may be valued under Section VI (applicable to individuals who become disabled on or after January 1, 2023) at the election of the insurer provided these claims, for all future valuation dates, are valued under that section or any newer succeeding section at the insurer's election.

Group term life policies do not maintain contract reserves beyond the duration of the policy issued to the group policyholder. However, some policies guarantee an extended death benefit to an individual insured who is disabled according to the terms of the policy. Thus, to the extent such guarantees are made, a disabled life reserve must be maintained for each individual that is so disabled. However, prior to the creation of this guideline, there has been no formal guidance regarding the calculation of these disabled life reserves.

II. Scope

This guideline applies to group term life certificates on individuals who become disabled on or after January 1, 2009. Based on the provisions of Section 4.G. of the Standard Valuation Law, companies may apply this to group term life certificates on individuals who became disabled prior to January 1, 2009, provided they obtain permission from the commissioner.

III. Definitions

“2005 GTLW Mortality Table”, “2005 GTLW Recovery Table”, “2023 GTLW Mortality Valuation Table”, and “2023 GTLW Recovery Valuation Table” mean the tables found at <https://content.naic.org/sites/default/files/actuary-acadamy-soari-glwp-table-rates.xlsx>.

IV. The Group Waiver of Premium Reserve Calculation

- A. The minimum standard of valuation for group term life waiver of premium disabled life benefits shall be the present value of the death benefit payable discounted for interest and recovery. Since there is not a contract reserve based upon an aggregate table, the discounted value of waived premiums is inadequate to support this liability.
- B. The maximum interest rate to be used in determining the minimum valuation standard for any group term life waiver of premium disabled life benefit incurred on or after the effective date of this guideline shall be the maximum rate permitted by law in the valuation of life insurance of the same guaranteed duration issued on the same date as the claim incurral date of disability. For most groups and companies this rate shall be the rate for life insurance with guaranteed duration greater than 20 years. The guaranteed duration used to determine the life insurance rate of interest is equal to the largest term in years between the point at which any individual in the group may become

disabled and the point at which no death benefit is available. Thus, if a person could become disabled at age 20, and remain disabled, and receive a benefit upon death before age 65, the guaranteed duration would be 45 years.

- C. The valuation tables were derived from employer-employee group life experience. Other forms of group term life insurance are also subject to the same requirements if they contain similar extended death benefit provisions.

V. Group Term Life Certificates on Individuals Who Become Disabled on or After January 1, 2009, and on or Before December 31, 2022

Claims subject to this section of the Guideline may be valued under Section VI (applicable to disabilities incurred January 1, 2023 and later) at the election of the insurer provided these claims, for all future valuation dates, are valued under that section or any newer succeeding section at the insurer's election. The 2005 GTLW Mortality and Recovery Tables and the 2023 GTLW Mortality and Recovery Valuation Tables can be found here: <https://content.naic.org/sites/default/files/actuary-acadamy-soari-glwp-table-rates.xlsx>.

A. Group Waiver of Premium Reserve Calculation

- 1. Except as provided in Section V.B., the 2005 GTLW Mortality and Recovery Tables shall be used for determining the minimum standard of valuation for any group term life waiver of premium disabled life benefit incurred during the effective period of this section of this Guideline. Section V.B. offers ways to modify the underlying rates of mortality or recovery if they differ from those associated with the underlying experience in the valuation table.

B. Use of Company Experience

- 1. The Appointed Actuary shall review company experience at least once every five years. The review of company experience can range from a detailed experience study to a high level analysis. The extent of the review must be sufficient to enable the Appointed Actuary to defend any conclusion reached. Company experience shall:
 - i. Be segmented into policies with similar benefits, on individuals of each gender;
 - ii. Be experience-specific to the company;
 - iii. Include all relevant experience in the past three most recent years;
 - iv. Exclude experience that is not in the past six most recent years;
 - v. Otherwise be relevant, in accordance with the professional judgment of the Appointed Actuary; and
 - vi. Not be deemed irrelevant by the commissioner.
- 2. The commissioner may require a company to use its experience based upon the most recent review referenced in Section V.B.1. to establish its specific valuation tables if:

- i. Actual mortality experience is reasonably expected to be greater than 90% of the 2005 GTLW Mortality Tables; or
- ii. Actual recovery experience is reasonably expected to be less than 125% of the 2005 GTLW Recovery Tables.

Under these circumstances, the commissioner may require a company to use the process set out in Section V.B.4. and establish for the company a minimum value for Z.

- 3. A company may use its experience exclusively without reference to the standard tabular mortality expected experience or to the standard tabular recovery expected experience to create its specific valuation tables if:
 - i. The Appointed Actuary can demonstrate and certify the following:
 - a) The company-specific valuation tables are based on company experience with allowances for graduation and margins for adverse experience;
 - b) The company-specific mortality valuation tables used for computing minimum reserves for group term life waiver of premium benefits are such that there is at least an 85% statistical confidence that the actual annual aggregate mortality will be less than the mortality in the company-specific-mortality valuation tables; and
 - c) The company-specific recovery valuation tables used for computing minimum reserves for group term life waiver of premium benefits are such that there is at least an 85% statistical confidence that the actual annual aggregate recoveries will be greater than the recoveries in the company-specific recovery valuation tables.
 - ii. The company has written permission from the domiciliary commissioner to use the company-specific valuation tables.
 - iii. Unless otherwise exempted or required, the specific valuation tables shall apply to the computation of minimum reserves for group term life waiver of premium disabled life benefits for claims incurred during or after the calendar year in which the study was performed.
 - iv. The company shall not use mortality and recovery tables with rates that produce reserves less than the reserves produced by using 75% of the 2005 GTLW Mortality Tables and 160% of the 2005 GTLW Recovery Tables for all durations of disability combined.
- 4. If not invoking Section V.B.3., a company may use a credibility-weighted combination of company mortality experience with the 2005 GTLW Mortality Tables and/or of company recovery experience with the 2005 GTLW Recovery Tables to create its specific valuation tables.

- i. The blended tables for each gender and type of experience (mortality and recovery) shall be computed using the formula $\text{Blended Table} = T \times S$, where:
 - a) Z shall be a credibility weighting factor, between 0 and 1, developed by the Appointed Actuary using credibility theory methods not unacceptable to the commissioner;
 - b) F shall be the ratio of the company's actual experience to the expected experience for the 2005 GTLW Mortality and Recovery Tables for each gender and type of experience (mortality and recovery);
 - c) M shall be 1.12 for mortality tables and 0.80 for recovery tables. The values provide a smooth transition between the 2005 tables and company experience when $Z = 1$;
 - d) S shall be the 2005 GTLW Mortality and Recovery Tables; and
 - e) T shall be computed using the following steps:

Step 1: Compute the raw value of $T = [Z \times (F \times M) + (1 - Z)]$.

Step 2: Round T to the nearest 5%.

Step 3: If the absolute difference between the T produced in step 2 and the value of T utilized immediately prior to the study is less than 10%, then set T equal to the value of T utilized immediately prior to the study.

Step 4: For all durations of disability, combined for each gender, set the value of T to the greater of 75% and the T resulting from step 3 for mortality and set the value of T to the lesser of 160% and the T resulting from step 3 for recovery.
- ii. The company has written permission from the domiciliary commissioner to use the blended valuation tables.
- iii. Unless otherwise exempted or required, the specific valuation tables shall apply to the computation of minimum reserves for group term life waiver of premium disabled life benefits for claims incurred during or after the calendar year in which the study was performed.

VI. Group Term Life Certificates on Individuals Who Become Disabled on or After January 1, 2023

- A. When the insurer follows the instructions provided in this Guideline, the selected claim mortality rates and recovery rates automatically meet the minimum standard for computing reserves as established by Section 4.G. of the Standard Valuation Law.
- B. Valuation Table Modifications for Company Experience

If not invoking the small company exception specified in Section VI.D., a company must use a credibility-weighted combination of its own claim mortality experience and claim recovery experience with the 2023 GTLW Mortality and Recovery Valuation Tables to create its specific valuation table.

- i. For claim durations within the elimination period, mortality rates and recovery rates may be developed as below consistent with other Duration Groups or in any other manner deemed appropriate by the actuary. With respect to credibility, any value between 0 and 1 that the actuary deems appropriate for the block may be used.
- ii. For claim durations beyond the elimination period, the valuation mortality rates and recovery rates shall be computed using the mortality rates from the 2023 GTLW Mortality Valuation Table (S_M) and recovery rates from the 2023 GTLW Recovery Valuation Table (S_R) multiplied by mortality experience adjustment factors (T_M) and recovery experience adjustment factors (T_R) that are calculated separately for three different duration groups for mortality and separately for three different duration groups for recovery.

$$\text{Valuation Mortality Rate} = T_M \times S_M$$

$$\text{Valuation Recovery Rate} = T_R \times S_R$$

The duration groups are defined as follows:

Group 1: duration > the satisfaction of the elimination period and duration ≤ 24 months

Group 2: duration > 24 months and duration ≤ 60 months

Group 3: duration > 60 months

- a) S_M and S_R shall be the mortality rates and recovery rates respectively from the 2023 GTLW Mortality and Recovery Valuation Tables.
- b) T_M shall be computed as $T_M = [Z_M \times F_M + (1 - Z_M)] \times (1 + M_M)$ and T_R shall be computed as $T_R = [Z_R \times F_R + (1 - Z_R)] \times (1 + M_R)$.

where

- 1) Z_M shall be a mortality credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Group 1-3: $Z_M = \text{Min} \left(\sqrt{N_M / K_M}, 1 \right)$ where N_M is the number of expected death counts determined by using claim mortality rates from the 2023 GTLW Mortality Valuation Table, and

- 2) K_M is a set of constants defined by duration group as follows for mortality:

Group 1: $K_M = 800$

Group 3: $K_M = 800$

Group 2: $K_M = 800$

- 3) Z_R shall be a recovery credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Group 1-3: $Z_R = \text{Min} \left(\sqrt{N_R / K_R}, 1 \right)$ where N_R is the number of expected recovery counts determined by using claim recovery rates from the 2023 GTLW Recovery Valuation Table, and

- 4) K_R is a set of constants defined by duration group as follows for recoveries:

Group 1: $K_R = 1,700$

Group 3: $K_R = 1,700$

Group 2: $K_R = 1,700$

- 5) F_M shall be the ratio of the company's actual death counts to the expected death counts in the 2023 GTLW Mortality Valuation Table for each duration group specified above and F_R shall be the ratio of the company's actual recovery counts to the expected recovery counts in the 2023 GTLW Recovery Valuation Table for each duration group specified above.

If the actuary has reserve adequacy or other significant analysis that demonstrates in the development and use of company-specific experience (see Section VI.C. below) that an alternative measurement is deemed appropriate, such as:

- I. Use of some other weighting of claims (for example, death benefit amount) that is not only appropriate for measuring actual to expected (A to E), but also is expected to generally produce reserves not less than those produced by using a claim count measurement.
- II. Use of an increased mortality credibility factor Z_M if F_M is greater than 1 and / or use of an increased recovery credibility factor Z_R if F_R is less than 1 to give unfavorable company experience more weight.

- 6) M_M and M_R are the company experience margins for mortality and recovery respectively, determined for each duration group, according to the following formulas:

$$M_M = \text{Min} \left(15\%, \text{Max} \left(5\%, 3\% + 1.65 * \sqrt{A_M / C_M} \right) \right)$$

$$M_R = \text{Min} \left(15\%, \text{Max} \left(5\%, 3\% + 1.65 * \sqrt{A_R / C_R} \right) \right)$$

where A_M is a set of constants defined by duration group as follows for mortality:

Group 1: $A_M = 1.0$

Group 3: $A_M = 1.0$

Group 2: $A_M = 1.0$

and A_R is a set of constants defined by duration group as follows for recoveries:

Group 1: $A_R = 2.0$ Group 3: $A_R = 2.0$
 Group 2: $A_R = 2.0$

and C_M shall be the company's actual number of death counts by duration group.

and C_R shall be the company's actual number of recovery counts by duration group.

These are the minimum values for the definition of M_M and M_R prior to any reserve adequacy analysis. Adequacy tests and analysis of experience (for example, sharpness of fluctuations, trends over the period of the mortality rate study or recovery rate study, changing claims practices) may indicate that larger values of M_M or M_R may be more appropriate. If so, such values are deemed appropriate.

- iii. The company shall not use mortality rates that are less than those produced by computing T_M as $T_M = 0.75$

C. Company-Specific Experience – Own Experience Measurement

In computing values F_M , F_R , T_M , and T_R to comply with section VI.B. above, the Appointed Actuary may consider the following:

- i. Segment the company claim mortality experience and claim recovery experience into any major subgroups that may produce significantly different results (for example, market niches, claims operations, and unique benefit designs).
- ii. Combine affiliated statutory entities and assumed reinsurance, where claim management is under a common structure, when considering company experience. It is also appropriate to evaluate experience separately when specific blocks of company business have distinct claim management practices or significantly different risk characteristics.
- iii. Include all relevant experience the company is capable of providing for as many of the last five years as possible (not including the lag period described below). However, there are two situations where using other than a five-year period may be more appropriate. The first is when a company's experience in a longer period not only increases credibility but is still relevant and appropriate for the company's products and claim management practices. In this case, the period to be used is not to exceed ten years. The second is for a company that has had significant changes in product and/or claim management practices within the past five years that has diminished the relevance of the company's experience early in the five-year period. In this second situation, less than five years of experience may be used for any duration band for which there is compelling logic and when either the company's experience to be used is at least 90% credible, or the shorter experience period produces higher reserves than using five years.
- iv. Recognize a suitable lag period to allow for a full resolution of claim status. For example, the lag period used in the 2019 Group Term Life Waiver Experience Study performed by the Society of Actuaries was 12 months. However, the

Appointed Actuary may use a different lag period based on his or her company experience. For example, company experience indicates that all changes after the selected lag period are negligible.

- v. Measure actual (A) to expected (E) deaths and A to E recoveries based on claim count (unless another weighting is deemed more appropriate, as mentioned in Section VI(B)(ii)(b)(5)), where the E is based on expected deaths and recoveries, respectively, from the 2023 GTLW Mortality Valuation Table and the 2023 GTLW Recovery Valuation Table. Claim count is also used in the measurement of credibility.
- vi. Recognize where appropriate any flexibility built into the 2023 GTLW Mortality and Recovery Valuation Tables, such as not utilizing diagnosis-specific mortality rates and recovery rates when the information is deemed unreliable.
- vii. Do not count as deaths or recoveries those claims that are closed due to settlement, or that have reached the end of the maximum benefit duration, or that are closed due to any other contractual limit.
- viii. Use experience that is otherwise relevant in accordance with the professional judgment of the Appointed Actuary.

In the above paragraphs, the term “company” refers to a single company or a group of legally related companies subject to the same claim management.

D. Own Experience Measurement Exemption

Determine the number of claims that, according to the provisions of this Guideline, are subject to valuation using the 2023 GTLW Mortality and Recovery Valuation Tables. If, at the time of valuation, a company has fewer than 50 such open claims disabled within two years of the effective date of the valuation, and fewer than 200 such open claims disabled more than two years prior to the effective date of the valuation, the company is exempt from the requirement that the 2023 GTLW Mortality and Recovery Valuation Tables be modified by the company’s own experience. Said company will use, based on the maximum values of M_M and M_R for any duration group according to Section VI(B)(ii)(b)(6) above, 115% of the 2023 GTLW Mortality Valuation Table for all duration groups to calculate claim mortality rates and 85% of the 2023 GTLW Recovery Valuation Table for all duration groups to calculate claim recovery rates in order to comply with the minimum valuation standard.

**THE APPLICATION OF THE STANDARD NONFORFEITURE LAW FOR
LIFE INSURANCE TO CERTAIN POLICIES HAVING
INTERMEDIATE CASH BENEFITS**

Scope

This Guideline applies to individual life insurance policies, other than variable and non-variable adjustable life policies and current assumption whole life policies, that provide for an endowment benefit, materially less than the policy face amount, at a specified intermediate duration during a longer period of life insurance protection. The payment of such endowment benefit does not alter or eliminate any premiums or benefits scheduled for the period subsequent to the endowment date, nor does the policy automatically terminate upon payment of the endowment benefit. Policies that offer a return of premium endowment benefit may be considered a special case of the policies subject to this Guideline.

Background

In recent years a new category of life insurance products has emerged in the life insurance marketplace. These products offer a cash benefit at a specified time, typically many years prior to the coverage expiry date of the policy, conditioned on the insured being alive and the policy being in force at that time. The cash benefit has often taken the form of an intermediate period endowment that is either built into the policy or is provided through a rider or an endorsement. When the amount of the cash benefit is based upon the premiums paid into the policy, the benefit is often referred to as a return of premium benefit.

The straightforward application of Sections 3 and 5c of the Standard Nonforfeiture Law For Life Insurance (the Law), considering guaranteed benefits and premiums (whether guaranteed or indeterminate) during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums, can result in negative or very low cash values at all durations for these products. This is caused by high premiums assumed applicable in the later durations. This application of the Law produces unacceptable results, as it fails to recognize that the cash benefit should be prefunded with the premiums that fall due prior to the time the benefit becomes available.

The intent of this Guideline is to provide guidance with respect to the required minimum cash values for some of the products described in the Scope section. However, other products within the scope designed to provide similar benefits, and having similar premium structures (for example products having a cash value at the end of an initial level premium period equal to the total premiums paid) would be expected to provide minimum cash values that are determined in a manner consistent with this Guideline. For products with multiple endowment benefits, the minimum cash values should be determined in accordance with the principles of this Guideline.

Text

- A. The following methodology shall be used in the determination of minimum cash surrender values for policies subject to this Guideline in accordance with the requirements of the Law.
 - 1. The endowment period shall be that period of time measured from the issue date of the policy to the date when the endowment benefit becomes payable (the endowment date) under the terms of the policy.
 - 2. If the endowment benefit is added by rider to a policy, then for minimum cash value determination purposes the base policy and the endowment benefit are to be treated as integrated.

3. Premiums under the policy may be provided through a scale of guaranteed rates for the term of the policy or through a scale of current rates that are subject to a scale of guaranteed maximum premiums; if rates are subject to a scale of guaranteed maximum premiums, the minimum cash values shall be the greater of those produced under this Guideline using the guaranteed maximum rates and current rate scale applicable at issue of the policy.
4. Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary during the endowment period shall be an amount not less than the excess, if any, of the present value, on the anniversary, of the endowment benefit and any future incremental death benefits during the endowment period which would have been provided for by the policy if there had been no default, over the sum of:
 - (i) The then present value of the adjusted premiums as defined below corresponding to premiums which would have fallen due on and after the anniversary during the endowment period; and
 - (ii) The amount of any indebtedness to the company on the policy.
5. Incremental death benefits are death benefits during the endowment period in excess of the lowest death benefit provided under the policy during the endowment period.
6. The adjusted premiums for the policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premiums specified in the policy for each policy year during the endowment period, excluding amounts payable as extra premiums to cover impairments or special hazards and also excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender value and paid-up nonforfeiture benefits, that the present value, at the date of issue of the policy, of all adjusted premiums shall be equal to the sum of:
 - (i) The present value of the endowment benefit and any incremental death benefits provided for by the policy during the endowment period;
 - (ii) One percent (1%) of the average amount of insurance (total death benefit under the policy, including any incremental death benefits) at the beginning of each of the first ten policy years; and
 - (iii) One hundred twenty-five percent (125%) of the nonforfeiture net level premium as defined below, provided however, that no nonforfeiture net level premium shall be considered to exceed 4% of the average amount of insurance (total death benefit under the policy, including any incremental death benefits) at the beginning of each of the first ten policy years.
7. The nonforfeiture net level premium for the policy shall be equal to the present value, at the date of issue of the policy, of the endowment benefit and any incremental death benefits provided for by the policy during the endowment period, divided by the present value, at the date of issue of the policy, of an annuity of one per annum payable on the date of issue of the policy and on each anniversary of such policy on which a premium falls due prior to the endowment date.

8. The mortality rates and interest rate used in the determination of the minimum cash values for the policy shall be those applicable under the Law considering during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums.
- B. In no event can the cash surrender value under the policy at any duration be less than the greater of:
 1. The minimum cash value calculated according to Section A of this Guideline; and
 2. The minimum cash value at the same duration resulting from the application of the methods described in Sections 3 and 5c of the Law considering guaranteed benefits and premiums (whether guaranteed or indeterminate) during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums. In performing this calculation, no annual premium at any duration after the endowment period shall exceed the difference between the death benefit and the cash value at that duration.
 - C. The cash surrender values for the policy must also satisfy the consistency of progression of cash values test contained in Section 8 of the Law, considering guaranteed benefits and premiums (whether guaranteed or indeterminate) during the entire period death benefits are guaranteed available under the policy, subject only to the payment of required premiums.
 - D. For policies where the benefit is defined in more general terms as providing for a return of premiums paid or a portion of premiums paid, the procedures of Subsection 5c C of the Law and the requirements of Section A above shall be applied in the determination of a revised set of minimum cash values in the event the value of the endowment benefit of the policy changes due to a change made to the premium schedule provided at issue.

Applicability

This Guideline is effective for all policy forms filed on or after January 1, 2009, and affects all contracts issued on or after January 1, 2010.

Actuarial Guideline XLVI

INTERPRETATION OF THE CALCULATION OF THE SEGMENT LENGTH WITH RESPECT TO THE LIFE INSURANCE POLICIES MODEL REGULATION UPON A CHANGE IN THE VALUATION MORTALITY RATES SUBSEQUENT TO ISSUE

I. Background

Some states have revised their regulation permitting the use of the 2001 CSO Preferred Class Structure Mortality Table so that at the company's option it might be used to value a policy on a plan which was previously approved for issue based on valuation using the 2001 CSO Mortality Table. A company making this election would be changing the valuation mortality rates. It is also the case that use of the 2001 CSO Preferred Class Structure Mortality Table is predicated upon the block of policies initially, and annually thereafter, satisfying certain requirements with respect to the present value of death benefits over certain future periods. If these requirements are not satisfied at some point in the future, the company must change to a table for which the requirements are satisfied. For example, this could mean changing from the super preferred nonsmoker table to the preferred nonsmoker table or maybe from the preferred smoker table to the smoker table. Although a non-elective change, this is also a change in the valuation mortality rates.

Section 4B of the Valuation of Life Insurance Policies Model Regulation defines the "Contract Segmentation Method" in which segments are to be calculated using the valuation mortality rates for deficiency reserves. Thus, potentially either of the two examples given above could trigger a recalculation of the valuation segments at the time the valuation mortality rates are changed. The purpose of this guideline is to prescribe which circumstances involving a change to the valuation mortality rates, require a recalculation of the segments and which do not.

The Valuation of Life Insurance Policies Model Regulation was adopted, in part, to stop the use of high net premiums late in the policy's life from unduly influencing the level of reserves early in the policy's life ("postfunding"). The contract segmentation method was the answer devised to control this. After the adoption of this regulation, companies incorporated the establishment of the segment lengths into the policy design process based on the valuation mortality expected to be used. Now it is seen that there are circumstances in which it may be necessary or desirable to change valuation mortality after issue. But if it triggers a segment recalculation then there could be unintended, undesirable results.

This guideline classifies the circumstances involved in changes to valuation mortality rates into two categories: those where deliberately designed postfunding is less likely so no segment recalculation is prescribed, and those where such postfunding is more possible so segment recalculation is required. In general, non-elective valuation mortality changes require no segment recalculation, while elective valuation mortality changes are divided into those on plans filed for approval before the adoption of this guideline and those filed after adoption. To preclude enhancing postfunding by changing valuation mortality after a plan is approved, recalculation of segments is required if the change is elected on plans filed after adoption of this guideline, but is not required for plans filed before.

II. Scope

This guideline is effective December 31, 2008.

III. Text

A. For policies subject to a non-elective change in valuation mortality rates:

For policies which were the subject of a non-elective change in valuation mortality rates because the requirements for continued use of the prior rates were no longer satisfied, Section 4B of the Valuation of Life Insurance Policies Model Regulation shall be interpreted so that the segments need not be recalculated.

B. For policies subject to a company election to substitute the 2001 Preferred Class Structure Table for the 2001 CSO Mortality Table:

1. For policies issued on a policy form filed for approval prior to January 1, 2009, Section 4B of the Valuation of Life Insurance Policies Model Regulation shall be interpreted so that the segments need not be recalculated.
2. For policies issued on a policy form filed for approval after January 1, 2009, Section 4B of the Valuation of Life Insurance Policies Model Regulation shall be interpreted to require that the segments be recalculated using the new valuation mortality rates.

Not for Distribution

Actuarial Guideline XLVII

THE APPLICATION OF COMPANY EXPERIENCE IN THE CALCULATION OF CLAIM RESERVES UNDER THE 2012 GROUP LONG-TERM DISABILITY VALUATION TABLE

I. Background

The 2012 Group Long-Term Disability (GLTD) Valuation Table, as included in the *Health Insurance Reserves Model Regulation* (#10), is the valuation standard to replace the Commissioner's Group Disability Table 1987 (CGDT87 Table) with a new one based on the GLTD 2008 Table. This table is referred to as the GLTD 2012 Valuation Table and can be found at the following location:

<https://content.naic.org/sites/default/files/actuary-01-naic-2012-group-long-term-disability-valuation-table.xls>

An actuarial guideline is more appropriate to handle the multiple segments of the 2012 GLTD Valuation Table, the computations of own experience and the application of credibility which are not normally found in model regulations.

II. Purpose

The purpose of this Actuarial Guideline is to provide an instruction for the use of the 2012 GLTD Valuation Table that is referenced in the *Health Insurance Reserves Model Regulation* (#10). This guideline pertains to Group Long-Term Disability claims consistent with the conditions defined in the model regulation, and governs the selection of claim termination rates for the purpose of calculating GLTD claim reserves. This guideline does not address reserve adequacy, which remains the concern of the insurer according to the terms expressed in the model regulation.

Although the various detailed formulas in this guideline do not directly address or define reserve adequacy, it is assumed that appropriate adequacy tests will be made periodically. Such adequacy testing is considered to be an additional tool for the actuary to make appropriate choices where leeway from any prescription made herein is allowed (A/E calculation, margin, etc.) so that the calculation of the reserve will generally be adequate and the actuary does not need to continually rely on other measures to achieve adequacy. In addition to the few times that leeway from prescription is mentioned below, nothing in this guideline should be assumed to prohibit the actuary from building a case and requesting permission from the state insurance commissioner for other appropriate variations. Many such situations, because they would apply to fully credible blocks of business and are intended for continual use, should be considered for approval by the commissioner for a period tied to the updates required by Section C.vi and not approved on an annual basis.

III. Text

- A. When the insurer follows the instructions provided in this guideline, the selected claim termination rates automatically meet the minimum valuation standard defined in the model regulation.

- B. Valuation Table Modifications

If not invoking the small company exception specified in Section D, a company must use a credibility-weighted combination of its own claim termination experience with the 2012 GLTD Valuation Table to create its specific valuation table.

- i. For claims in Duration Group 1 (duration ≤ 3 months), termination rates may be developed as below consistent with other Duration Groups or in any other

manner deemed appropriate by the actuary. With respect to credibility, any value between 0 and 1.0 that the actuary deems appropriate for the block may be used.

- ii. For claims beyond 3 months, the valuation termination rates shall be computed using the termination rates from the 2012 GLTD Valuation Table (S) multiplied by experience adjustment factors (T) that are calculated separately for four different duration groups.

$$\text{Valuation Termination Rate} = T \times S$$

The duration groups are defined as follows:

- Group 2: duration > 3 months and duration ≤ 24 months
- Group 3: duration > 24 months and duration ≤ 60 months
- Group 4: duration > 60 months and duration ≤ 120 months
- Group 5: duration > 120 months

- a) S shall be the sum of recovery and death rates from the 2012 GLTD Valuation Table.

- b) T shall be computed as $T = [Z \times F * (1 - M) + (1 - Z)]$.

- 1) Z shall be a credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Groups 2-5: $Z = \text{Min}\left(\sqrt{N/K}, 1\right)$ N is the number of expected recovery and death counts from the 2012 GLTD Valuation Table.

- 2) K is a set of constants defined by duration group as follows:

Group 2: K = 3,300	Group 4: K = 2,100
Group 3: K = 2,500	Group 5: K = 1,700

- 3) F shall be the ratio of the company's actual total of recovery and death counts to the expected recovery and death counts for the 2012 GLTD Valuation Table for each duration group specified above.

If the actuary has reserve adequacy or other significant analysis that demonstrates in the development and use of Company Specific Experience (see Section C below) that an alternative measurement is deemed appropriate, such as:

- I. Use of some other weighting of claims (gross benefit, net benefit, etc.) that is not only appropriate for measuring A/E, but also is expected to generally produce reserves not less than those produced by using a claim count measurement.
- II. Use of an increased credibility factor Z if F is less than 1 to give the company experience more weight.

Then, a basis other than claim count may be used.

- 4) M is the company experience margin, determined for each duration group according to the following formula:

$$M = \text{Min} \left(15\%, \text{Max} \left(5\%, 3\% + 1.65 * \sqrt{A/C} \right) \right)$$

This is the minimum value for the definition of M prior to any reserve adequacy analysis. Adequacy tests and analysis of experience (sharpness of fluctuations, trends over the period of the termination rate study, changing claims practices, etc.) may indicate that a larger value of M may be more appropriate. If so, such a value is deemed appropriate.

- 5) A is a set of constants defined by duration group as follows:

Group 2: $A = 4.0$

Group 4: $A = 2.5$

Group 3: $A = 3.0$

Group 5: $A = 2.0$

- 6) C shall be the company's actual number of total recovery and death counts by duration group.

- iii. The company shall not use termination rates that produce total reserves for claims disabled for more than two years that are less than the reserves produced for these claims by computing T as $\underline{T} = 1.30$. If the Company Specific Experience, determined in Section C below, for Duration Group 3 includes at least 5,000 claim terminations, the value of T for that Duration Group shall not be limited to ≤ 1.30

C. Company Specific Experience—Own Experience Measurement

In computing values F and S to comply with Section B above, the appointed actuary shall:

- i. Segment the company claim termination experience into any major subgroups that may produce significantly different results (e.g., market niches, claims operations, unique benefit designs, etc.).
- ii. Combine affiliated statutory entities and assumed reinsurance, where claim management is under a common structure, when considering company experience. It is also appropriate to evaluate experience separately when specific blocks of company business have distinct claim management practices or significantly different risk characteristics.
- iii. Include all relevant experience the company is capable of providing for as many of the last five years as possible (not including the lag period described below). However, there are two situations where using other than a five-year period may be more appropriate. The first is when a company's experience in a longer period not only increases credibility but is still relevant and appropriate for the company's products and claim management practices. The second is for a company that has had significant changes in product and/or claim management practices within the past five years that has diminished the relevance of the company's experience early in the five-year period. In this second situation, less than five years of experience may be used for any duration band for which there

is compelling logic and when either the company's experience to be used is at least 90% credible, or the shorter experience period produces higher reserves than using five years.

- iv. Recognize a suitable lag period to allow for a full resolution of claim status. The lag period used in the 2008 GLTD Study was 12 months. However, the appointed actuary may use a different lag period based on his or her company experience. For example, company experience indicates that all changes after the selected lag period are negligible.
- v. Measure actual (A) to expected (E) terminations based on claim count (unless another weighting is deemed more appropriate, as mentioned in Section B(ii)(b)4), where the E is based on monthly expected recoveries and deaths from the 2012 GLTD Valuation Table. Claim count is also used in the measurement of credibility.
- vi. Update the minimum valuation basis in accordance with Section B above at least once every five years. In addition, the valuation basis also must be updated whenever the company's annual own experience study produces, in accordance with Section B, a value T that changes by more than 10% from the one used in the current valuation basis for any of the five duration groups.
- vii. Recognize where appropriate any flexibility built into the 2012 GLTD Valuation Table, such as not utilizing diagnosis-specific termination rates when the information is deemed unreliable.
- viii. Do not count as terminations those claims that are closed due to settlement (i.e., a lump sum replacing a series of potential future payments), or that have reached the end of the maximum benefit duration, or that are closed due to a contractual limit, such as a mental and nervous limit. For this purpose, a closure due to a change in definition of disability should be considered an actual termination and not a termination due to reaching the maximum benefit duration.
- ix. Use experience that is otherwise relevant in accordance with the professional judgment of the appointed actuary.
- x. Do not use experience that the commissioner has deemed inappropriate or likely to produce significantly inadequate reserves.

In the above paragraphs, the expression term "company" refers to a single company or a group of legally related companies subject to the same claim management.

D. Own Experience Measurement Exemption

If, at the time of valuation, a company has fewer than 50 open claims disabled within two years of the effective date of the valuation, and fewer than 200 open claims disabled more than two years prior to the effective date of the valuation, the carrier is exempt from the requirement that the 2012 GLTD Valuation Table be modified by the company's own experience. Open claims include only claims subject to valuation using the 2012 GLTD Valuation Table. Said company will use 100% of the 2012 Valuation Table for calculating claims termination rates in order to comply with the minimum valuation standard.

Actuarial Guideline XLVIII
(Applies to 2017 and Subsequent Year Valuations)

**ACTUARIAL OPINION AND MEMORANDUM REQUIREMENTS FOR THE REINSURANCE
OF POLICIES REQUIRED TO BE VALUED UNDER SECTIONS 6 AND 7 OF THE NAIC
VALUATION OF LIFE INSURANCE POLICIES MODEL REGULATION (MODEL #830)**

Background

The NAIC Principle-Based Reserving Implementation (EX) Task Force (“PBRI Task Force”) serves as the coordinating body for all NAIC technical groups involved with projects related to the Principle-Based Reserves (PBR) initiative for life and health policies. The PBRI Task Force was also charged with further assessing, and making recommendations regarding, the solvency implications of life insurance reserve financing mechanisms addressed in the June 6, 2013 NAIC White Paper of the Captives and Special Purpose Vehicle Use (E) Subgroup of the Financial Condition (E) Committee. Some of these reinsurance arrangements have been referred to as “XXX/AXXX Captive arrangements,” although not all such arrangements actually involve reinsurers organized as captives. In this connotation, XXX denotes the reserves prescribed by Section 6 of the NAIC *Valuation of Life Insurance Policies Model Regulation* (Model #830) while AXXX denotes the reserves prescribed by Section 7 of Model #830, and by *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). On June 30, 2014, the PBRI Task Force adopted a framework as found in Exhibits 1 and 2 of the June 4, 2014 report from Rector & Associates, Inc. (the “June 2014 Rector Report”). Exhibit 2 of the report included a charge to the Life Actuarial (A) Task Force (LATF) to develop a level of reserves (the “Required Level of Primary Security”) that must be supported by certain defined assets (“Primary Security”). The level of reserves is to be calculated by a method referred to as the “Actuarial Method.” Another charge to LATF was to promulgate an actuarial guideline specifying that, in order to comply with the NAIC *Actuarial Opinion and Memorandum Regulation*, Model 822 (“AOMR”) as it relates to XXX/AXXX reinsurance arrangements, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a XXX/AXXX reserve financing arrangement that does not adhere to the Actuarial Method and Primary Security forms adopted by the NAIC. The initial version of *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) was developed in response to that charge, with an effective date of January 1, 2015.

Coordination between this Actuarial Guideline and the NAIC Term and Universal Life Insurance Reserve Financing Model Regulation (Model #787)

Subsequently, on January 8, 2016, the NAIC adopted revisions to the *Credit for Reinsurance Model Law* (Model #785). Among other things, the revisions to Model #785 provide commissioners with the authority to enact, by regulation, additional requirements for ceding insurers to claim credit for reinsurance with respect to certain XXX/AXXX financing arrangements. On December 13, 2016, the NAIC adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (Model #787) as the regulation permitted by Model #785. LATF subsequently received a charge to redraft AG 48 to make it as consistent as possible with the provisions of Model #787. The current version of this actuarial guideline is the result.

The following is an overview of the interrelationship between this actuarial guideline and Model #787, and the regulatory strategy that led to the adoption of each:

1. The initial version of this actuarial guideline immediately established national standards for the use of XXX/AXXX financing arrangements in an attempt to quickly set minimum standards based on the framework adopted by the PBRI Task Force on June 30, 2014. This initial version applied to such reinsurance arrangements entered into on or after 1/1/2015.

2. The revised statute (the NAIC *Credit for Reinsurance Model Law* (Model #785)) and a new regulation (the NAIC *Term and Universal Life Insurance Reserve Financing Model Regulation* (Model #787)) were then developed and adopted by the NAIC.
3. Except as noted in #4 below, this actuarial guideline will cease to be effective, on a state by state basis, as individual states enact Model #785 and adopt Model #787 to replace it.
4. Notwithstanding, it is anticipated that in a small number of states, Model #787 will need to be adopted on a “prospective” basis only (that is, it will only apply to ceded policies issued on or after the effective date thereof). In those cases, this actuarial guideline will remain as the authority for ceded policies subject to this actuarial guideline but to which Model #787, as adopted in a given state, does not apply. So although its role might diminish, this actuarial guideline will remain an essential part of the regulatory framework for a small number of states for many years to come.
5. To ensure uniformity of treatment between states, companies, and ceded policies (whether governed by this actuarial guideline or by Model #787) and to avoid confusion, this actuarial guideline is being updated, effective as of January 1, 2017, to make it as substantively identical to Model #787 as possible.

Authority, Avoidance, and Purpose

The requirements in this actuarial guideline derive authority from Section 3 of the AOMR, or, after the Operative Date of the *Valuation Manual*, from Section 1 of VM-30 of the *Valuation Manual*. Both Section 3 of the AOMR and Section 1 of VM-30 provide that the commissioner has the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items. As contained in the framework adopted by the PBRI Task Force on June 30, 2014, this actuarial guideline defines new terms, such as Primary Security and Required Level of Primary Security, specifies the Actuarial Method used to calculate the Required Level of Primary Security, and specifies other requirements that must be followed when reinsurance is involved in order for the appointed actuary to render an actuarial opinion that is not qualified.

No statute, regulation or guideline can anticipate every potential XXX/AXXX captive arrangement. Common sense and professional responsibility are needed to assure not only that the text of this actuarial guideline is strictly observed, but also that its purpose and intent are honored scrupulously. To that end, and to provide documentation to the appointed actuary as to the arrangements that are subject to review under this actuarial guideline, the appointed actuary may request from each ceding insurer, and may rely upon, the certification by the Chief Financial Officer or other responsible officer of each ceding insurer filed with the insurer's domiciliary regulator that the insurer has not engaged in any arrangement or series of arrangements involving XXX or AXXX reserves that are designed to exploit a perceived ambiguity in, or to violate the purpose and intent of, this actuarial guideline.

The purpose and intent of this actuarial guideline is to establish uniform, national standards governing XXX or AXXX reserve financing arrangements¹ in conformity with the PBRI Task Force framework and, in connection with such arrangements, to ensure that Primary Security, in an amount at least equal to the Required Level of Primary Security, is held by or on behalf of the ceding insurer. As described further in Section 4.B., the provisions of this actuarial guideline are not intended to apply to policies that were issued prior to 1/1/2015 if those policies were included in a captive reserve financing arrangement as of 12/31/2014. Further, the requirements of this actuarial guideline should be viewed as minimum standards and are not a substitute for the diligent analysis of reserve financing arrangements by regulators. A regulator should impose requirements in addition to those set out in this actuarial guideline if the facts and circumstances warrant such action.

Text

1. Authority

Pursuant to Section 3 of the AOMR or, after the Operative Date of the *Valuation Manual*, to Section 1 of VM-30 of the *Valuation Manual*, the commissioner shall have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

2. Scope

This actuarial guideline applies to reinsurance contracts that cede liabilities pertaining to Covered Policies as that term is defined in Section 4.

3. Exemptions

This actuarial guideline does not apply to the situations described in Subsections A through F.

A. Reinsurance of:

- (1) Policies that satisfy the criteria for exemption set forth in Section 6F or Section 6G of Model #830; and which are issued before the later of:
 - (a) The effective date of Model #787 in the state of domicile of the ceding insurer, and
 - (b) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than January 1, 2020;
- (2) Portions of policies that satisfy the criteria for exemption set forth in Section 6E of Model #830 and which are issued before the later of:

¹ In general, reserve financing arrangements are those where the security/assets backing part or all of the reserves have one or more of the following characteristics: such security/assets (1) are issued by the ceding insurer or its affiliates; and/or (2) are not unconditionally available to satisfy the general account obligations of the ceding insurer; and/or (3) create a reimbursement, indemnification or other similar obligation on the part of the ceding insurer or any if its affiliates (other than a payment obligation under a derivative contract acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance arrangement).

- (a) The effective date of Model #787 in the state of domicile of the ceding insurer, and
 - (b) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than January 1, 2020;
 - (3) Any universal life policy that meets all of the following requirements:
 - (a) Secondary guarantee period, if any, is five (5) years or less;
 - (b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables and valuation interest rate applicable to the issue year of the policy; and
 - (c) The initial surrender charge is not less than one hundred percent (100%) of the first year annualized specified premium for the secondary guarantee period;
 - (4) Credit life insurance;
 - (5) Any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts; or
 - (6) Any group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year; or
- B. Reinsurance ceded to an assuming insurer that meets the applicable requirements of Section 2D of Model #785; or
- C. Reinsurance ceded to an assuming insurer that meets the applicable requirements of Sections 2A, 2B or 2C, of Model #785, and that, in addition:
- (1) Prepares statutory financial statements in compliance with the NAIC *Accounting Practices and Procedures Manual*, without any departures from NAIC statutory accounting practices and procedures pertaining to the admissibility or valuation of assets or liabilities that increase the assuming insurer's reported surplus and are material enough that they need to be disclosed in the financial statement of the assuming insurer pursuant to *Statement of Statutory Accounting Principles No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* ("SSAP No. 1"); and
 - (2) Is not in a Company Action Level Event, Regulatory Action Level Event, Authorized Control Level Event, or Mandatory Control Level Event as those terms are defined in the NAIC *Risk-Based Capital (RBC) for Insurers Model Act* (Model #312) when its RBC is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation; or

- D. Reinsurance ceded to an assuming insurer that meets the applicable requirements of Sections 2A, 2B or 2C, of Model #785, and that, in addition:
- (1) Is not an affiliate, as that term is defined in Section 1A of the NAIC *Insurance Holding Company System Regulatory Model Act* (Model #440), of:
 - (a) The insurer ceding the business to the assuming insurer; or
 - (b) Any insurer that directly or indirectly ceded the business to that ceding insurer;
 - (2) Prepares statutory financial statements in compliance with the NAIC *Accounting Practices and Procedures Manual*;
 - (3) Is both:
 - (a) Licensed or accredited in at least 10 states (including its state of domicile), and
 - (b) Not licensed in any state as a captive, special purpose vehicle, special purpose financial captive, special purpose life reinsurance company, limited purpose subsidiary, or any other similar licensing regime; and
 - (4) Is not, or would not be, below 500% of the Authorized Control Level RBC as that term is defined in Model #312 when its risk-based capital (RBC) is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation, and without recognition of any departures from NAIC statutory accounting practices and procedures pertaining to the admission or valuation of assets or liabilities that increase the assuming insurer's reported surplus; or
- E. Reinsurance ceded to an assuming insurer that meets the requirements of either Section 5B(4)(a) of Model #785, pertaining to certain certified reinsurers or Section 5B(4)(b) of Model #785, pertaining to reinsurers meeting certain threshold size and licensing requirements; or
- F. Reinsurance not otherwise exempt under Subsections A through E if the commissioner, after consulting with the NAIC Financial Analysis Working Group (FAWG) or other group of regulators designated by the NAIC, as applicable, determines under all the facts and circumstances that all of the following apply:
- (1) The risks are clearly outside of the intent and purpose of this actuarial guideline (as described in the Authority, Avoidance and Purpose section above);
 - (2) The risks are included within the scope of this actuarial guideline only as a technicality; and
 - (3) The application of this actuarial guideline to those risks is not necessary to provide appropriate protection to policyholders. The commissioner shall publicly disclose any decision made pursuant to this Section 3F to exempt a reinsurance

treaty from this actuarial guideline, as well as the general basis therefor (including a summary description of the treaty).

Drafting Note: The exemption set forth in Section 3F was added to address the possibility of unforeseen or unique transactions. This exemption exists because the NAIC recognizes that foreseeing every conceivable type of reinsurance transaction is impossible; that in rare instances unanticipated transactions might get caught up in this actuarial guideline purely as a technicality; and that regulatory relief in those instances may be appropriate. The example that was given at the time this exemption was developed pertained to bulk reinsurance treaties where the ceding insurer was exiting the type of business ceded. The exemption should not be used with respect to so-called “normal course” reinsurance transactions; rather, such transactions should either fit within one of the standard exemptions set forth in Sections 3A, B, C, D, or E or meet the substantive requirements of this actuarial guideline.

4. Definitions

- A. “Actuarial Method” means the methodology used to determine the Required Level of Primary Security, as described in Section 5.
 - B. “Covered Policies” means the following: Subject to the exemptions described in Section 3, Covered Policies are those policies, other than Grandfathered Policies, of the following policy types:
 - (1) Life insurance policies with guaranteed nonlevel gross premiums and/or guaranteed nonlevel benefits, except for flexible premium universal life insurance policies; or,
 - (2) Flexible premium universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period.
- Note:** Although “Covered Policies” is defined to include all the policies described in Subsections B1 and B2 above, it is noted that whether a given “Covered Policy” is subject to this actuarial guideline or, instead, to Model #787 should be determined under Section 8 (Sunset).
- C. “Grandfathered Policies” means policies of the types described in Subsections B1 and B2 above that were:
 - (1) Issued prior to January 1, 2015; and
 - (2) Ceded, as of December 31, 2014, as part of a reinsurance treaty that would not have met one of the exemptions set forth in Section 3 had that section then been in effect.
 - D. “Non-Covered Policies” means any policy that does not meet the definition of Covered Policies, including Grandfathered Policies.
 - E. “Required Level of Primary Security” means the dollar amount determined by applying the Actuarial Method to the risks ceded with respect to Covered Policies, but not more than the total reserve ceded.

F. “Primary Security” means the following forms of security:

- (1) Cash meeting the requirements of Section 3A of Model #785;
- (2) Securities listed by the Securities Valuation Office meeting the requirements of Section 3B of Model #785, but excluding any synthetic letter of credit, contingent note, credit-linked note or other similar security that operates in a manner similar to a letter of credit, and excluding any securities issued by the ceding insurer or any of its affiliates; and
- (3) For security held in connection with funds-withheld and modified coinsurance reinsurance treaties:
 - (a) Commercial loans in good standing of CM3 quality and higher;
 - (b) Policy Loans; and
 - (c) Derivatives acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance treaty.

G. “Other Security” means any security acceptable to the commissioner other than security meeting the definition of Primary Security.

H. “*Valuation Manual*” means the valuation manual adopted by the NAIC as described in Section 11B(1) of the Standard Valuation Law, with all amendments adopted by the NAIC that are effective for the financial statement date on which credit for reinsurance is claimed.

I. “VM-20” means “Requirements for Principle-Based Reserves for Life Products,” including all relevant definitions, from the *Valuation Manual*.

5. The Actuarial Method

A. Description of Actuarial Method

The Actuarial Method to establish the Required Level of Primary Security for each reinsurance treaty subject to this actuarial guideline shall be VM-20, applied on a treaty-by-treaty basis, including all relevant definitions, from the *Valuation Manual* as then in effect, applied as follows:

- (1) For Covered Policies described in Section 4B(1) above, the Actuarial Method is the greater of the Deterministic Reserve or the Net Premium Reserve (NPR) regardless of whether the criteria for exemption testing can be met. However, if the Covered Policies do not meet the requirements of the Stochastic Reserve exclusion test in the *Valuation Manual*, then the Actuarial Method is the greatest of the Deterministic Reserve, the Stochastic Reserve, or the NPR. In addition, if such Covered Policies are reinsured in a reinsurance treaty that also contains Covered Policies described in Section 4B(2) above, the ceding insurer may elect to instead use paragraph 2 below as the Actuarial Method for the entire reinsurance agreement. Whether Paragraph 1 or 2 are used, the Actuarial Method must comply with any requirements or restrictions that the *Valuation Manual* imposes when aggregating these policy types for purposes of principle-based

reserve calculations. The mortality basis for the NPR shall be the 2017 CSO Mortality Table.

- (2) For Covered Policies described in Section 4B(2) above, the Actuarial Method is the greatest of the Deterministic Reserve, the Stochastic Reserve, or the NPR regardless of whether the criteria for exemption testing can be met. The mortality basis for the NPR shall be the 2017 CSO Mortality Table.
- (3) Except as provided in Paragraph (4) below, the Actuarial Method is to be applied on a gross basis to all risks with respect to the Covered Policies as originally issued or assumed by the ceding insurer.
- (4) If the reinsurance treaty cedes less than one hundred percent (100%) of the risk with respect to the Covered Policies then the Required Level of Primary Security may be reduced as follows:
 - (a) If a reinsurance treaty cedes only a quota share of some or all of the risks pertaining to the Covered Policies, the Required Level of Primary Security, as well as any adjustment under Subparagraph (c) below, may be reduced to a pro rata portion in accordance with the percentage of the risk ceded;
 - (b) If the reinsurance treaty in a non-exempt arrangement cedes only the risks pertaining to a secondary guarantee, the Required Level of Primary Security may be reduced by an amount determined by applying the Actuarial Method on a gross basis to all risks, other than risks related to the secondary guarantee, pertaining to the Covered Policies, except that for Covered Policies for which the ceding insurer did not elect to apply the provisions of VM-20 to establish statutory reserves, the Required Level of Primary Security may be reduced by the statutory reserve retained by the ceding insurer on those Covered Policies, where the retained reserve of those Covered Policies should be reflective of any reduction pursuant to the cession of mortality risk on a yearly renewable term basis in an exempt arrangement;
 - (c) If a portion of the Covered Policy risk is ceded to another reinsurer on a yearly renewable term basis in an exempt arrangement, the Required Level of Primary Security may be reduced by the amount resulting by applying the Actuarial Method including the reinsurance section of VM-20 to the portion of the Covered Policy risks ceded in the exempt arrangement, except that for Covered Policies issued prior to Jan 1, 2017, this adjustment is not to exceed $[c_x / (2 * \text{number of reinsurance premiums per year})]$ where c_x is calculated using the same mortality table used in calculating the Net Premium Reserve; and
 - (d) For any other treaty ceding a portion of risk to a different reinsurer, including but not limited to stop loss, excess of loss and other non-proportional reinsurance treaties, there will be no reduction in the Required Level of Primary Security.

It is possible for any combination of Subparagraphs (a), (b), (c), and (d) above to apply. Such adjustments to the Required Level of Primary Security will be done in the sequence that accurately reflects the portion of the risk ceded via the treaty.

The ceding insurer should document the rationale and steps taken to accomplish the adjustments to the Required Level of Primary Security due to the cession of less than one hundred percent (100%) of the risk.

The Adjustments for other reinsurance will be made only with respect to reinsurance treaties entered into directly by the ceding insurer. The ceding insurer will make no adjustment as a result of a retrocession treaty entered into by the assuming insurers.

- (5) In no event will the Required Level of Primary Security resulting from application of the Actuarial Method exceed the amount of statutory reserves ceded.
- (6) If the ceding insurer cedes risks with respect to Covered Policies, including any riders, in more than one reinsurance treaty subject to this actuarial guideline, in no event will the aggregate Required Level of Primary Security for those reinsurance treaties be less than the Required Level of Primary Security calculated using the Actuarial Method as if all risks ceded in those treaties were ceded in a single treaty subject to this actuarial guideline.
- (7) If a reinsurance treaty subject to this actuarial guideline cedes risk on both Covered and Non-Covered Policies:
 - (a) The Actuarial Method shall be used to determine the Required Level of Primary Security for the Covered Policies; and
 - (b) Any Primary Security and/or Other Security used to meet any requirements pertaining to the Non-Covered Policies may not be used to satisfy any requirements related to the Required Level of Primary Security and/or Other Security for the Covered Policies.

B. Valuation Used for Purposes of Calculations

For the purposes of both calculating the Required Level of Primary Security pursuant to the Actuarial Method and determining the amount of Primary Security and Other Security, as applicable, held by or on behalf of the ceding insurer, the following shall apply:

- (1) For assets, including any such assets held in trust, that would be admitted under the NAIC *Accounting Practices and Procedures Manual* if they were held by the ceding insurer, the valuations are to be determined according to statutory accounting procedures as if such assets were held in the ceding insurer's general account and without taking into consideration the effect of any prescribed or permitted practices; and
- (2) For all other assets, the valuations are to be those that were assigned to the assets for the purpose of determining the amount of reserve credit taken. In addition, the asset spread tables and asset default cost tables required by VM-20 shall be included in the Actuarial Method if adopted by the NAIC's Life Actuarial (A) Task Force no later than the December 31 on or immediately preceding the valuation date for which the Required Level of Primary Security is being

calculated. The tables of asset spreads and asset default costs shall be incorporated into the Actuarial Method in the manner specified in VM-20.

6. Required Actuarial Analysis and Actuarial Opinion and Memorandum Requirements

A. Required Actuarial Analysis

Before the due date of each actuarial opinion, as to each reinsurance treaty in which Covered Policies have been ceded, the appointed actuary of each ceding insurer must perform an analysis on a treaty by treaty basis, of such Covered Policies to determine whether, as of the immediately preceding December 31 (the valuation date):

- (1) Funds consisting of Primary Security, in an amount at least equal to the Required Level of Primary Security, are held by or on behalf of the ceding insurer, as security under the reinsurance treaty within the meaning of Section 3 of Model #785, on a funds withheld, trust, or modified coinsurance basis; and
- (2) Funds consisting of Other Security, in an amount at least equal to any portion of the statutory reserves as to which Primary Security is not held pursuant to Paragraph (1) above, are held by or on behalf of the ceding insurer as security under the reinsurance treaty within the meaning of Section 3 of Model #785; and

Note: For the sake of clarity, funds consisting of Primary Security pursuant to Paragraphs (1) may exceed the Required Level of Primary Security, and Other Security is only required under Paragraph (2) to the extent that there is any portion of the statutory reserves as to which Primary Security is not so held. For example, if a ceding insurer's statutory reserves equal \$1 Billion, its Required Level of Primary Security is \$600 Million, and it holds \$1 Billion in Primary Security pursuant to Paragraph (1), no Other Security is required under Paragraph (2).

- (3) Any trust used to satisfy the requirements of this Section 6 complies with all of the conditions and qualifications of Section 11 of the NAIC *Credit for Reinsurance Model Regulation* (Model #786), except that:
 - (a) Funds consisting of Primary Security or Other Security held in trust, shall for the purposes identified in Section 5B, be valued according to the valuation rules set forth in Section 5B, as applicable; and
 - (b) There are no affiliate investment limitations with respect to any security held in such trust if such security is not needed to satisfy the requirements of Section 6A(1); and
 - (c) The reinsurance treaty must prohibit withdrawals or substitutions of trust assets that would leave the fair market value of the Primary Security within the trust (when aggregated with Primary Security outside the trust that is held by or on behalf of the ceding insurer in the manner required by Section 6A(1)) below 102% of the level required by Section 6A(1) at the time of the withdrawal or substitution.

B. Qualified Actuarial Opinion; Remediation

- (1) The appointed actuary of the ceding insurer performing the analysis required by Section 6A above must issue a qualified actuarial opinion as described in Section 6.D. of the AOMR or Section 3A(10) of VM-30 of the *Valuation Manual*, as applicable, unless:

- (a) The requirements of Section 6A(1) and 6(A)(2) were fully satisfied as of the valuation date as to such reinsurance treaty; or
 - (b) Any deficiency has been eliminated before the due date of the Annual Statement to which the valuation date relates through the addition of Primary Security and/or Other Security, as the case may be, in such amount and in such form as would have caused the requirements of Section 6A(1) and 6A(2) to be fully satisfied as of the valuation date; or
 - (c) The ceding insurer has established a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held pursuant to Section 6A(1).
- (2) In addition to the requirement set forth in Section 6B(1) above, the appointed actuary of the ceding insurer performing the analysis required by Section 6A above must issue a qualified actuarial opinion as described in Section 6.D. of the AOMR or Section 3A(10) of VM-30 of the *Valuation Manual*, as applicable, if the appointed actuary for any affiliated reinsurer of the ceding insurer issues a qualified actuarial opinion with respect to such affiliated reinsurer where (a) the affiliate reinsures Covered Policies of the ceding insurer and (b) the qualified actuarial opinion pertaining to the affiliated reinsurer results, in whole or in part, from the analysis required by this actuarial guideline.

Note: The remediation option set forth in Section 6B(1)(c) mirrors that set forth in Model #787. Under this option, a ceding company may choose to avoid the consequence (a qualified opinion under this actuarial guideline) by establishing a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held. For example, suppose a ceding insurer has established statutory reserves of \$1 Billion and has Primary Security of \$550 Million and Other Security of \$450 Million. Suppose further that the actuary determines that the insurer's Required Level of Primary Security is \$600 Million. Under Section 6B(1)(c), the insurer may avoid a qualified opinion by establishing a liability equal to \$450 Million (the difference between the statutory reserve of \$1 Billion and the \$550 Million amount of Primary Security actually held).

C. Additional Requirements for the Actuarial Opinion and Memorandum for Companies that have Covered Policies Requiring the Analysis Pursuant to this actuarial guideline

- (1) In the statement of actuarial opinion, the appointed actuary of the ceding insurer must state whether (i) he has performed an analysis, as to each reinsurance arrangement under which Covered Policies have been ceded, of the security supporting the Covered Policies and whether funds consisting of Primary Security in an amount at least equal to the Required Level of Primary Security are held by or on behalf of the ceding insurer, as security under the reinsurance contract, on a funds withheld, trust, or modified coinsurance basis and (ii) funds consisting of Primary Security or Other Security in an amount equal to the statutory reserves are held by or on behalf of the ceding insurer as security under the reinsurance arrangement.
- (2) In the actuarial memorandum as described by Section 7 of the AOMR or Section 3B of VM-30 of the *Valuation Manual*, as applicable, the appointed actuary of the ceding insurer must document the analysis and requirements applied by this

actuarial guideline as to each reinsurance arrangement under which Covered Policies are ceded.

- (3) In the event that a reinsurance treaty contains both (1) Covered Policies subject to this actuarial guideline rather than to Model #787, and (2) Covered Policies subject to Model #787 rather than to this actuarial guideline, the treaty shall be tested as a whole for purposes of a ceding insurer's compliance with both (a) the requirements of Section 6A(1) and Section 6A(2) of this actuarial guideline and (b) the requirements of Section 7A(3) and Section 7A(4) of Model #787; provided further, that:
 - (a) If funds consisting of Primary Security are held in amounts less than the Required Level of Primary Security, such funds consisting of Primary Security shall be allocated first to fulfill the Required Level of Primary Security for the Covered Policies subject to this actuarial guideline, with any remainder allocated to those Covered Policies subject to Model #787; and
 - (b) If funds consisting of Other Security are held in amounts less than the requirements of Section 6A(2), such funds consisting of Other Security shall be allocated first to fulfill the Other Security requirements for the Covered Policies subject to this actuarial guideline, and any remainder shall be allocated to those Covered Policies subject to Model #787.

7. Effective Date

This actuarial guideline shall become effective as of January 1, 2017 with respect to all Covered Policies. This actuarial guideline supersedes and replaces all previous versions thereof with respect to actuarial opinions rendered as to valuation periods ending on or after January 1, 2017.

Note: For the avoidance of doubt, actuarial opinions issued with respect to the year ended December 31, 2016, shall be governed by the version of AG 48 in effect on December 31, 2016, as included in the Accounting Practices and Procedures Manual.

8. Sunset Provision

This actuarial guideline shall cease to apply as to Covered Policies that are both (a) issued by ceding insurers domiciled in a jurisdiction that has in effect, as of December 31st⁴ of the calendar year immediately preceding the year in which the actuarial opinion is to be filed, a regulation substantially similar to Model #787 adopted by the NAIC on December 13, 2016; and (b) subject to Model #787 as so adopted by the ceding insurer's jurisdiction of domicile. This Actuarial Guideline shall continue to apply, without interruption, to any and all Covered Policies not included in both (a) and (b) of the immediate preceding sentence.

*Note: It is anticipated that, for most states, this actuarial guideline will sunset pursuant to (a) and (b) of Section 8 and will continue only with respect to the limited number of states in which their version of Model #787 applies prospectively only, i.e., applies only to Covered Policies issued on or after the effective date of their version of Model #787. It is anticipated, however, that most states will be able to adopt a version of Model #787 that, like the Model itself, applies to all Covered Policies (subject to the applicable exemptions and grandfathering provisions) that are "in force" on or after the effective date, even if the policies were originally issued prior to that effective date. The goal of Section 8 is to ensure that **all** Covered Policies ceded in reinsurance transactions within the scope of this actuarial guideline continue to be subject to this actuarial guideline unless and until they become subject to Model #787.*

Actuarial Guideline XLIX

THE APPLICATION OF THE LIFE ILLUSTRATIONS MODEL REGULATION TO POLICIES WITH INDEX-BASED INTEREST

Background

The *Life Insurance Illustrations Model Regulation* (#582) was adopted by the NAIC in 1995. Since that time there has been continued evolution in product design, including the introduction of benefits that are tied to an external index or indices. Although these policies are subject to Model #582, not all of their features are explicitly referenced in the model, resulting in a lack of uniform practice in its implementation. In the absence of uniform guidance, two illustrations that use the same index and crediting method often illustrated different credited rates. The lack of uniformity can be confusing to potential buyers and can cause uncertainty among illustration actuaries when certifying compliance with Model #582.

This guideline provides uniform guidance for policies with index-based interest. In particular, this guideline:

- (1) Provides guidance in determining the maximum crediting rate for the illustrated scale and the earned interest rate for the disciplined current scale.
- (2) Limits the policy loan leverage shown in an illustration.
- (3) Requires additional consumer information (side-by-side illustration and additional disclosures) that will aid in consumer understanding.

Text

1. Effective Date

This Actuarial Guideline shall be effective as follows:

- i. Sections 4 and 5 shall be effective for all new business and in force life insurance illustrations on policies sold on or after September 1, 2015.
- ii. Effective March 1, 2017, Section 4 and Section 5 shall be effective for all in-force life insurance illustrations on policies within the scope of this Actuarial Guideline, regardless of the date the policy was sold.
- iii. Sections 6 and 7 shall be effective for all new business and in force life insurance illustrations on policies sold on or after March 1, 2016.
- iv. This actuarial guideline shall not apply for any new business or in force life insurance illustration on policies sold on or after December 14, 2020.
- v. Notwithstanding part iv of this section, an insurer may choose to utilize AG 49-A guidance for new illustrations on policies sold prior to the effective date of AG 49-A provided that, 1) the insurer utilizes AG 49-A guidance for all new product illustrations subject to AG 49, and 2) the insurer does not revert back to the AG 49 guidance.

2. Scope

This Actuarial Guideline shall apply to any life insurance illustration that meets both (i) and (ii) below:

- i. The policy is subject to Model #582.
- ii. Interest credits are linked to an external index or indices.

3. Definitions

A. **Alternate Scale:** A scale of non-guaranteed elements currently being illustrated such that:

- i. The credited rate for each Index Account does not exceed the lesser of the maximum credited rate for the illustrated scale less 100 basis points and the credited rate for the Fixed Account. If the insurer does not offer a Fixed Account with the illustrated policy, the credited rate for each Index Account shall not exceed the average of the maximum credited rate for the illustrated scale and the guaranteed credited rate for that account. However, the credited rate for each Index Account shall never be less than the guaranteed credited rate for that account.
- ii. If the illustration includes a loan, the illustrated rate credited to the loan balance does not exceed the illustrated loan charge.
- iii. All other non-guaranteed elements are equal to the non-guaranteed elements for the illustrated scale.

B. **Benchmark Index Account:** An Index Account with the following features:

- i. The interest calculation is based on the percent change in S&P 500[®] Index value only, over a one-year period using only the beginning and ending index values. (S&P 500[®] Index ticker: SPX)
- ii. An annual cap is used in the interest calculation.
- iii. The annual floor used in the interest calculation shall be 0%.
- iv. The participation rate used in the interest calculation shall be 100%.
- v. Interest is credited once per year.
- vi. Account charges do not exceed the account charges for any corresponding Index Accounts within the policy in any policy year. If Index Accounts with different levels of account charges are offered with the illustrated policy, more than one Benchmark Index Account may be used in determining the maximum illustrated crediting rates for the policy's Index Accounts, subject to the requirements of paragraph 5 (D). However, for each Index Account within the policy, only one Benchmark Index Account shall apply. Any rate calculated in paragraph 4 (B) shall not apply for an Index Account if the account charges for the applicable Benchmark Index Account exceed the account charges for that Index Account in any policy year. Account charges include all charges applicable to an Index Account, whether deducted from policy values or from premiums or other amounts transferred into such Index Account.

- vii. Additional amounts credited are not less than the additional amounts credited for any corresponding Index Accounts within the policy in any policy year. Any rate calculated in paragraph 4 (B) shall not apply for an Index Account if the additional amounts credited for the applicable Benchmark Index Account are less than the additional amounts credited for that Index Account in any policy year. Additional amounts include all credits that increase policy values, including but not limited to experience refunds or bonuses.
- viii. There are no limitations on the portion of account value allocated to the account.

- C. **Fixed Account:** An account where the credited rate is not tied to an external index or indices.
- D. **Index Account:** An account where the credited rate is tied to an external index or indices.

4. Illustrated Scale

The credited rate for the illustrated scale for each Index Account shall be limited as follows:

- A. Calculate the geometric average annual credited rate for each applicable Benchmark Index Account for the 25-year period starting on 12/31 of the calendar year that is 66 years prior to the current calendar year (e.g., 12/31/1949 for 2015 illustrations) and for each 25-year period starting on each subsequent trading day thereafter, ending with the 25-year period that ends on 12/31 of the prior calendar year.
 - i. If the insurer offers an applicable Benchmark Index Account with the illustrated policy, the illustration actuary shall use the current annual cap for the applicable Benchmark Index Account in paragraph 4 (A).
 - ii. If the insurer does not offer an applicable Benchmark Index Account with the illustrated policy, the illustration actuary shall use actuarial judgment to determine a hypothetical, supportable current annual cap for a hypothetical, supportable Index Account that meets the definition of a Benchmark Index Account, and shall use that cap in paragraph 4 (A).
- B. For each applicable Benchmark Index Account, the arithmetic mean of the geometric average annual credited rates calculated in paragraph 4 (A) shall be the maximum credited rate(s) for the illustrated scale.
- C. For other Index Accounts using other equity, bond, and/or commodity indexes, and/or using other crediting methods, the illustration actuary shall use actuarial judgment to determine the maximum credited rate for the illustrated scale. The determination shall reflect the fundamental characteristics of the Index Account and the parameters shall have the appropriate relationship to the expected risk and return of the applicable Benchmark Index Account. In no event shall the credited rate for the illustrated scale exceed the applicable rate calculated in paragraph 4 (B).
- D. At the beginning of each calendar year, the insurer shall be allowed up to three (3) months to update the credited rate for each Index Account in accordance with paragraphs 4 (B) and 4 (C).

5. Disciplined Current Scale

The earned interest rate for the disciplined current scale shall be limited as follows:

- A. If an insurer engages in a hedging program for index-based interest, the assumed earned interest rate underlying the disciplined current scale shall not exceed 145% of the annual

net investment earnings rate (gross portfolio earnings less provisions for investment expenses and default costs) of the general account assets (excluding hedges for index-based credits) allocated to support the policy.

- B. If an insurer does not engage in a hedging program for index-based interest, the assumed earned interest rate underlying the disciplined current scale shall not exceed the annual net investment earnings rate of the general account assets allocated to support the policy.
- C. These experience limitations shall be included when testing for self-support and lapse-support under Model #582, accounting for all benefits including illustrated bonuses.
- D. If more than one Benchmark Index Account is used for an illustrated policy, each set of Index Accounts that correspond to each Benchmark Index Account must independently pass the self-support and lapse-support tests under Model #582, subject to the limitations in paragraphs 5 (A), 5 (B) and 5 (C). All experience assumptions that do not directly relate to the Index Accounts as to expenses, mortality, investment earnings rate of the general account assets, lapses, and election of any Fixed Account shall equal the assumptions used in the testing for the entire policy.

6. Policy Loans

If the illustration includes a loan, the illustrated rate credited to the loan balance shall not exceed the illustrated loan charge by more than 100 basis points.

7. Additional Standards

The basic illustration shall also include the following:

- A. A ledger using the Alternate Scale shall be shown alongside the ledger using the illustrated scale with equal prominence.
- B. A table showing the minimum and maximum of the geometric average annual credited rates calculated in paragraph 4 (A).
- C. For each Index Account illustrated, a table showing actual historical index changes and corresponding hypothetical interest rates using current index parameters for the most recent 20-year period.

Actuarial Guideline XLIX-A

THE APPLICATION OF THE LIFE ILLUSTRATIONS MODEL REGULATION TO POLICIES WITH INDEX-BASED INTEREST SOLD (On or After December 14, 2020)

Background

The *Life Insurance Illustrations Model Regulation* (#582) was adopted by the NAIC in 1995. Since that time there has been continued evolution in product design, including the introduction of benefits that are tied to an index or indices. Although these policies are subject to Model #582, not all of their features are explicitly referenced in the model, resulting in a lack of uniform practice in its implementation. In the absence of uniform guidance, two illustrations that use the same index and crediting method often illustrated different credited rates. The lack of uniformity can be confusing to potential buyers and can cause uncertainty among illustration actuaries when certifying compliance with Model #582.

~~In 2019, the NAIC decided that illustrations of products with multipliers, cap buy-ups, and other enhancements that are linked to an index or indices should not illustrate better than products without such features. This new requirement is intended to apply to illustrations on policies sold on or after the effective date of this guideline while the existing requirements continue to apply for inforce illustrations on policies sold before the effective date of this guideline.~~

This guideline provides uniform guidance for policies with index-based interest. In particular, this guideline:

- (1) Provides guidance in determining the maximum crediting rate for the illustrated scale and the earned interest rate for the disciplined current scale.
- (2) Limits the policy loan leverage shown in an illustration.
- (3) Requires additional consumer information (side-by-side illustration and additional disclosures) that will aid in consumer understanding.

Text

1. Effective Date

This Actuarial Guideline shall be effective for all new business and in force illustrations on policies sold on or after December 14, 2020.

2. Scope

This Actuarial Guideline shall apply to any life insurance illustration that meets both (i) and (ii), below:

- i. The policy is subject to Model #582.
- ii. The policy offers Indexed Credits.

3. Definitions

- A. Alternate Scale: A scale of non-guaranteed elements currently being illustrated such that:
 - i. The Annual Rate of Indexed Credits for each Index Account does not exceed the lesser of the maximum Annual Rate of Indexed Credits for the illustrated scale less

100 basis points and the credited rate for the Fixed Account. If the insurer does not offer a Fixed Account with the illustrated policy, the Annual Rate of Indexed Credits for each Index Account shall not exceed the average of the maximum Annual Rate of Indexed Credits for the illustrated scale and the guaranteed Annual Rate of Indexed Credits for that account. However, the Annual Rate of Indexed Credits for each Index Account shall never be less than the guaranteed Annual Rate of Indexed Credits for that account.

- ii. If the illustration includes a loan, the illustrated Policy Loan Interest Credited Rate shall not exceed the illustrated Policy Loan Interest Rate. For example, if the illustrated Policy Loan Interest Rate is 4%, the Policy Loan Interest Credited Rate shall not exceed 4%.
 - iii. All other non-guaranteed elements are equal to the non-guaranteed elements for the illustrated scale.
- B. Annual Net Investment Earnings Rate: Gross portfolio annual earnings rate of the general account assets (excluding hedge assets for Indexed Credits), less provisions for investment expenses and default cost, allocated to support the policy. Charges of any kind cannot be used to increase the Annual Net Investment Earnings Rate.
- C. Annual Rate of Indexed Credits: The total annualized Indexed Credits expressed as a percentage of the account value used to determine the Indexed Credits.
- D. Benchmark Index Account: An Index Account with the following features:
 - i. The interest calculation is based on the percent change in S&P 500[®] Index value only, over a one-year period using only the beginning and ending index values. (S&P 500[®] Index ticker: SPX)
 - ii. An annual cap is used in the interest calculation.
 - iii. The annual floor used in the interest calculation shall be 0%.
 - iv. The participation rate used in the interest calculation shall be 100%.
 - v. Interest is credited once per year.
 - vi. The Hedge Budget used to determine the cap in 3 (D) (ii) does not exceed the Annual Net Investment Earnings Rate. Charges of any kind cannot be used to increase the annual cap.
 - vii. There are no enhancements or similar features that provide additional Indexed Credits in excess of the interest provided by 3 (D) (i) through 3 (D) (v), including but not limited to experience refunds, multipliers, or bonuses.
 - viii. There are no limitations on the portion of account value allocated to the account.
 - ix. A single Benchmark Index Account will be determined for each policy. This can be either an Index Account offered with the illustrated policy or determined according to Section 4 (A) (ii) for purposes of complying with this guideline. A policy shall have no more than one Benchmark Index Account.

- E. Fixed Account: An account where there are no Indexed Credits.
- F. Hedge Budget: For each Index Account, the total annualized amount assumed to be used to generate the Indexed Credits of the account, expressed as a percent of the account value in the Index Account. This total annualized amount should be consistent with the hedging program of the company.
- G. Index Account: An account where some or all of the amounts credited are Indexed Credits.
- H. Indexed Credits: Any interest credit, multiplier, factor, bonus, charge reduction, or other enhancement to policy values that is linked to an index or indices. Amounts credited to the policy resulting from a floor greater than zero on an account with any interest credit, multiplier, factor, bonus, charge reduction, or other enhancement to policy values that is linked to an index or indices are included.
- I. Loan Balance: Any outstanding policy loan and loan interest, as defined in the policy.
- J. Policy Loan Interest Rate: The current annual interest rate as defined in the policy that is charged on any Loan Balance. This does not include any other policy charges.
- K. Policy Loan Interest Credited Rate: The annualized interest rate credited that applies to the portion of the account value backing the Loan Balance:
 - i. For the portion of the account value in the Fixed Account that is backing the Loan Balance, the Policy Loan Interest Credited Rate is the applicable annual interest crediting rate.
 - ii. For the portion of the account value in an Index Account that is backing the Loan Balance, the Policy Loan Interest Credited Rate is the Annual Rate of Indexed Credits, net of any applicable Supplemental Hedge Budget, for that account.
- L. Supplemental Hedge Budget: For each Index Account, the Hedge Budget minus the minimum of the Annual Net Investment Earnings Rate and the Hedge Budget that is used in the determination of the Benchmark Index Account. The Supplemental Hedge Budget will never be less than zero. This amount should be consistent with the hedging program of the company.

4. Illustrated Scale

The total Annual Rate of Indexed Credits for the illustrated scale for each Index Account shall be limited as follows:

- A. Calculate the geometric average annual credited rate for the Benchmark Index Account for the 25-year period starting on 12/31 of the calendar year that is 66 years prior to the current calendar year (e.g., 12/31/1949 for 2015 illustrations) and for each 25-year period starting on each subsequent trading day thereafter, ending with the 25- year period that ends on 12/31 of the prior calendar year.
 - i. If the insurer offers a Benchmark Index Account with the illustrated policy, the illustration actuary shall use the current annual cap for the Benchmark Index Account in 4 (A).
 - ii. If the insurer does not offer a Benchmark Index Account with the illustrated policy, the illustration actuary shall use actuarial judgment to determine a hypothetical,

supportable current annual cap for a hypothetical, supportable Index Account that meets the definition of the Benchmark Index Account, and shall use that cap in 4 (A).

- B. For the Benchmark Index Account the Annual Rate of Indexed Credits shall not exceed the minimum of (i) and (ii):
- i. The arithmetic mean of the geometric average annual credited rates calculated in 4 (A).
 - ii. 145% of the Annual Net Investment Earnings Rate.
- C. For any other Index Account that is not the Benchmark Index Account in 3 (D), the Annual Rate of Indexed Credits illustrated as a percentage of the account value in the Index Account prior to the deduction of any charges used to fund a Supplemental Hedge Budget shall not exceed the minimum of (i) and (ii) for policies sold prior to May 1, 2023, and shall not exceed the minimum of (i), (ii), and (iii) for policies sold on or after May 1, 2023:
- i. The Annual Rate of Indexed Credits for the Benchmark Index Account calculated in 4 (B) plus the Supplemental Hedge Budget for the Index Account.
 - ii. The Annual Rate of Indexed Credits reflecting the fundamental characteristics of the Index Account and the appropriate relationship to the expected risk and return of the Benchmark Index Account. The illustration actuary shall use actuarial judgment to determine this value using lookback methodology consistent with 4 (A) and 4 (B) (i) where appropriate.
 - iii. The lesser of (1) and (2) multiplied by the Annual Rate of Index Credits for the Benchmark Index Account, calculated in 4 (B), divided by (2); plus, the Supplemental Hedge Budget for the Index Account:
 1. Hedge Budget of the Index Account.
 2. Hedge Budget of the Benchmark Index Account.
- D. For the purposes of compliance with Section 6 (C) of Model #582, the Supplemental Hedge Budget is subtracted from the Annual Rate of Indexed Credits before comparing to the earned interest rate underlying the disciplined current scale.
- At the beginning of each calendar year, the insurer shall be allowed up to three (3) months to update the credited rate for each Index Account in accordance with 4 (B) and 4 (C).

5. Disciplined Current Scale

The earned interest rate for the disciplined current scale shall be limited as follows:

- A. If an insurer engages in a hedging program for Indexed Credits in an account, the assumed earned interest rate underlying the disciplined current scale for that account, inclusive of all general account assets, both hedge and non-hedge assets, that support the policy, net of default costs and investment expenses (including the amount spent to generate the Indexed Credits of the policy) shall not exceed the lesser of (i) and (ii):
- i. The Annual Net Investment Earnings Rate, plus 45% of the lesser of (1) and (2):

1. Hedge Budget minus any annual floor, to the extent that the floor is supported by the Hedge Budget.
 2. The minimum of the Annual Net Investment Earnings Rate and the Hedge Budget that is used in the determination of the Benchmark Index Account.
- ii. The Annual Rate of Indexed Credits plus the Annual Net Investment Earnings Rate minus the Hedge Budget.

These rates should be adjusted for timing differences in the hedge cash flows to ensure that fixed interest is not earned on the Hedge Budget minus any annual floor, to the extent that the floor is supported by the Hedge Budget.

Guidance Note: The above approach does not stipulate any required methodology as long as it produces a consistent limit on the assumed earned interest rate underlying the disciplined current scale.

For a policy with multiple Index Accounts, a maximum rate in 5 (A) should be calculated for each account. All accounts, fixed and indexed, within a policy can be tested in aggregate.

- B. If an insurer does not engage in a hedging program for Indexed Credits, the assumed earned interest rate underlying the disciplined current scale shall not exceed the Annual Net Investment Earnings Rate.
- C. These experience limitations shall be included when testing for self-support and lapse-support under Model #582, accounting for all illustrated benefits including any illustrated benefits and bonuses that impact the policy's account value.

6. Policy Loans

If the illustration includes a loan, the illustrated Policy Loan Interest Credited Rate shall not exceed the illustrated.

Policy Loan Interest Rate by more than 50 basis points. For example, if the illustrated Policy Loan Interest Rate is 4.00%, the Policy Loan Interest Credited Rate shall not exceed 4.50%.

7. Additional Standards

The basic illustration shall also include the following:

- A. A ledger using the Alternate Scale shall be shown alongside the ledger using the illustrated scale with equal prominence.
- B. A table showing the minimum and maximum of the geometric average annual credited rates calculated in 4 (A).
- C. For each Index Account illustrated, a table showing actual historical index changes and corresponding hypothetical Indexed Credits using current index parameters for the most recent 20-year period.

Actuarial Guideline L

2013 INDIVIDUAL DISABILITY INCOME VALUATION TABLE ACTUARIAL GUIDELINE

A. Background

The 2013 IDI Valuation Table, as included in the *Health Insurance Reserves Model Regulation* (#10), is the valuation standard to replace the 1985 Commissioner's Individual Disability Tables (85CIDA/85CIDC). The link below brings one to the 2013 IDI Valuation Table workbook and instructions:

<https://content.naic.org/sites/default/files/actuary-01-2013-idi-valuation-table-workbook-and-instructions-version-1-3.zip>

An actuarial guideline is more appropriate to handle the multiple segments of the 2013 IDI Valuation Table, the computations of own experience, the application of credibility, and successor updates to the table, which are not normally found in model regulations.

B. Purpose

The purpose of this actuarial guideline is to provide instructions for the use of the 2013 IDI Valuation Table that is referenced in the *Health Insurance Reserves Model Regulation* (#10). This guideline pertains to IDI claims consistent with the conditions defined in the model regulation and governs the selection of claim termination rates for the purpose of calculating IDI claim reserves. This guideline does not address reserve adequacy, which remains the concern of the insurer according to the terms expressed in the model regulation.

Although the various detailed formulas in this guideline do not address or define reserve adequacy directly, it is assumed that appropriate adequacy tests will be made periodically. Such adequacy testing is considered to be an additional tool for the actuary to make appropriate choices in cases in which leeway from any prescription made herein is allowed (A/E calculation, margin, etc.) so that the calculation of the reserve generally will be adequate and the actuary does not need to continually rely on other measures to achieve adequacy. In addition to the instances in which leeway from prescription is mentioned below, nothing in this guideline should be assumed to prohibit the actuary from building a case and requesting permission from the state insurance commissioner for other appropriate variations. Many such situations, because they would apply to fully credible blocks of business and are intended for continual use, should be considered for approval by the commissioner for a period tied to the updates required by section C.vi. of this guideline and not approved on an annual basis.

When the insurer follows the instructions provided in this guideline, the selected claim termination rates meet the minimum valuation standard defined in the model regulation.

C. Valuation Table Modifications

If not invoking the own experience measurement exemption exception specified in section E of this guideline, a company should use a credibility weighted combination of its own claim termination experience with the 2013 IDI Valuation Table to create its specific valuation table for the purpose of calculating disabled life reserve (DLR).

For claims in duration group 1 (months 1 to 12 following disability incurral) or greater, the valuation termination rates are computed using the termination rates from the 2013 IDI Valuation Table (*S*) multiplied by experience adjustment factors (*T*) that are calculated separately for four different duration groups.

Valuation Termination Rate = $T \times S$

The duration groups are defined as follows:

- Group 1: duration 1 to 12 months
- Group 2: duration > 12 months and duration ≤ 24 months
- Group 3: duration > 24 months and duration ≤ 60 months
- Group 4: duration > 60 months and duration ≤ 120 months
- Group 5: duration > 120 months

S is the claim termination rates from the 2013 IDI Valuation Table; and

T is computed as $T = [Z \times F * (1-M) + (1 - Z)]$.

Z is a credibility weighting factor, between 0 and 1, developed for each duration group according to the following specifications:

Group 1-5: $Z = \text{Min} \left(\sqrt{N/K}, 1 \right)$ N is the number of expected claimant termination counts from the 2013 IDI Valuation Table.

K is a set of constants defined by duration group as follows:

- Group 1 and 2: $K = 3,300$
- Group 3: $K = 2,500$
- Group 4: $K = 2,100$
- Group 5: $K = 1,700$

F is the ratio of the company's actual total of termination counts to the expected termination counts for the 2013 IDI Valuation Table for each duration group specified above;

The A/E ratio (F) is to be determined based on monthly indemnity. If the actuary has reserve adequacy or other significant analysis that demonstrates that some other weighting of claims (claim or claimant counts, gross benefit, net benefit, etc.) is appropriate for measuring A/E, and also is expected to produce reserves not less than those produced by using a monthly indemnity measurement, such alternative measurement is deemed appropriate. If the actuary cannot produce A/E ratios based on monthly indemnity and only based on claim count or claimant count, an adjustment factor on 0.962 should be multiplied by the A/E ratios in each duration segment to convert them to an indemnity basis. The 0.962 factor is based on the observed relationship for indemnity- versus count-based claim termination experience in the IDI Valuation Table.

M is the company experience margin, determined for each duration group 2 or greater according to the following formula:

$$M = \text{Min} \left(15\%, \text{Max} \left(5\%, 3\% + 1.65 * \sqrt{A/C} \right) \right)$$

This is the minimum value for the definition of M prior to any reserve adequacy analysis. Adequacy tests and analysis of experience (sharpness of fluctuations, trends over the period of the termination rate study, changing claims practices, etc.) may indicate that a larger value of M may be more appropriate. If so, such a value is deemed appropriate. For duration group 1 (1 to 12 months), M is 5 percent, the same as the 2013 IDI Valuation Table margin for duration 1.

A is a set of constants defined by duration group as follows:

- Group 1 and 2: $A = 4.0$
- Group 3: $A = 3.0$
- Group 4: $A = 2.5$
- Group 5: $A = 2.0$

C is the company's actual number of total claimant termination counts by duration group. If an actuary cannot directly determine claimant termination counts, he or she may approximate it using the average number of claims per claimant for their block of claims.

The company should not use termination rates that produce total reserves for claims disabled for more than two years that are less than the reserves produced for these claims by computing T as $T = 1.30$.

D. Company-Specific Experience—Own Company Experience Measurement

In computing values F and S to comply with section B of this guideline, the appointed actuary should:

1. Segment the company claim termination experience into any major subgroup that may produce significantly different results (e.g., market niches, risk management practices, unique benefit designs, etc.);
2. Combine affiliated statutory entities and assumed reinsurance, in which claim management is under a common structure, when considering company experience. It also is appropriate to evaluate experience separately when specific blocks of company business have distinct risk management practices or significantly different risk characteristics;
3. Include all relevant experience the company is capable of providing for as many of the last five years (not including the lag period described below) as is appropriate;
4. Include a suitable lag period. Some claims may close retroactively, and others initially thought to be closed may reopen retroactively. Therefore, based on company experience, a suitable lag period is needed. The appointed actuary may use a lag period of up to 12 months if company experience shows it is appropriate. The five-year period mentioned above does not include the lag period;
5. Measure A/E based on monthly indemnity consistent with the development of the 2013 IDI Valuation Table. The A/E ratio is defined as the ratio of actual claim termination experience to the expected claim termination experience, according to the 2013 IDI Valuation Table with margin (by disability duration grouping). The A/E ratio is referred to as the variable F in section B, paragraph 4 of this guideline. For companies that can develop A/E studies only based on claim termination counts, an adjustment factor of 0.962 should be multiplied by their A/E ratio for each claim duration to convert it to an indemnity basis. The 0.962 factor was developed based on the relationship of the indemnity-based A/E to count-based A/E for the industry table;
6. In calculating expected claim terminations based on the 2013 IDI Valuation Table, companies should use all variables and modifiers with two exceptions:
 - a. If a company has not maintained appropriate diagnosis codes on historical claim records, the company may set the diagnosis CTR modifier to 1.00.

- b. If a company has not maintained appropriate occupation codes on historical claim records to identify occupations and assign them to the five occupation classes of the 2013 IDI Valuation Table consistent with definitions of these occupation classes, the company may assign claims to Occ Classes 1, 2, 3, and 4 based on the way the company has assigned claims to the 85CIDA occupation classes.
7. Assign credibility based on claimant termination counts, and not monthly indemnity terminated. Companies should use claimant termination counts and not claim termination counts in determining the number of terminations for their own company experience credibility. Each company will need to make appropriate adjustments based on its average number of claims per claimant if it is not able to determine claimant termination counts directly and can only directly measure claim termination counts. For example, on average, if a company has 1.5 open claims per claimant and if it had 100 claim terminations in a duration segment over its five-year study period, it would divide 100 by 1.5 and use 67 claimant terminations when determining credibility;
8. Update the minimum valuation basis in accordance with section B of this guideline at least once every five years. In addition, the valuation basis also should be updated whenever the company's annual own experience study produces, in accordance with section B, a value T that changes by more than 10 percent from the one used in the current valuation basis for any of the five duration groups. All claims valued using the 2013 IDI Valuation Table share the same company experience factors. When the company experience factors are updated, the new factors apply to all claims valued using the 2013 table, including claims incurred prior to the update of the experience factors;
9. Do not count as terminations those claims that are closed due to settlement (i.e., a lump sum replacing a series of potential future payments); that have reached the end of the maximum benefit duration; or that are closed due to a contractual limitation, such as a mental disorder limitation. For this purpose, a termination due to a change in definition of disability is not considered a termination due to reaching the maximum benefit duration. Terminations of residual or partial disability claims count as total disability terminations. Changes in the definition of disability do not count as a termination unless the claim actually terminates. If a claim closes when the definition of disability changes, that is counted as a claim termination;
10. Use experience that is otherwise relevant in accordance with the professional judgment of the appointed actuary;
11. Do not use experience that the commissioner has deemed inappropriate or likely to produce significantly inadequate reserves; and
12. In the above paragraphs, the term "company" refers to a single company or a group of legally related companies subject to the same claim management.

E. Own Experience Measurement Exemption

If, at the time of valuation, a company has fewer than 50 open claimants disabled within two years of the effective date of the valuation, and fewer than 200 open claimants disabled more than two years prior to the effective date of the valuation, the insurer is exempt from the requirement that the 2013 IDI Valuation Table be modified by the company's own experience. Said company should use 100 percent of the 2013 IDI Valuation Table for calculating claims termination rates in order to comply with the minimum valuation standard. This exemption is determined at the statutory company level and not at any segmented level that might be used in determining the own experience modifier.

Actuarial Guideline LI

THE APPLICATION OF ASSET ADEQUACY TESTING TO LONG-TERM CARE INSURANCE RESERVES

Background

The *Health Insurance Reserves Model Regulation* (#010) and the *NAIC Valuation Manual* (VM-25) contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and reasonableness of LTC reserves. The reserve adequacy testing required by Model #10 and VM-25 does not provide regulators comfort as to the reserve adequacy of companies with material blocks of LTC business. As such, regulators must rely upon asset adequacy analysis required by the *NAIC Valuation Manual* (VM-30) to evaluate the solvency position of companies with sizable blocks of LTC business. This Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for the asset adequacy testing applied to a company's LTC block of contracts. In particular, this Guideline:

- (1) Specifies that the appropriate form of asset adequacy analysis may be in the form of a gross premium valuation or in a more robust form, such as cash-flow testing, with Actuarial Standards of Practice providing guidance in this area;
- (2) Clarifies the type of adequacy testing methods that must be used for aggregation with other blocks of business to be allowed for asset adequacy analysis purposes;
- (3) Requires a uniform approach to supporting acceptable assumptions regarding future LTC premium rate increases;
- (4) Provides requirements for documentation of assumptions associated with all key LTC risks; and
- (5) Provides requirements for documentation of standalone LTC asset adequacy testing results.

Note: It is anticipated that the requirements contained in this Guideline will be incorporated into the *NAIC Valuation Manual* (VM-30) at a future date, effective for a future valuation year. This Guideline will cease to apply to annual statutory financial statements at the time the corresponding VM-30 requirements become effective.

Text

1. **Effective Date**

This Guideline shall be effective for reserves reported with the December 31, 2017, and subsequent annual statutory financial statements.

2. **Authority**

Pursuant to Section 1, paragraph 3, of *VM-30* of the *NAIC Valuation Manual*, the commissioner shall have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

3. Scope

This Guideline shall apply to a company with over 10,000 inforce lives covered by long-term care insurance contracts as of the valuation date. All long-term care insurance contracts, whether directly written or assumed through reinsurance are included. Accelerated death benefit products or other combination products where the substantial risk of the product is associated with life insurance or an annuity are not subject to this Guideline.

4. Asset Adequacy Analysis of LTC Business

- A. As stated in Actuarial Standard of Practice (ASOP) No. 22, multiple asset adequacy analysis methods, including cash-flow testing and gross premium valuation, are available to actuaries for this analysis.

The method of analysis used for LTC shall conform with ASOP No. 22 in recognition of the typical significant asset and liability-related risks associated with LTC.

- B. Asset adequacy analysis specific to all inforce LTC business, and without consideration of results for other block of business within the company, must be performed for valuations associated with the December 31, 2017, and subsequent annual statutory financial statements. The analysis shall comply with applicable Actuarial Standards of Practice, including standards regarding identification of key risks. Material assumptions associated with the LTC business shall be determined testing moderately adverse deviations in actuarial assumptions.

- C. When determining whether additional reserves are necessary:

1. A reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company. If a reserve deficiency in the LTC block is not offset with sufficiencies in the company's other blocks of business, then additional reserves shall be established as required by section 2.C.2. of *VM-30*.
2. If cash-flow testing is not used for testing of the LTC business, then a reserve deficiency revealed from another method, e.g., a gross premium valuation, utilized for purposes of asset adequacy analysis of the LTC block under this Guideline shall not be offset with sufficiencies in the company's other blocks of business. The additional reserves under this Guideline shall be established based only upon the adequacy of the reserves in the LTC block.

- D. When determining the effect of investment returns or the time value of money:

1. In the case where cash-flow testing is used, the company must allocate investment income to the LTC block of business consistently with the way investment income generated by the General Account is managed. If, however, a segment of the General Account is used to manage the investment risk for LTC business, the investment income generated by assets from that segment should be appropriately represented within the asset adequacy analysis.

2. In the case where a gross premium valuation method is used or asset cash flows are not explicitly modeled, the discount rate used by the actuary must reflect consideration of the yield on current assets held to support the liability as well as future yields on assets purchased with future premium income and reinvestments or anticipated divestiture of existing assets.
- E. The analysis shall only anticipate premium rate increases based upon a rate increase plan that is documented, is supported by and has been approved by management, is highly likely to be undertaken, and contains rate increase requests and timelines by jurisdiction. The assumptions used in the analysis should reflect a reasonable estimate of regulatory approved amounts and implementation timelines.

5. Documentation Required

The documentation requirements below are to be incorporated as a separate section of the appointed actuary's Actuarial Memorandum required by the *VM-30* or in a special Actuarial Memorandum containing LTC-specific information and shall be submitted to the commissioner of the company's state of domicile. The separate section of the companywide Actuarial Memorandum or the special Actuarial Memorandum shall be available to other state insurance commissioners in which the company is licensed upon request to the company. The confidentiality provisions regarding the Actuarial Memorandum contained in *VM-30* are applicable to the separate section of the Actuarial Memorandum and to the special Memorandum.

- A. Results of the asset adequacy analysis of the LTC business shall be reported and documented in the separate section of the Actuarial Memorandum or the special Memorandum, as appropriate.
- B. Assumptions on mortality shall be documented to state the reference standard valuation table, if applicable, and explicitly cite adjustments, select factors, and mortality improvement factors, where applicable. If a reference standard valuation table is not used in setting the mortality assumption, then a table of rates and comparison of the applied rates to rates from an unmodified standard mortality table for sample issue ages shall be provided. A summary of experience or other actuarial support of assumptions used shall be documented.
- C. Assumptions on voluntary lapse shall be documented in table format by duration band and by other factors such as gender, marital status, with versus without inflation rider, and length of benefit period impacting the lapse assumption, where applicable. A summary of experience or other support of assumptions shall be documented.
- D. Assumptions on morbidity shall be documented and actuarial support of the assumption shall be provided. If an outside source is used as the basis for morbidity assumptions, then the rationale for the applicability of that source and any adjustments to the factors from that source shall be documented.
- E. Assumptions on investment returns and interest rates shall be documented. If a simplified approach is applied, such as implicit reflection of projected investment returns through the use of discount rates in a gross premium valuation as contemplated in Section 4.D.2., then justification shall be provided.
- F. Any rate increases already approved shall be documented by jurisdiction with approved implementation timelines. Assumptions on future rate increases shall be documented by policy form or policy grouping. Such documentation should adequately describe the way in which future rate increase assumptions are developed. Unless the appointed actuary has operational responsibility for carrying out the rate increase plan specified in Section 4.E.,

the Memorandum shall contain a signed and dated reliance statement from the person with operational responsibility for carrying out such actions that the rate increase plan(s) provided to the appointed actuary appropriately reflects management's plan.

- G. Documentation of any other material assumptions shall be provided.
- H. Documentation shall be provided for assumptions that have significantly changed from the prior year's analysis.

Not for Distribution

Actuarial Guideline LII

VARIABLE ANNUITY EARLY ADOPTION

Background

Beginning in 2015, the NAIC commissioned a study of the reserve and RBC framework for Variable Annuity products. The study concluded that the existing requirements resulted in non-economic volatility, providing incentive for companies to engage in the use of financial planning techniques that the NAIC deemed inappropriate. Considerable effort was spent to develop and test updates to the reserve and RBC framework to address these issues. That revised framework was adopted by the NAIC during 2018, and the changes to NAIC models, the NAIC *Valuation Manual*, and the NAIC *Life Risk-Based Capital Forecasting & Instructions* have been developed and adopted by the NAIC on August 2, 2019. By the provisions of the SVL (Model 820), the changes to the *Valuation Manual* will be effective on January 1, 2020, and will impact subsequent financial statements.

During the discussion of the framework by the Variable Annuities Issues (E) Working Group, the question was raised whether companies would have the option to ‘early adopt’; that is, to apply the new framework for the reserve and RBC values used for the December 31, 2019, financial statements. Since the new framework has been determined to provide improved financial measurement of the company’s liability and risk, there was agreement that optional application of the new framework for the December 31, 2019, financial statements would be appropriate.

Guideline

A company may elect to apply the VM-21 requirements from the 2020 NAIC *Valuation Manual* as the *Valuation Manual* requirements for the valuation on December 31, 2019. For such election, the phase-in provision of *Valuation Manual* VM-21 Section 2.B. may not be elected. Any company electing early adoption of VM-21 shall also:

1. Apply the provisions of *Actuarial Guideline XLIII—CARVM for Variable Annuities* as amended for 2020 to the December 31, 2019, valuation of contracts within the scope of that guideline;
2. Apply the Life RBC instructions for 2020 in the calculation of C-3 RBC in LR027 for 2019;
3. Follow the documentation and certification requirements of VM-31 from the 2020 *Valuation Manual* for the Variable Annuity Business. In the VA Summary, clearly indicate the use of the new requirements in the section on change in methods from prior year; and
4. Notify the commissioner of the state of domicile of such elections.

Actuarial Guideline LIII

APPLICATION OF THE VALUATION MANUAL FOR TESTING THE ADEQUACY OF LIFE INSURER RESERVES

Background

The *NAIC Valuation Manual (VM-30)* contains actuarial opinion and supporting actuarial memorandum requirements, including requirements for asset adequacy analysis. Regulators have observed a lack of uniform practice in the implementation of asset adequacy analysis. The variety of practice in incorporating the risk of complex assets into testing does not provide regulators comfort as to reserve adequacy. Examples of complex assets are structured securities, including asset-backed securities and collateralized loan obligations, as well as assets originated by the company or affiliated or contracted entity. An initial increase of this activity has been noted in support of general account annuity blocks; however, recent activity was noted in other life insurer blocks.

This Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers. In particular, this Guideline:

- (1) Helps identify reserve adequacy and claims-paying ability in moderately adverse conditions, including conditions negatively impacting cash flows from complex assets.
- (2) Clarifies elements to consider in establishing margins on asset-related assumptions.
- (3) Ensures recognition that higher expected gross returns from assets are, to some extent, associated with higher risk, and that assumptions fit reasonably within the risk-return spectrum.
- (4) Requires sensitivity testing regarding complex assets supporting life insurer business.
- (5) Identifies expectations in practice regarding the valuation of complex assets within asset adequacy analysis.
- (6) Reflects that while complex assets tend to have higher uncertainty regarding timing and amount of cash flows than more traditional investments, because complex assets are difficult to classify, and the regulatory concern is regarding the projected net yields and cash flows from those assets, the focus of the analysis requirements will be on assets categorized as high-yielding.
- (7) Requires additional documentation of investment fee income relationships with affiliated entities or entities close to the company.

Text

1. Effective Date

This Guideline shall be effective for asset adequacy analysis of the reserves reported in the December 31, 2022, Annual Statement and for the asset adequacy analysis of the reserves reported in all subsequent Annual Statements.

Guidance Note: It is anticipated that the requirements contained in this Guideline will be incorporated into VM-30 at a future date, effective for a future valuation year. Requirements in the Guideline will cease to apply to annual statutory financial statements when the corresponding or replacement VM-30 requirements become effective.

2. Scope

This Guideline shall apply to all life insurers with:

- A. Over \$5 billion of general account actuarial reserves (from Exhibits 5, 6, 7 and 8 of the annual statement) and non-unitized separate account assets, or
- B. Over \$100 million of general account actuarial reserves (from Exhibits 5, 6, 7 and 8 of the annual statement) and non-unitized separate account assets and over 5% of supporting assets (selected for asset adequacy analysis) in the category of Projected High Net Yield Assets, as defined in Section 3.F.

Actuarial reserve amounts are included in the amounts in A and B whether directly written or assumed through reinsurance and are determined before any reinsurance ceded credit.

This Guideline applies to assets supporting liabilities tested in the asset adequacy analysis except it does not apply to unitized separate account assets or policy/contract loans.

3. Definitions

- A. Equity-Like Instruments – Assets that include the following:
 - i. Any assets that, for purposes of risk-based capital C-1 reporting, are in the category of common stock, i.e., have a 30% or higher risk-based capital charge.
 - ii. Any assets that are captured on Schedule A or Schedule BA of the annual statement.
 - iii. Bond funds.
- B. Fair Value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, consistent with methodology of fair value, as reported in the Annual Statement.
- C. Net Market Spread – For each asset grouping, shall mean the spread over comparable Treasury bonds that equates the fair value as of the valuation date with modeled cash flows, less the default assumption used in asset adequacy analysis.

Market conventions and other approximations are acceptable for the purposes of this definition.
- D. Investment Grade Net Spread Benchmark – The applicable spread found in Appendix I using the weighted average life (WAL) of the associated non-Equity-Like Instrument.
- E. Guideline Excess Spread – The net spread derived by subtracting the Investment Grade Net Spread Benchmark from the Net Market Spread for non-Equity-Like Instruments. Investment expenses shall be excluded from this calculation.

- F. Projected High Net Yield Assets – Currently held or reinvestment assets that are either:
- i. An Equity-Like Instrument assumed to have higher value at projection year 10 or later than under an assumption of annual total returns, before the deduction of investment expenses, of 4% for the first 10 projection years after the valuation date followed by 5% for projection year 11 and after. Aggregation shall be done at a level of granularity that is consistent with or more granular than how the assets are grouped, i.e., compressed, in the asset adequacy analysis model, or
 - ii. Assets other than Equity-Like Instruments where the assumed Guideline Excess Spread is higher than zero. In addition:
 - (a) Aggregation of the comparison between the assumed Net Market Spread from each asset and the Investment Grade Net Spread Benchmark shall be done at a level of granularity that is consistent with or more granular than how the assets are grouped, i.e., compressed, in the asset adequacy analysis model.
 - (b) For applicable assets that do not have an explicit WAL or term to maturity, the appointed actuary shall disclose the method used to determine the appropriate WAL used for comparing to the Investment Grade Net Spread Benchmark.
 - (c) For purposes of the comparison between the assumed Net Market Spread from each asset and the Investment Grade Net Spread Benchmark, investment expenses shall be excluded.
 - iii. The following asset types can be excluded from the scope of requirements in sections 4.A.ii. through 5.:
 - (a) Cash or cash equivalents
 - (b) Treasuries and agency bonds
 - (c) Public non-convertible, fixed-rate corporate bonds with no or immaterial callability

4. Asset Adequacy Considerations and Documentation Expectations

- A. Net Return and Risk Documentation
- i. For all assets, either currently held or in assumed reinvestments, provide:
 - (a) Identification of the assumed gross asset yield and the key components (for example, default and investment expenses) deducted to arrive at the assumed net asset yield.
 - (b) Explanation of any future reinvestment strategy assumptions that materially differ from current practices.
 - ii. For Projected High Net Yield Assets, either currently held or in assumed reinvestments, provide:

- (a) A detailed explanation describing the relationship between the expected gross returns from these assets and the risk. It shall also include, for the aspect of any higher expected gross returns not assumed to be associated with higher risk, an explanation of how overperforming assets with expected returns lying outside the risk-return spectrum can be assumed to persist and be available for reinvestments throughout the projection period in moderately adverse conditions.
 - (b) Commentary on how assumptions on assets with risk factors leading to substantial volatility of returns, as identified through sensitivity testing or other means, contain an appropriate margin to reflect the uncertainty in the timing and amounts of asset cash flows.
 - (c) Identification of the extent to which Projected High Net Yield Assets are supporting major product categories, e.g., individual fixed annuities and pension risk transfers.
 - (d) Explanation of rationale for materially changing or not changing complex-asset-based assumptions from the prior year's analysis.
- B. Model Rigor – Where significant risks associated with complex, Projected High Net Yield Assets are not adequately captured with traditional modeling techniques, more rigorous modeling of those risks should occur.
 - i. Where necessary to adequately reflect the risk:
 - (a) Multi-scenario testing of those risks specific to complex assets should be performed. For example, investments that may provide a higher expected return in part due to limited information, niche skill sets, or other factors may require unique scenarios (for instance to adequately capture credit or liquidity risk) to fully encompass potential sources of loss.
 - (b) Asset cash flows should be appropriately projected to reflect anticipated liquidity under adverse conditions. If such model aspects are not developed, sufficient additional conservatism to reflect this risk shall be applied.
 - (c) To the extent that the process for modeling or otherwise evaluating the risks is complex, and the potential for disconnect between reality and modeling increases, an additional margin to assumption(s) should be applied. Any such margin shall be applied in the direction of asset adequacy analysis results being less favorable.
 - (d) The full distribution of risk associated with complex assets should be considered.
 - ii. An appointed actuary may use simplifications, approximations, and modeling efficiency techniques if the appointed actuary can demonstrate that the use of such techniques does not make asset adequacy analysis results more favorable. These techniques may be less appropriate if the amount of complex, high-yielding assets becomes a higher percentage of total assets.

Guidance Note: Actuarial Standards of Practice (ASOPs), including ASOP No. 7 and No. 56 contain additional guidance on the use of models in the analysis of cash flows.

- C. Fair Value Determination – In asset adequacy analysis, when an asset is projected to be available for sale, a fair value of that asset is established, based on the projected market conditions. Fair Value should only be determined internally (by the insurance or investment management company) when the market-based value of the asset or similar asset cannot be obtained or expected to be obtained in a projected scenario.
- i. When the Fair Value of a material portion of supporting assets is determined internally, the actuarial memorandum shall contain a step-by-step description of the approach used to calculate the Fair Value of such assets.
 - ii. Provide the total Fair Value of assets that have values determined internally.
 - iii. When the Fair Value of a material portion of assets is determined internally, a sensitivity test should be performed (and the impact on asset adequacy analysis results presented) assuming a haircut to internally derived Fair Values that the appointed actuary deems reasonable given the commensurate level of anticipated uncertainty.
- D. Non-Publicly Traded Assets – For non-publicly traded assets originated by the company, within the company's group, or within an entity closely tied to a company's group (inclusive of the company's investment manager), provide the following:
- i. Documentation of practices to help ensure accurate valuation of those assets.
 - ii. The total Fair Value of such assets.
 - iii. To the extent the contractual agreement affects the investment income revenue streams included in the asset adequacy analysis, disclose in detail applicable contractual agreements and revenue sharing, e.g., performance fees, between the entity responsible for providing investment or other types of services and the insurer.
- Also, assumed net cash flows from assets should be net of all explicit or implicit fees or expenses, such as origination fees, as well as reflective of other asset-related risks including credit risk, illiquidity risk, and other market risks.
- E. Investments Expenses (Fees) – Assumed investment expenses, whether paid to an external asset manager or to internal investment management staff, as well as additional expenses that are directly attributable to the specific investments, should be commensurate with the expected expenses in light of the complexity of the assets.
- F. Reinsurance Modeling – Related to reinsurance, relevant communications and disclosures, for instance commentary on collectability and counterparty risk, should be presented in the memorandum.

Guidance Note: Section 4.F. is consistent with the standard laid out in ASOP No. 11 – Reinsurance Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports.

- G. Borrowing – Please identify if any borrowing is modeled besides to address very short-term liquidity needs. Also, verify borrowing and reinvestment rates to ensure that projections are not materially benefiting from arbitrage advantages.

5. **Sensitivity Tests and Attribution Analysis related to Assumptions on Projected High Net Yield Assets**

A. Sensitivity Testing

- i. Perform and disclose, separately for (a) and (b), the asset adequacy analysis results from the following sensitivity tests:

- (a) For reinvestment assets other than Equity-Like Instruments, assume the Net Market Spreads (before deduction of investment expenses) for Projected High Net Yield Assets do not exceed the Investment Grade Net Spread Benchmark and apply the test to a baseline of a level Treasury rate scenario.

For the purposes of limiting the Net Market Spreads at the Investment Grade Net Spread Benchmark, Projected High Net Yield Assets may be aggregated together but shall not include any assets that are not Projected High Net Yield Assets.

- (b) For reinvestment assets that are Equity-Like Instruments, assume annual total returns, before the deduction of investment expenses, of 4% for the first 10 projection years after the valuation date followed by 5% for projection year 11 and after.

- ii. Strict technical compliance for each asset may not be practical for reasons such as model limitations. Professional judgment should be applied to produce sensitivity testing results that are consistent with the spirit of the test. A variety of alternative methods may be acceptable. Appropriate explanation and justification should be provided for the method that was employed.

- iii. Sensitivity testing for the purpose of this Guideline does not reflect commentary on moderately adverse conditions, but the volatility and impact demonstrated from the testing should be contemplated in Section 4.A.ii.(b) considerations.

- B. For Projected High Net Yield Assets for non-Equity-Like Instruments, either currently held or in assumed reinvestments, perform and disclose the following attribution analysis steps at the asset type level associated with the templates in Section 6:

- i. State the assumed Guideline Excess Spread.
- ii. Estimate the proportion of the Guideline Excess Spread attributable to the following factors:
 - (a) Credit risk
 - (b) Illiquidity risk
 - (c) Deviations of current spreads from long-term spreads defined in Appendix 1

- (d) Volatility and other risks (identify and describe these risks in detail)
- iii. Provide commentary on the results of Section 5.B.ii. Also, where judgment is applied, provide supporting rationale of how the expected return in excess of the Investment Grade Net Spread Benchmark is estimated.

Guidance Note: A best-efforts approach is expected for the year-end 2022 attribution analysis.

6. Reporting, Review, and Templates

Guidance Note: The NAIC Valuation Analysis (E) Working Group (VAWG) shall serve as a resource in the targeted review of asset adequacy analysis related to modeling of business supported with Projected High Net Yield Assets. VAWG shall provide periodic reports identifying outliers and concerns regarding the analysis to help inform regulators on the effectiveness of this Guideline in meeting the seven objectives stated in the Background section.

- A. The documentation, sensitivity test results, and attribution analysis referenced above are to be incorporated as a separate, easily identifiable section of the actuarial memorandum required by VM-30 or as a standalone document, with a due date of April 1 following the applicable valuation date. The domiciliary commissioner may approve a later due date for companies seeking a hardship extension. The separate section or standalone document shall be available to other state insurance commissioners in which the company is licensed upon request to the company. The confidentiality and information provisions in state adoptions of NAIC Model 820 regarding the actuarial memorandum are applicable to the separate section or standalone document required by this Guideline.
- B. The following sample templates adopted by the Life Actuarial (A) Task Force (LATF) are available on the LATF web page (https://content.naic.org/cmte_a_latf.htm) under the “Documents” tab:
 - i. Asset summary.
 - ii. Components of net asset yield for various asset classes, with separate tables to be provided for initial assets and reinvestment assets.
 - iii. Sensitivity test aspects for Projected High Net Yield Assets that are fixed-income.
 - iv. Sensitivity test results for Projected High Net Yield Assets.
 - v. Attribution analysis, with separate tables to be provided for initial assets and reinvestment assets for Projected High Net Yield Assets.

Appendix I – Investment Grade Net Spread Benchmark

WAL (Weighted Avg Life)	Investment Grade Net Spread Benchmark (in bps)
1-10	170
11-20	175
21-30	185

Not for Distribution

Actuarial Guideline LIV

NONFORFEITURE REQUIREMENTS FOR INDEX-LINKED VARIABLE ANNUITY PRODUCTS

Background

The purpose of this guideline is to specify the conditions under which an Index-Linked Variable Annuity (ILVA) is consistent with the definition of a variable annuity and exempt from Model 805 and specify nonforfeiture requirements consistent with variable annuities.

A number of insurers have developed and are issuing annuity products with credits based on the performance of an index with caps on returns, participation rates, spreads or margins, or other crediting elements, that include a risk of negative index returns subject to limitations on the loss, such as a floor or a buffer. These products are not unitized and do not invest directly in the assets whose performance forms the basis for the credits.

There is no established terminology for these annuity products. These products go by several names, including structured annuities, registered index-linked annuities (RILA), or index-linked variable annuities, among others. This guideline refers to these products as index-linked variable annuities (ILVA).

Variable annuities are exempted from the scope of NAIC Model 805, *Standard Nonforfeiture Law for Individual Deferred Annuities*; however, NAIC Model 805 does not define the term "variable annuity".

NAIC Model 250, *Variable Annuity Model Regulation*, defines variable annuities as "contracts that provide for annuity benefits that vary according to the investment experience of a separate account." Section 7B of NAIC Model 250 provides that "to the extent that a variable annuity contract provides benefits that do not vary in accordance with the investment performance of a separate account" the contract shall satisfy the requirements of the NAIC Model 805.

The application of the NAIC Model 250 to a traditional variable annuity with unitized values is straightforward. The unitized feature provides an automatic linkage between annuity values and the investment experience of a separate account. Daily values (market values of the separate account assets) are the basis of all the benefits, including surrender values.

The fact that ILVA accounts are not unitized means they do not have values determined directly by the market prices of the underlying assets. Therefore, this guideline sets forth principles and requirements for determining values, including death benefit, withdrawal amount, annuitization amount or surrender values, such that an ILVA is considered a variable annuity and thereby exempt from Model 805. An ILVA that does not comply with the principles and requirements of this guideline is not considered a variable annuity and therefore is subject to Model 805.

Drafting Note: This guideline interprets the term "variable annuity" for purposes of exemption from Model 805. It is not intended to modify the definition of a variable annuity under Model 250 or other Model Regulations.

Scope

This guideline applies to any index-linked annuity exempt from the NAIC Model 805 on the basis that it is a variable annuity and includes index-linked crediting features that are built into policies or contracts (with or without unitized subaccounts) or added to such by rider, endorsement, or amendment.

Principles

This guideline is based on the following principles:

1. Interim Values defined in the contract provide equity between the contract holder and the insurance company.
2. Interim Values are consistent with the value of the Hypothetical Portfolio over the Index Strategy Term.

Definitions

“Derivative Asset Proxy” means a package of hypothetical derivative assets established at the beginning of an Index Strategy Term that is designed to replicate credits provided by an Index Strategy at the end of an Index Strategy Term.

“Fixed Income Asset Proxy” is a hypothetical fixed income asset.

“Hypothetical Portfolio” means a hypothetical portfolio composed of a Fixed Income Asset Proxy and a Derivative Asset Proxy.

“Index” means a benchmark designed to track the performance of a defined portfolio of securities.

“Index Strategy” means a method used to determine index credits with specified index or indices and cap, buffer, participation rate, spread, margin or other index crediting elements.

“Index Strategy Base” means the notional amount used to determine index credits that does not change throughout the Index Strategy Term except for withdrawals, transfers, deposits, loans, and any explicit charges.

“Index Strategy Term” means the period of time from the term start date to the term end date over which an index changes and the index credit is determined.

“Interim Value” means the Strategy Value at any time other than the start date and end date of an Index Strategy Term.

“Strategy Value” means the value, attributable to an Index Strategy, used in determining values including death benefit, withdrawal amount, annuitization amount or surrender values.

“Trading Cost” means the additional cost of liquidating the derivative assets in the Derivative Asset Proxy or actual derivative assets supporting the Index Strategy that is not accounted for in the Derivative Asset Proxy calculation.

Text

The Index Strategy Base must equal the Strategy Value at the Index Strategy Term start date.

The Fixed Income Asset Proxy is assumed to be a hypothetical fixed income asset with a yield that results in:

- i. At the beginning of the Index Strategy Term, the book value of the Fixed Income Asset Proxy equal to the Index Strategy Base less the Derivative Asset Proxy value; and
- ii. At the end of the Index Strategy Term, the book value of the Fixed Income Asset Proxy, assuming no change in yield, projected to equal the Index Strategy Base.

Drafting Note: This guideline defines the conditions under which an index-linked variable annuity is exempt from Model 805 on the basis that it is a variable annuity. A variable annuity provides daily values (analogous to Interim Values in this guideline) based on the market value of separate account assets. In order to more closely align an ILVA to a variable annuity, Interim Values should be consistent with the market value of hypothetical assets supporting the ILVA (i.e., Hypothetical Portfolio). The market value of the assets may be determined by a fair value methodology or by applying an MVA to the book value. A state may want to consider whether including or excluding an MVA is appropriate. In making a determination regarding whether including or excluding an MVA is appropriate and, if applicable, what an acceptable MVA formula is, the state should consider whether the Interim Values provide reasonable equity between the contract holder and the insurance company.

The value of the package of derivative assets is determinable daily. Assumptions used to determine the market value of the Derivative Asset Proxy including implied volatilities, risk-free rates, and dividend yields must be consistent with the observable market prices of derivative assets, whenever possible.

Interim Values must be materially consistent with the value of the Hypothetical Portfolio over the Index Strategy Term less a provision for the cost attributable to reasonably expected or actual Trading Costs at the time the Interim Value is calculated.

If a contract provides Interim Values determined using a methodology other than a Hypothetical Portfolio methodology as described in this guideline, the company must demonstrate that the contractually defined Interim Values will be materially consistent over the Index Strategy Term with the Interim Values that would be produced using the Hypothetical Portfolio methodology for each combination of Index Strategy and Index Strategy Term under a reasonable number of realistic economic scenarios that include index changes that test crediting constraints and recognize initial option pricing market conditions.

The company must provide an actuarial memorandum with each ILVA product filing that includes the following:

1. Actuarial certifications must be included with each ILVA product filing and must include the following:
 - a. Interim Values defined in the contract provide equity between the contract holder and the insurance company;
 - b. The assumptions used to determine the market value of the Derivative Asset Proxy including implied volatilities, risk-free rates, dividend yields, and other parameters required to value the derivatives are consistent with the observable market prices of derivative assets over the Index Strategy Term, whenever possible. Valuation techniques include the standard Black-Scholes method, Monte-Carlo Simulation techniques, and other market consistent option valuation techniques for more complex options;
 - c. The contractually defined Interim Values are materially consistent with the Interim Values that would be produced using the Hypothetical Portfolio methodology for each combination of Index Strategy and Index Strategy Term over the Index Strategy Term less a provision for the Trading Costs at the time the Interim Value is calculated; and
 - d. Any Trading Costs represent reasonably expected or actual costs at the time the Interim Value is calculated.
2. If the Interim Values are determined using a methodology other than the Hypothetical Portfolio methodology described in this guideline, the actuary shall describe the testing performed to verify that the values are materially consistent with the Hypothetical Portfolio

methodology. The actuary should define any parameters or assumptions used in determining material consistency and provide a summary of the results of the testing.

3. Descriptions of:
 - a. The value of the Fixed Income Asset Proxy;
 - b. The market value adjustment formula, if any;
 - c. The market value of the Derivative Asset Proxy including any Trading Costs; and
 - d. All formulas, methodologies and assumptions used to calculate these values for each Index Strategy and Index Strategy Term as well as the sources for all assumptions.

ILVA nonforfeiture benefits for Index Strategies subject to this guideline must comply with Section 7 of Model 250 not including Section 7.B with net investment return consistent with the requirements for determining Interim Values in this guideline.

Effective Date

This guideline applies to all contracts (including associated riders, endorsements, or amendments) issued on or after July 1, 2024.

Not for Distribution

ACTUARIAL GUIDELINES – APPENDICES**Appendix C-1**

Provides maximum reserve valuation and maximum life policy nonforfeiture interest rates for new issues, new purchases or changes in fund (as defined) under Section 4217, 4218, and 4221(k) of the New York Insurance Law as amended in 1982, 1983, 1985, 1986, 1987, 1988, 1990 and 1994. This information is provided for informational purposes and to aid compliance with the New York law.

Appendix C-2

Includes interpretations from the former Emerging Actuarial Issues (E) Working Group adopted by the Financial Condition (E) Committee. The Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group follow these interpretations when performing reviews of the reserving methodologies under *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38).

Not for Distribution

Appendix C-1

APPENDIX TO GUIDELINES

This information can be found on the New York State Department of Financial Services website:
https://www.dfs.ny.gov/apps_and_licensing/life_insurers/max_reserve_life

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

Maximum Reserve Valuation and Maximum Life Policy Nonforfeiture Interest Rates

The maximum reserve valuation and nonforfeiture interest rates, prescribed by Sections 4217 and 4221(k) of the New York Insurance Law, are specified in "Table A through Table H Rates" noted below. Such rates vary from year to year based on Moody's corporate bond yield averages for 12 and 36 months ending on June 30, and weighting factors prescribed by Section 4217. The Moody's averages are provided for years 1981 to present in the attached Appendix.

Notice Regarding Payout Annuity Valuation Interest Rate Changes

Pursuant to Section 4217(g) of the New York State Insurance Law, the maximum valuation interest rates for payout annuities with premium determination dates on or after January 1, 2019, are prescribed in Section 103.5 of 11 NYCRR 103 (Insurance Regulation No. 213).

Payout Annuity Maximum Valuation Interest Rates for Premiums Received after 2019:

For the policies, contracts, certificates, and benefits with premium determination dates on or after January 1, 2020, the maximum valuation interest rates prescribed by Section 103.5 of Regulation 213 are specified in the following file: [2024 Payout Annuity MVIR](#) (XLSX)

Payout Annuity Maximum Valuation Interest Rates for Premiums Received during 2019:

For the policies, contracts, certificates, and benefits with premium determination dates on or after January 1, 2019, and prior to January 1, 2020, the maximum valuation interest rates prescribed in Section 103.5(c)(2) of Regulation 213 and Section 103.5(c)(3) of Regulation 213 are specified in the following file: [2019 Payout Annuity MVIR](#) (XLSX).

Clarification on Fixed Annuity Reserves Interest Rates

We note that there has been some concern over the appropriate maximum valuation interest rate for flexible premium deferred annuities (FPDA). Section 4217(c)(4)(D)(iii) of the New York Insurance Law does not allow the use of the additional .05 weighting factor for annuities that guarantee interest rates on future considerations received more than twelve months beyond the valuation date. Accordingly, for flexible premium deferred annuities the weighting factors shown in Section 4217(c)(4)(D)(iii)(I) or 4217(c)(4)(D)(iii)(II) should be used. For convenience, maximum valuation interest rates for such FPDAs are shown in Table D (issue year basis) and Table G (change in fund basis). The rates shown in Table E and Table H are not appropriate for FPDAs.

- [General Information](#)
- [Table A through Table H Rates](#)
- [Appendix \(Moody's Averages\)](#)

THE NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
ONE COMMERCE PLAZA
ALBANY, NEW YORK 12257
www.dfs.ny.gov

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Acting Superintendent

August 3, 2023

TO: ALL AUTHORIZED LIFE INSURANCE COMPANIES, ACCREDITED LIFE REINSURERS, FRATERNAL BENEFIT SOCIETIES AND CHARITABLE ANNUITY SOCIETIES

SUBJECT: MAXIMUM RESERVE VALUATION AND MAXIMUM LIFE POLICY NONFORFEITURE INTEREST RATES

Attached hereto is an outline providing maximum reserve valuation and maximum life policy non-forfeiture interest rates for new issues, new purchases or changes in fund (as defined) for years 1982 through 2023 (and other years where shown), under Sections 4217, 4218 and 4221(k) of the New York Insurance Law, as amended in 1982, 1983, 1985, 1986, 1987, 1988, 1990, and 1994.

The maximum valuation and non-forfeiture interest rates, prescribed by Sections 4217 and 4221(k) of the New York Insurance Law for future years, will vary from year to year depending on Moody's corporate bond yield averages.

The maximum valuation interest rates for issues, purchases and changes-in-fund of years 1982 through 2023 (and other years where shown) are outlined below. The maximum valuation and non-forfeiture interest rates for Ordinary Life Insurance are shown in Category A of page 1, except for Single Premium Life Insurance, as defined in Section 4217(c)(4)(B)(vi), the maximum valuation interest rates for which are shown in Category B on pages 2-5.

Please refer to Sections 4217 and 4221 of NY Insurance Law, Regulation 147, Regulation 151, and Regulation 213 for definitions and explanations of valuation interest rate, guarantee duration, plan type and product category. This notice is to be used for informational purposes, as an aid in complying with the law.

Should any person have any question or comment in regard to this information, please contact Matthew Ryan of the Life Bureau at (518) 474-7929 or Matthew.Ryan@dfs.ny.gov.

THE NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
EQUITABLE • INNOVATIVE • COLLABORATIVE • TRANSPARENT

A. ORDINARY LIFE INSURANCE (Except as covered in B)

<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Maximum Reserve Valuation Interest Rate</u>	<u>Maximum Nonforfeiture Interest Rate*</u>
1979-1981	10 years or less	4.50%	5.50%
	More than 10 years, up to 20	4.50	5.50
	More than 20 years	4.50	5.50
1982	10 years or less	6.75%	8.50%
	More than 10 years, up to 20	6.25	7.75
	More than 20 years	5.50	7.00
1983-1986	10 years or less	7.25%	9.00%
	More than 10 years, up to 20	6.75	8.50
	More than 20 years	6.00	7.50
1987	10 years or less	6.50%	8.25%
	More than 10 years, up to 20	6.00	7.50
	More than 20 years	5.50	7.00
1988-1992	10 years or less	6.00%	7.50%
	More than 10 years, up to 20	6.00	7.50
	More than 20 years	5.50	7.00
1993	10 years or less	6.00%	7.50%
	More than 10 years, up to 20	6.00	7.50
	More than 20 years	5.00	6.25
1994	10 years or less	5.50%	7.00%
	More than 10 years, up to 20	5.25	6.50
	More than 20 years	5.00	6.25
1995-1998	10 years or less	5.50%	7.00%
	More than 10 years, up to 20	5.25	6.50
	More than 20 years	4.50	5.75
1999-2005	10 years or less	5.00%	6.25%
	More than 10 years, up to 20	4.75	6.00
	More than 20 years	4.50	5.75
2006-2012	10 years or less	4.50%	5.75%
	More than 10 years, up to 20	4.25	5.25
	More than 20 years	4.00	5.00
2013-2020	10 years or less	3.75%	4.75%
	More than 10 years, up to 20	3.75	4.75
	More than 20 years	3.50	4.50

A. (cont.) ORDINARY LIFE INSURANCE (Except as covered in B)

<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Maximum Reserve Valuation Interest Rate</u>	<u>Maximum Nonforfeiture Interest Rate*</u>
2021-2024	10 years or less	3.25%	4.00%
	More than 10 years, up to 20	3.25	4.00
	More than 20 years	3.00	3.75

*Per New York Insurance Law section 4221(k)(9)(B)(i), at the option of the company, calculations for all policies issued in a particular calendar year may be made on the basis of a rate of interest not exceeding the nonforfeiture interest rate per New York Insurance Law section 4221(k)(10) for policies issued in the immediately preceding calendar year.

Not for Distribution

B. Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate	
		Issue Year Basis	Change-in-Fund Basis
1982	10 years or less	10.00%	10.50%
	More than 10 years, up to 20	7.25	10.00
	More than 20 years	6.25	8.75
1983	10 years or less	8.75%	9.25%
	More than 10 years, up to 20	7.00	8.75
	More than 20 years	6.25	7.75
1984	10 years or less	8.50%	9.25%
	More than 10 years, up to 20	7.00	8.50
	More than 20 years	6.25	7.50
1985	10 years or less	8.50%	9.00%
	More than 10 years, up to 20	7.00	8.50
	More than 20 years	6.25	7.50
1986	10 years or less	7.25%	7.75%
	More than 10 years, up to 20	6.50	7.25
	More than 20 years	5.75	6.50
1987	10 years or less	6.50%	6.75%
	More than 10 years, up to 20	6.00	6.50
	More than 20 years	5.50	6.00
1988	10 years or less	7.00%	7.50%
	More than 10 years, up to 20	6.25	7.00
	More than 20 years	5.75	6.25
1989	10 years or less	7.00%	7.25%
	More than 10 years, up to 20	6.25	7.00
	More than 20 years	5.50	6.25
1990	10 years or less	6.50%	7.00%
	More than 10 years, up to 20	6.25	6.50
	More than 20 years	5.50	6.00
1991	10 years or less	6.75%	7.00%
	More than 10 years, up to 20	6.25	6.75
	More than 20 years	5.50	6.00
1992	10 years or less	6.25%	6.50%
	More than 10 years, up to 20	6.00	6.25
	More than 20 years	5.25	5.75

B. (cont.) Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate	
		Issue Year Basis	Change-in-Fund Basis
1993	10 years or less	5.75%	6.00%
	More than 10 years, up to 20	5.50	5.75
	More than 20 years	5.00	5.25
1994	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
1995	10 years or less	6.00%	6.25%
	More than 10 years, up to 20	5.50	6.00
	More than 20 years	5.00	5.50
1996	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
1997	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	5.00	5.25
1998	10 years or less	5.25%	5.50%
	More than 10 years, up to 20	5.00	5.25
	More than 20 years	4.75	4.75
1999	10 years or less	5.25%	5.50%
	More than 10 years, up to 20	5.00	5.25
	More than 20 years	4.50	4.75
2000	10 years or less	5.75%	6.00%
	More than 10 years, up to 20	5.25	5.75
	More than 20 years	4.75	5.25
2001	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
2002	10 years or less	5.50%	5.75%
	More than 10 years, up to 20	5.25	5.50
	More than 20 years	4.75	5.00
2003	10 years or less	5.00%	5.25%
	More than 10 years, up to 20	4.75	5.00
	More than 20 years	4.50	4.75

B. (cont.) Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate	
		Issue Year Basis	Change-in-Fund Basis
2004	10 years or less	4.75%	5.00%
	More than 10 years, up to 20	4.75	4.75
	More than 20 years	4.25	4.50
2005	10 years or less	4.50%	4.75%
	More than 10 years, up to 20	4.50	4.50
	More than 20 years	4.00	4.25
2006	10 years or less	4.50%	4.75%
	More than 10 years, up to 20	4.50	4.50
	More than 20 years	4.25	4.25
2007	10 years or less	4.75%	4.75%
	More than 10 years, up to 20	4.50	4.75
	More than 20 years	4.25	4.25
2008	10 years or less	4.75%	5.00%
	More than 10 years, up to 20	4.50	4.75
	More than 20 years	4.25	4.50
2009	10 years or less	5.00%	5.25%
	More than 10 years, up to 20	4.75	5.00
	More than 20 years	4.25	4.75
2010	10 years or less	4.50%	4.75%
	More than 10 years, up to 20	4.50	4.50
	More than 20 years	4.00	4.25
2011	10 years or less	4.25%	4.50%
	More than 10 years, up to 20	4.25	4.25
	More than 20 years	4.00	4.00
2012	10 years or less	3.75%	4.00%
	More than 10 years, up to 20	3.75	3.75
	More than 20 years	3.50	3.75
2013	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.50	3.75
	More than 20 years	3.50	3.50
2014	10 years or less	4.00%	4.00%
	More than 10 years, up to 20	3.75	4.00
	More than 20 years	3.50	3.75

B. (cont.) Single Premium Life Insurance of the kind referred to in Section 4217(c)(4)(B)(vi) of the New York Insurance Laws (as amended by Chapter 302 of the laws of 1987).

Issue Year	Guarantee Duration	Maximum Reserve Valuation Interest Rate	
		Issue Year Basis	Change-in-Fund Basis
2015	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.50	3.75
	More than 20 years	3.50	3.50
2016	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.75	3.75
	More than 20 years	3.50	3.75
2017	10 years or less	3.50%	3.75%
	More than 10 years, up to 20	3.50	3.50
	More than 20 years	3.50	3.50
2018	10 years or less	3.50%	3.75%
	More than 10 years, up to 20	3.50	3.50
	More than 20 years	3.50	3.50
2019	10 years or less	3.75%	3.75%
	More than 10 years, up to 20	3.50	3.75
	More than 20 years	3.50	3.50
2020	10 years or less	3.25%	3.25%
	More than 10 years, up to 20	3.25	3.25
	More than 20 years	3.25	3.25
2021	10 years or less	3.00%	3.00%
	More than 10 years, up to 20	3.00	3.00
	More than 20 years	3.00	3.00
2022	10 years or less	3.25%	3.25%
	More than 10 years, up to 20	3.25	3.25
	More than 20 years	3.00	3.25
2023	10 years or less	4.25%	4.25%
	More than 10 years, up to 20	3.50	4.25
	More than 20 years	3.25	4.00

- C. Single Premium Immediate Annuities and annuity benefits arising from life insurance policies and annuity and guaranteed interest contracts with cash settlements options.

<u>Issues of or Purchases During</u>	<u>Maximum Reserve Valuation Interest Rate</u>
1982	13.25%
1983-1984	11.25
1985	11.00
1986	9.25
1987	8.00
1988	8.75
1989	8.75
1990	8.25
1991	8.25
1992	7.75
1993	7.00
1994	6.50
1995	7.25
1996-1997	6.75
1998-1999	6.25
2000	7.00
2001	6.75
2002	6.50
2003	6.00
2004	5.50
2005-2006	5.25
2007-2008	5.50
2009	6.00

C. (cont.) Single Premium Immediate Annuities and annuity benefits arising from life insurance policies and annuity and guaranteed interest contracts with cash settlements options.

<u>Issues of or Purchases During</u>	<u>Maximum Reserve Valuation Interest Rate</u>
2010	5.25
2011	5.00
2012	4.25
2013	4.00
2014	4.50
2015-2016	4.00
2017-2018	3.75
2019	4.00

For Single Premium Immediate Annuities and annuity benefits arising from life insurance policies and annuity and guaranteed interest contracts with cash settlement options issued on or after January 1, 2020, the maximum valuation interest rates are prescribed by Section 103.5 of 11 NYCRR 103 (Insurance Regulation 213). These maximum valuation interest rates may be found on the Department's website here:

https://www.dfs.ny.gov/apps_and_licensing/life_insurers/max_reserve_life

- D. Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Issue Year” basis.

		<u>Maximum Reserve Valuation Interest Rate</u>		
<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
1982	5 years or less	13.25%	10.50%	9.25%
	More than 5 years, up to 10	12.50	10.50	9.25
	More than 10 years, up to 20	8.50	7.25	6.75
	More than 20 years	6.75	6.00	6.00
1983	5 years or less	11.25%	9.25%	8.25%
	More than 5 years, up to 10	10.75	9.25	8.25
	More than 10 years, up to 20	8.25	7.00	6.75
	More than 20 years	6.75	5.75	5.75
1984	5 years or less	11.25%	9.25%	8.00%
	More than 5 years, up to 10	10.75	9.25	8.00
	More than 10 years, up to 20	8.25	7.00	6.75
	More than 20 years	6.75	5.75	5.75
1985	5 years or less	11.00%	9.00%	8.00%
	More than 5 years, up to 10	10.50	9.00	8.00
	More than 10 years, up to 20	8.25	7.00	6.50
	More than 20 years	6.50	5.75	5.75
1986	5 years or less	9.25%	7.75%	6.75%
	More than 5 years, up to 10	8.75	7.75	6.75
	More than 10 years, up to 20	7.50	6.50	6.00
	More than 20 years	6.00	5.50	5.50
1987	5 years or less	8.00%	6.75%	6.25%
	More than 5 years, up to 10	7.75	6.75	6.25
	More than 10 years, up to 20	7.00	6.00	5.75
	More than 20 years	5.75	5.25	5.25
1988	5 years or less	8.75%	7.50%	6.75%
	More than 5 years, up to 10	8.50	7.50	6.75
	More than 10 years, up to 20	7.25	6.25	6.00
	More than 20 years	6.00	5.25	5.25
1989	5 years or less	8.75%	7.25%	6.50%
	More than 5 years, up to 10	8.25	7.25	6.50
	More than 10 years, up to 20	7.25	6.25	6.00
	More than 20 years	6.00	5.25	5.25
1990	5 years or less	8.25%	7.00%	6.25%
	More than 5 years, up to 10	8.00	7.00	6.25
	More than 10 years, up to 20	7.00	6.25	5.75
	More than 20 years	5.75	5.25	5.25

D. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Issue Year” basis.

		<u>Maximum Reserve Valuation Interest Rate</u>		
<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
1991	5 years or less	8.25%	7.00%	6.25%
	More than 5 years, up to 10	8.00	7.00	6.25
	More than 10 years, up to 20	7.00	6.25	5.75
	More than 20 years	5.75	5.25	5.25
1992	5 years or less	7.75%	6.50%	6.00%
	More than 5 years, up to 10	7.50	6.50	6.00
	More than 10 years, up to 20	6.75	6.00	5.75
	More than 20 years	5.75	5.00	5.00
1993	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1994	5 years or less	6.50%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
1995	5 years or less	7.25%	6.25%	5.75%
	More than 5 years, up to 10	7.00	6.25	5.75
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1996	5 years or less	6.75%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
1997	5 years or less	6.75%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.25
	More than 20 years	5.25	4.75	4.75
1998	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.75	5.00	4.75
	More than 20 years	4.75	4.50	4.50
1999	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.50	5.00	4.75
	More than 20 years	4.75	4.50	4.50

D. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Issue Year” basis.

Maximum Reserve Valuation Interest Rate

<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
2000	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	5.75	5.25	5.00
	More than 20 years	5.00	4.50	4.50
2001	5 years or less	6.75%	5.75%	5.25%
	More than 5 years, up to 10	6.50	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
2002	5 years or less	6.50%	5.75%	5.25%
	More than 5 years, up to 10	6.25	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.50	4.50
2003	5 years or less	6.00%	5.25%	4.75%
	More than 5 years, up to 10	5.75	5.25	4.75
	More than 10 years, up to 20	5.50	4.75	4.75
	More than 20 years	4.75	4.25	4.25
2004	5 years or less	5.50%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.00	4.75	4.50
	More than 20 years	4.50	4.25	4.25
2005	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.00	4.75	4.50
	More than 10 years, up to 20	4.75	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2006	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	4.75	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2007	5 years or less	5.50%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	4.75	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2008	5 years or less	5.50%	5.00%	4.50%
	More than 5 years, up to 10	5.50	5.00	4.50
	More than 10 years, up to 20	5.00	4.50	4.25
	More than 20 years	4.25	4.00	4.00

D. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Issue Year” basis.

		<u>Maximum Reserve Valuation Interest Rate</u>		
<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
2009	5 years or less	6.00%	5.25%	5.00%
	More than 5 years, up to 10	5.75	5.25	5.00
	More than 10 years, up to 20	5.25	4.75	4.50
	More than 20 years	4.50	4.25	4.25
2010	5 years or less	5.25%	4.75%	4.25%
	More than 5 years, up to 10	5.00	4.75	4.25
	More than 10 years, up to 20	4.75	4.25	4.25
	More than 20 years	4.25	4.00	4.00
2011	5 years or less	5.00%	4.50%	4.25%
	More than 5 years, up to 10	4.75	4.50	4.25
	More than 10 years, up to 20	4.50	4.25	4.00
	More than 20 years	4.00	3.75	3.75
2012	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50
2013	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2014	5 years or less	4.50%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
2015	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	4.00	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2016	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50

D. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Issue Year” basis.

Maximum Reserve Valuation Interest Rate

<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
2017	5 years or less	3.75%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.25	3.25
2018	5 years or less	3.75%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.25	3.25
2019	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2020	5 years or less	3.25%	3.25%	3.25%
	More than 5 years, up to 10	3.25	3.25	3.25
	More than 10 years, up to 20	3.25	3.25	3.25
	More than 20 years	3.25	3.00	3.00
2021	5 years or less	3.00%	3.00%	3.00%
	More than 5 years, up to 10	3.00	3.00	3.00
	More than 10 years, up to 20	3.00	3.00	3.00
	More than 20 years	3.00	3.00	3.00
2022	5 years or less	3.50%	3.25%	3.25%
	More than 5 years, up to 10	3.50	3.25	3.25
	More than 10 years, up to 20	3.25	3.25	3.00
	More than 20 years	3.00	3.00	3.00
2023	5 years or less	4.75%	4.25%	4.00%
	More than 5 years, up to 10	4.50	4.25	4.00
	More than 10 years, up to 20	3.50	3.50	3.50
	More than 20 years	3.50	3.25	3.25

- E. Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the “Issue Year” basis.

		<u>Maximum Reserve Valuation Interest Rate</u>		
<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
1982	5 years or less	13.75%	11.25%	10.00%
	More than 5 years, up to 10	13.25	11.25	10.00
	More than 10 years, up to 20	8.75	7.50	7.25
	More than 20 years	7.25	6.25	6.25
1983	5 years or less	11.75%	9.75%	8.75%
	More than 5 years, up to 10	11.25	9.75	8.75
	More than 10 years, up to 20	8.75	7.50	7.00
	More than 20 years	7.00	6.25	6.25
1984	5 years or less	11.75%	9.75%	8.50%
	More than 5 years, up to 10	11.25	9.75	8.50
	More than 10 years, up to 20	8.75	7.50	7.00
	More than 20 years	7.00	6.25	6.25
1985	5 years or less	11.50%	9.50%	8.50%
	More than 5 years, up to 10	11.00	9.50	8.50
	More than 10 years, up to 20	8.50	7.50	7.00
	More than 20 years	7.00	6.25	6.25
1986	5 years or less	9.50%	8.00%	7.25%
	More than 5 years, up to 10	9.25	8.00	7.25
	More than 10 years, up to 20	7.75	6.75	6.50
	More than 20 years	6.50	5.75	5.75
1987	5 years or less	8.50%	7.25%	6.50%
	More than 5 years, up to 10	8.00	7.25	6.50
	More than 10 years, up to 20	7.25	6.50	6.00
	More than 20 years	6.00	5.50	5.50
1988	5 years or less	9.25%	7.75%	7.00%
	More than 5 years, up to 10	8.75	7.75	7.00
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.75	5.75
1989	5 years or less	9.00%	7.50%	7.00%
	More than 5 years, up to 10	8.75	7.50	7.00
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.50	5.50
1990	5 years or less	8.50%	7.25%	6.50%
	More than 5 years, up to 10	8.25	7.25	6.50
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.50	5.50

E. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the “Issue Year” basis.

Maximum Reserve Valuation Interest Rate

<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
1991	5 years or less	8.75%	7.25%	6.75%
	More than 5 years, up to 10	8.25	7.25	6.75
	More than 10 years, up to 20	7.50	6.50	6.25
	More than 20 years	6.25	5.50	5.50
1992	5 years or less	8.00%	6.75%	6.25%
	More than 5 years, up to 10	7.75	6.75	6.25
	More than 10 years, up to 20	7.00	6.25	6.00
	More than 20 years	6.00	5.25	5.25
1993	5 years or less	7.25%	6.25%	5.75%
	More than 5 years, up to 10	7.00	6.25	5.75
	More than 10 years, up to 20	6.50	5.75	5.50
	More than 20 years	5.50	5.00	5.00
1994	5 years or less	6.75%	6.00%	5.50%
	More than 5 years, up to 10	6.50	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1995	5 years or less	7.50%	6.50%	6.00%
	More than 5 years, up to 10	7.25	6.50	6.00
	More than 10 years, up to 20	6.50	5.75	5.50
	More than 20 years	5.50	5.00	5.00
1996	5 years or less	6.75%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
1997	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	5.00	5.00
1998	5 years or less	6.50%	5.75%	5.25%
	More than 5 years, up to 10	6.25	5.75	5.25
	More than 10 years, up to 20	6.00	5.25	5.00
	More than 20 years	5.00	4.75	4.75
1999	5 years or less	6.25%	5.50%	5.25%
	More than 5 years, up to 10	6.25	5.50	5.25
	More than 10 years, up to 20	5.75	5.25	5.00
	More than 20 years	5.00	4.50	4.50

E. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the “Issue Year” basis.

		<u>Maximum Reserve Valuation Interest Rate</u>		
<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
2000	5 years or less	7.25%	6.25%	5.75%
	More than 5 years, up to 10	7.00	6.25	5.75
	More than 10 years, up to 20	6.00	5.50	5.25
	More than 20 years	5.25	4.75	4.75
2001	5 years or less	7.00%	6.00%	5.50%
	More than 5 years, up to 10	6.75	6.00	5.50
	More than 10 years, up to 20	6.25	5.50	5.25
	More than 20 years	5.25	4.75	4.75
2002	5 years or less	6.75%	6.00%	5.50%
	More than 5 years, up to 10	6.50	6.00	5.50
	More than 10 years, up to 20	6.00	5.50	5.25
	More than 20 years	5.25	4.75	4.75
2003	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.50	5.00	4.75
	More than 20 years	4.75	4.50	4.50
2004	5 years or less	5.75%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.25	4.75	4.75
	More than 20 years	4.75	4.25	4.25
2005	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	5.00	4.50	4.50
	More than 20 years	4.50	4.00	4.00
2006	5 years or less	5.50%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	5.00	4.50	4.50
	More than 20 years	4.50	4.25	4.25
2007	5 years or less	5.50%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.00	4.50	4.50
	More than 20 years	4.50	4.25	4.25
2008	5 years or less	5.75%	5.00%	4.75%
	More than 5 years, up to 10	5.50	5.00	4.75
	More than 10 years, up to 20	5.00	4.75	4.50
	More than 20 years	4.50	4.25	4.25

E. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the “Issue Year” basis.

Issue Year	Guarantee Duration	<u>Maximum Reserve Valuation Interest Rate</u>		
		<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
2009	5 years or less	6.25%	5.50%	5.00%
	More than 5 years, up to 10	6.00	5.50	5.00
	More than 10 years, up to 20	5.25	4.75	4.75
	More than 20 years	4.75	4.25	4.25
2010	5 years or less	5.25%	4.75%	4.50%
	More than 5 years, up to 10	5.25	4.75	4.50
	More than 10 years, up to 20	5.00	4.50	4.25
	More than 20 years	4.25	4.00	4.00
2011	5 years or less	5.00%	4.50%	4.25%
	More than 5 years, up to 10	5.00	4.50	4.25
	More than 10 years, up to 20	4.75	4.25	4.25
	More than 20 years	4.25	4.00	4.00
2012	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50
2013	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	3.75	3.75	3.50
	More than 20 years	3.50	3.50	3.50
2014	5 years or less	4.50%	4.00%	4.00%
	More than 5 years, up to 10	4.50	4.00	4.00
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50
2015	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	3.75	3.75	3.50
	More than 20 years	3.50	3.50	3.50
2016	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.75
	More than 20 years	3.75	3.50	3.50

E. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options but without interest rate guarantees on future considerations, valued on the “Issue Year” basis.

Maximum Reserve Valuation Interest Rate

<u>Issue Year</u>	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
2017	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2018	5 years or less	4.00%	3.75%	3.50%
	More than 5 years, up to 10	3.75	3.75	3.50
	More than 10 years, up to 20	3.75	3.50	3.50
	More than 20 years	3.50	3.50	3.50
2019	5 years or less	4.00%	3.75%	3.75%
	More than 5 years, up to 10	4.00	3.75	3.75
	More than 10 years, up to 20	3.75	3.75	3.50
	More than 20 years	3.50	3.50	3.50
2020	5 years or less	3.25%	3.25%	3.25%
	More than 5 years, up to 10	3.25	3.25	3.25
	More than 10 years, up to 20	3.25	3.25	3.25
	More than 20 years	3.25	3.25	3.25
2021	5 years or less	3.00%	3.00%	3.00%
	More than 5 years, up to 10	3.00	3.00	3.00
	More than 10 years, up to 20	3.00	3.00	3.00
	More than 20 years	3.00	3.00	3.00
2022	5 years or less	3.50%	3.25%	3.25%
	More than 5 years, up to 10	3.50	3.25	3.25
	More than 10 years, up to 20	3.25	3.25	3.25
	More than 20 years	3.25	3.00	3.00
2023	5 years or less	4.75%	4.50%	4.25%
	More than 5 years, up to 10	4.75	4.50	4.25
	More than 10 years, up to 20	3.50	3.50	3.50
	More than 20 years	3.50	3.25	3.25

F. Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the “Issue Year” basis.

Issue Year	Guarantee Duration	<u>Maximum Reserve Valuation</u> <u>Interest Rate</u>
		<u>Plan Type A</u>
1982	5 years or less	13.25%
	More than 5 years, up to 10	12.50
	More than 10 years, up to 20	11.25
	More than 20 years	8.75
1983	5 years or less	11.25%
	More than 5 years, up to 10	10.75
	More than 10 years, up to 20	9.75
	More than 20 years	7.75
1984	5 years or less	11.25%
	More than 5 years, up to 10	10.75
	More than 10 years, up to 20	9.75
	More than 20 years	7.50
1985	5 years or less	11.00%
	More than 5 years, up to 10	10.50
	More than 10 years, up to 20	9.50
	More than 20 years	7.50
1986	5 years or less	9.25%
	More than 5 years, up to 10	8.75
	More than 10 years, up to 20	8.00
	More than 20 years	6.50
1987	5 years or less	8.00%
	More than 5 years, up to 10	7.75
	More than 10 years, up to 20	7.25
	More than 20 years	6.00
1988	5 years or less	8.75%
	More than 5 years, up to 10	8.50
	More than 10 years, up to 20	7.75
	More than 20 years	6.25
1989	5 years or less	8.75%
	More than 5 years, up to 10	8.25
	More than 10 years, up to 20	7.50
	More than 20 years	6.25
1990	5 years or less	8.25%
	More than 5 years, up to 10	8.00
	More than 10 years, up to 20	7.25
	More than 20 years	6.00

F. (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the “Issue Year” basis.

Issue Year	Guarantee Duration	<u>Maximum Reserve Valuation</u> <u>Interest Rate</u>
		<u>Plan Type A</u>
1991	5 years or less	8.25%
	More than 5 years, up to 10	8.00
	More than 10 years, up to 20	7.25
	More than 20 years	6.00
1992	5 years or less	7.75%
	More than 5 years, up to 10	7.50
	More than 10 years, up to 20	6.75
	More than 20 years	5.75
1993	5 years or less	7.00%
	More than 5 years, up to 10	6.75
	More than 10 years, up to 20	6.25
	More than 20 years	5.25
1994	5 years or less	6.50%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
1995	5 years or less	7.25%
	More than 5 years, up to 10	7.00
	More than 10 years, up to 20	6.50
	More than 20 years	5.50
1996	5 years or less	6.75%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
1997	5 years or less	6.75%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.25
1998	5 years or less	6.25%
	More than 5 years, up to 10	6.00
	More than 10 years, up to 20	5.75
	More than 20 years	4.75
1999	5 years or less	6.25%
	More than 5 years, up to 10	6.00
	More than 10 years, up to 20	5.50
	More than 20 years	4.75

F. (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the “Issue Year” basis.

Issue Year	Guarantee Duration	<u>Maximum Reserve Valuation</u> <u>Interest Rate</u>
		<u>Plan Type A</u>
2000	5 years or less	7.00%
	More than 5 years, up to 10	6.75
	More than 10 years, up to 20	6.25
	More than 20 years	5.25
2001	5 years or less	6.75%
	More than 5 years, up to 10	6.50
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
2002	5 years or less	6.50%
	More than 5 years, up to 10	6.25
	More than 10 years, up to 20	6.00
	More than 20 years	5.00
2003	5 years or less	6.00%
	More than 5 years, up to 10	5.75
	More than 10 years, up to 20	5.50
	More than 20 years	4.75
2004	5 years or less	5.50%
	More than 5 years, up to 10	5.50
	More than 10 years, up to 20	5.00
	More than 20 years	4.50
2005	5 years or less	5.25%
	More than 5 years, up to 10	5.00
	More than 10 years, up to 20	4.75
	More than 20 years	4.25
2006	5 years or less	5.25%
	More than 5 years, up to 10	5.25
	More than 10 years, up to 20	4.75
	More than 20 years	4.25
2007	5 years or less	5.50%
	More than 5 years, up to 10	5.25
	More than 10 years, up to 20	5.00
	More than 20 years	4.25
2008	5 years or less	5.50%
	More than 5 years, up to 10	5.50
	More than 10 years, up to 20	5.00
	More than 20 years	4.50

F. (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the “Issue Year” basis.

Issue Year	Guarantee Duration	<u>Maximum Reserve Valuation</u> <u>Interest Rate</u>
		<u>Plan Type A</u>
2009	5 years or less	6.00%
	More than 5 years, up to 10	5.75
	More than 10 years, up to 20	5.50
	More than 20 years	4.75
2010	5 years or less	5.25%
	More than 5 years, up to 10	5.00
	More than 10 years, up to 20	4.75
	More than 20 years	4.25
2011	5 years or less	5.00%
	More than 5 years, up to 10	4.75
	More than 10 years, up to 20	4.50
	More than 20 years	4.00
2012	5 years or less	4.25%
	More than 5 years, up to 10	4.25
	More than 10 years, up to 20	4.00
	More than 20 years	3.75
2013	5 years or less	4.00%
	More than 5 years, up to 10	3.75
	More than 10 years, up to 20	3.75
	More than 20 years	3.50
2014	5 years or less	4.50%
	More than 5 years, up to 10	4.25
	More than 10 years, up to 20	4.00
	More than 20 years	3.75
2015	5 years or less	4.00%
	More than 5 years, up to 10	4.00
	More than 10 years, up to 20	3.75
	More than 20 years	3.50
2016	5 years or less	4.00%
	More than 5 years, up to 10	4.00
	More than 10 years, up to 20	4.00
	More than 20 years	3.75
2017	5 years or less	3.75%
	More than 5 years, up to 10	3.75
	More than 10 years, up to 20	3.75
	More than 20 years	3.50

F. (cont.) Other Annuities and Guaranteed Interest Contracts, without cash settlement options, valued on the “Issue Year” basis.

Issue Year	Guarantee Duration	<u>Maximum Reserve Valuation</u> <u>Interest Rate</u>
		<u>Plan Type A</u>
2018	5 years or less	3.75%
	More than 5 years, up to 10	3.75
	More than 10 years, up to 20	3.75
	More than 20 years	3.50
2019	5 years or less	4.00%
	More than 5 years, up to 10	4.00
	More than 10 years, up to 20	3.75
	More than 20 years	3.50
2020	5 years or less	3.25%
	More than 5 years, up to 10	3.25
	More than 10 years, up to 20	3.25
	More than 20 years	3.25
2021	5 years or less	3.00%
	More than 5 years, up to 10	3.00
	More than 10 years, up to 20	3.00
	More than 20 years	3.00
2022	5 years or less	3.50%
	More than 5 years, up to 10	3.50
	More than 10 years, up to 20	3.25
	More than 20 years	3.25
2023	5 years or less	4.75%
	More than 5 years, up to 10	4.50
	More than 10 years, up to 20	4.50
	More than 20 years	4.00

- G. Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
1982	5 years or less	15.00%	13.75%	10.00%
	More than 5 years, up to 10	14.50	13.75	10.00
	More than 10 years, up to 20	13.25	12.50	9.25
	More than 20 years	10.50	10.50	8.00
1983	5 years or less	12.75%	11.75%	8.75%
	More than 5 years, up to 10	12.25	11.75	8.75
	More than 10 years, up to 20	11.25	10.75	8.25
	More than 20 years	9.25	9.25	7.25
1984	5 years or less	12.75%	11.75%	8.50%
	More than 5 years, up to 10	12.25	11.75	8.50
	More than 10 years, up to 20	11.25	10.75	8.00
	More than 20 years	9.25	9.25	7.00
1985	5 years or less	12.50%	11.50%	8.50%
	More than 5 years, up to 10	12.00	11.50	8.50
	More than 10 years, up to 20	11.00	10.50	8.00
	More than 20 years	9.00	9.00	7.00
1986	5 years or less	10.25%	9.50%	7.25%
	More than 5 years, up to 10	10.00	9.50	7.25
	More than 10 years, up to 20	9.25	8.75	6.75
	More than 20 years	7.75	7.75	6.00
1987	5 years or less	9.00%	8.50%	6.50%
	More than 5 years, up to 10	8.75	8.50	6.50
	More than 10 years, up to 20	8.00	7.75	6.25
	More than 20 years	6.75	6.75	5.50
1988	5 years or less	10.00%	9.25%	7.00%
	More than 5 years, up to 10	9.50	9.25	7.00
	More than 10 years, up to 20	8.75	8.50	6.75
	More than 20 years	7.50	7.50	6.00
1989	5 years or less	9.75%	9.00%	7.00%
	More than 5 years, up to 10	9.50	9.00	7.00
	More than 10 years, up to 20	8.75	8.25	6.50
	More than 20 years	7.25	7.25	5.75
1990	5 years or less	9.25%	8.50%	6.50%
	More than 5 years, up to 10	8.75	8.50	6.50
	More than 10 years, up to 20	8.25	8.00	6.25
	More than 20 years	7.00	7.00	5.50

G. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
1991	5 years or less	9.25%	8.75%	6.75%
	More than 5 years, up to 10	9.00	8.75	6.75
	More than 10 years, up to 20	8.25	8.00	6.25
	More than 20 years	7.00	7.00	5.75
1992	5 years or less	8.50%	8.00%	6.25%
	More than 5 years, up to 10	8.25	8.00	6.25
	More than 10 years, up to 20	7.75	7.50	6.00
	More than 20 years	6.50	6.50	5.25
1993	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.00
1994	5 years or less	7.25%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.50	6.50	5.25
	More than 20 years	5.75	5.75	4.75
1995	5 years or less	8.25%	7.50%	6.00%
	More than 5 years, up to 10	8.00	7.50	6.00
	More than 10 years, up to 20	7.25	7.00	5.75
	More than 20 years	6.25	6.25	5.25
1996	5 years or less	7.25%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.75	6.50	5.25
	More than 20 years	5.75	5.75	4.75
1997	5 years or less	7.50%	7.00%	5.50%
	More than 5 years, up to 10	7.25	7.00	5.50
	More than 10 years, up to 20	6.75	6.50	5.25
	More than 20 years	5.75	5.75	5.00
1998	5 years or less	7.00%	6.50%	5.25%
	More than 5 years, up to 10	6.75	6.50	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.75

G. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

		<u>Maximum Reserve Valuation Interest Rate</u>		
Change in Fund During Year	<u>Guarantee Duration</u>	<u>Plan Type</u>		
		<u>A</u>	<u>B</u>	<u>C</u>
1999	5 years or less	6.75%	6.25%	5.25%
	More than 5 years, up to 10	6.50	6.25	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.50
2000	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.00
2001	5 years or less	7.50%	7.00%	5.50%
	More than 5 years, up to 10	7.25	7.00	5.50
	More than 10 years, up to 20	6.75	6.50	5.25
	More than 20 years	5.75	5.75	5.00
2002	5 years or less	7.25%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.50	6.25	5.25
	More than 20 years	5.75	5.75	4.75
2003	5 years or less	6.50%	6.25%	5.00%
	More than 5 years, up to 10	6.25	6.25	5.00
	More than 10 years, up to 20	6.00	5.75	4.75
	More than 20 years	5.25	5.25	4.50
2004	5 years or less	6.00%	5.75%	4.75%
	More than 5 years, up to 10	6.00	5.75	4.75
	More than 10 years, up to 20	5.50	5.50	4.75
	More than 20 years	5.00	5.00	4.25
2005	5 years or less	5.75%	5.25%	4.50%
	More than 5 years, up to 10	5.50	5.25	4.50
	More than 10 years, up to 20	5.25	5.00	4.50
	More than 20 years	4.75	4.75	4.00
2006	5 years or less	5.75%	5.50%	4.50%
	More than 5 years, up to 10	5.50	5.50	4.50
	More than 10 years, up to 20	5.25	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2007	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.75	5.50	4.75
	More than 10 years, up to 20	5.50	5.25	4.50
	More than 20 years	4.75	4.75	4.25

G. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
2008	5 years or less	6.00%	5.75%	4.75%
	More than 5 years, up to 10	6.00	5.75	4.75
	More than 10 years, up to 20	5.50	5.50	4.50
	More than 20 years	5.00	5.00	4.25
2009	5 years or less	6.50%	6.25%	5.00%
	More than 5 years, up to 10	6.50	6.25	5.00
	More than 10 years, up to 20	6.00	5.75	5.00
	More than 20 years	5.25	5.25	4.50
2010	5 years or less	5.50%	5.25%	4.50%
	More than 5 years, up to 10	5.50	5.25	4.50
	More than 10 years, up to 20	5.25	5.00	4.25
	More than 20 years	4.75	4.75	4.00
2011	5 years or less	5.25%	5.00%	4.25%
	More than 5 years, up to 10	5.25	5.00	4.25
	More than 10 years, up to 20	5.00	4.75	4.25
	More than 20 years	4.50	4.50	4.00
2012	5 years or less	4.50%	4.25%	3.75%
	More than 5 years, up to 10	4.50	4.25	3.75
	More than 10 years, up to 20	4.25	4.25	3.75
	More than 20 years	4.00	4.00	3.50
2013	5 years or less	4.00%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2014	5 years or less	4.75%	4.50%	4.00%
	More than 5 years, up to 10	4.50	4.50	4.00
	More than 10 years, up to 20	4.50	4.25	3.75
	More than 20 years	4.00	4.00	3.75
2015	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	4.00	3.50
	More than 20 years	3.75	3.75	3.50
2016	5 years or less	4.25%	4.25%	3.75%
	More than 5 years, up to 10	4.25	4.25	3.75
	More than 10 years, up to 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50

G. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and with interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
2017	5 years or less	4.00%	4.00%	3.50%
	More than 5 years, less than 10	4.00	4.00	3.50
	More than 10 years, less than 20	3.75	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2018	5 years or less	4.00%	4.00%	3.50%
	More than 5 years, less than 10	4.00	4.00	3.50
	More than 10 years, less than 20	3.75	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2019	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, less than 10	4.25	4.00	3.75
	More than 10 years, less than 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50
2020	5 years or less	3.25%	3.25%	3.25%
	More than 5 years, less than 10	3.25	3.25	3.25
	More than 10 years, less than 20	3.25	3.25	3.25
	More than 20 years	3.25	3.25	3.25
2021	5 years or less	3.00%	3.00%	3.00%
	More than 5 years, less than 10	3.00	3.00	3.00
	More than 10 years, less than 20	3.00	3.00	3.00
	More than 20 years	3.00	3.00	3.00
2022	5 years or less	3.50%	3.50%	3.25%
	More than 5 years, less than 10	3.50	3.50	3.25
	More than 10 years, less than 20	3.50	3.50	3.25
	More than 20 years	3.25	3.25	3.25
2023	5 years or less	5.00%	4.75%	4.25%
	More than 5 years, less than 10	5.00	4.75	4.25
	More than 10 years, less than 20	4.75	4.50	4.00
	More than 20 years	4.25	4.25	3.75

H. Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
1982	5 years or less	15.75%	14.50%	10.50%
	More than 5 years, up to 10	15.00	14.50	10.50
	More than 10 years, up to 20	13.75	13.25	10.00
	More than 20 years	11.25	11.25	8.75
1983	5 years or less	13.50%	12.25%	9.25%
	More than 5 years, up to 10	12.75	12.25	9.25
	More than 10 years, up to 20	11.75	11.25	8.75
	More than 20 years	9.75	9.75	7.75
1984	5 years or less	13.25%	12.25%	9.25%
	More than 5 years, up to 10	12.75	12.25	9.25
	More than 10 years, up to 20	11.75	11.25	8.50
	More than 20 years	9.75	9.75	7.50
1985	5 years or less	13.00%	12.00%	9.00%
	More than 5 years, up to 10	12.50	12.00	9.00
	More than 10 years, up to 20	11.50	11.00	8.50
	More than 20 years	9.50	9.50	7.50
1986	5 years or less	10.75%	10.00%	7.75%
	More than 5 years, up to 10	10.25	10.00	7.75
	More than 10 years, up to 20	9.50	9.25	7.25
	More than 20 years	8.00	8.00	6.50
1987	5 years or less	9.50%	8.75%	6.75%
	More than 5 years, up to 10	9.00	8.75	6.75
	More than 10 years, up to 20	8.50	8.00	6.50
	More than 20 years	7.25	7.25	6.00
1988	5 years or less	10.25%	9.50%	7.50%
	More than 5 years, up to 10	10.00	9.50	7.50
	More than 10 years, up to 20	9.25	8.75	7.00
	More than 20 years	7.75	7.75	6.25
1989	5 years or less	10.00%	9.50%	7.25%
	More than 5 years, up to 10	9.75	9.50	7.25
	More than 10 years, up to 20	9.00	8.75	7.00
	More than 20 years	7.50	7.50	6.25

H. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
1990	5 years or less	9.50%	8.75%	7.00%
	More than 5 years, up to 10	9.25	8.75	7.00
	More than 10 years, up to 20	8.50	8.25	6.50
	More than 20 years	7.25	7.25	6.00
1991	5 years or less	9.75%	9.00%	7.00%
	More than 5 years, up to 10	9.25	9.00	7.00
	More than 10 years, up to 20	8.75	8.25	6.75
	More than 20 years	7.25	7.25	6.00
1992	5 years or less	9.00%	8.25%	6.50%
	More than 5 years, up to 10	8.50	8.25	6.50
	More than 10 years, up to 20	8.00	7.75	6.25
	More than 20 years	6.75	6.75	5.75
1993	5 years or less	8.25%	7.50%	6.00%
	More than 5 years, up to 10	7.75	7.50	6.00
	More than 10 years, up to 20	7.25	7.00	5.75
	More than 20 years	6.25	6.25	5.25
1994	5 years or less	7.50%	7.00%	5.75%
	More than 5 years, up to 10	7.25	7.00	5.75
	More than 10 years, up to 20	6.75	6.50	5.50
	More than 20 years	6.00	6.00	5.00
1995	5 years or less	8.50%	8.00%	6.25%
	More than 5 years, up to 10	8.25	8.00	6.25
	More than 10 years, up to 20	7.50	7.25	6.00
	More than 20 years	6.50	6.50	5.50
1996	5 years or less	7.50%	7.00%	5.75%
	More than 5 years, up to 10	7.25	7.00	5.75
	More than 10 years, up to 20	6.75	6.75	5.50
	More than 20 years	6.00	6.00	5.00
1997	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.25
1998	5 years or less	7.00%	6.75%	5.50%
	More than 5 years, up to 10	7.00	6.75	5.50
	More than 10 years, up to 20	6.50	6.25	5.25
	More than 20 years	5.75	5.75	4.75

H. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
1999	5 years or less	7.00%	6.50%	5.50%
	More than 5 years, up to 10	6.75	6.50	5.50
	More than 10 years, up to 20	6.25	6.25	5.25
	More than 20 years	5.50	5.50	4.75
2000	5 years or less	8.00%	7.50%	6.00%
	More than 5 years, up to 10	7.75	7.50	6.00
	More than 10 years, up to 20	7.25	7.00	5.75
	More than 20 years	6.25	6.25	5.25
2001	5 years or less	7.75%	7.25%	5.75%
	More than 5 years, up to 10	7.50	7.25	5.75
	More than 10 years, up to 20	7.00	6.75	5.50
	More than 20 years	6.00	6.00	5.00
2002	5 years or less	7.50%	7.00%	5.75%
	More than 5 years, up to 10	7.25	7.00	5.75
	More than 10 years, up to 20	6.75	6.50	5.50
	More than 20 years	6.00	6.00	5.00
2003	5 years or less	6.75%	6.25%	5.25%
	More than 5 years, up to 10	6.50	6.25	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.75
2004	5 years or less	6.25%	6.00%	5.00%
	More than 5 years, up to 10	6.00	6.00	5.00
	More than 10 years, up to 20	5.75	5.50	4.75
	More than 20 years	5.00	5.00	4.50
2005	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.75	5.50	4.75
	More than 10 years, up to 20	5.25	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2006	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.75	5.50	4.75
	More than 10 years, up to 20	5.50	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2007	5 years or less	6.00%	5.75%	4.75%
	More than 5 years, up to 10	5.75	5.75	4.75
	More than 10 years, up to 20	5.50	5.50	4.75
	More than 20 years	5.00	5.00	4.25

H. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
2008	5 years or less	6.25%	6.00%	5.00%
	More than 5 years, up to 10	6.00	6.00	5.00
	More than 10 years, up to 20	5.75	5.50	4.75
	More than 20 years	5.00	5.00	4.50
2009	5 years or less	6.75%	6.50%	5.25%
	More than 5 years, up to 10	6.50	6.50	5.25
	More than 10 years, up to 20	6.25	6.00	5.00
	More than 20 years	5.50	5.50	4.75
2010	5 years or less	5.75%	5.50%	4.75%
	More than 5 years, up to 10	5.50	5.50	4.75
	More than 10 years, up to 20	5.25	5.25	4.50
	More than 20 years	4.75	4.75	4.25
2011	5 years or less	5.25%	5.25%	4.50%
	More than 5 years, up to 10	5.25	5.25	4.50
	More than 10 years, up to 20	5.00	5.00	4.25
	More than 20 years	4.50	4.50	4.00
2012	5 years or less	4.50%	4.50%	4.00%
	More than 5 years, up to 10	4.50	4.50	4.00
	More than 10 years, up to 20	4.25	4.25	3.75
	More than 20 years	4.00	4.00	3.75
2013	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.00	4.00	3.75
	More than 10 years, up to 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50
2014	5 years or less	4.75%	4.50%	4.00%
	More than 5 years, up to 10	4.75	7.50	4.00
	More than 10 years, up to 20	4.50	4.50	4.00
	More than 20 years	4.00	4.00	3.75
2015	5 years or less	4.25%	4.00%	3.75%
	More than 5 years, up to 10	4.25	4.00	3.75
	More than 10 years, up to 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50
2016	5 years or less	4.50%	4.25%	3.75%
	More than 5 years, up to 10	4.25	4.25	3.75
	More than 10 years, up to 20	4.25	4.00	3.75
	More than 20 years	4.00	4.00	3.75

H. (cont.) Other Annuities and Guaranteed Interest Contracts, with cash settlement options and without interest rate guarantees on future considerations, valued on the “Change-in-Fund” basis.

Maximum Reserve Valuation Interest Rate

Change in Fund During Year	Guarantee Duration	Plan Type		
		<u>A</u>	<u>B</u>	<u>C</u>
2017	5 years or less	4.00%	4.00%	3.75%
	More than 5 years, less than 10	4.00	4.00	3.75
	More than 10 years, less than 20	4.00	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2018	5 years or less	4.00%	4.00%	3.75%
	More than 5 years, less than 10	4.00	4.00	3.75
	More than 10 years, less than 20	4.00	3.75	3.50
	More than 20 years	3.75	3.75	3.50
2019	5 years or less	4.25%	4.25%	3.75%
	More than 5 years, less than 10	4.25	4.25	3.75
	More than 10 years, less than 20	4.00	4.00	3.75
	More than 20 years	3.75	3.75	3.50
2020	5 years or less	3.25%	3.25%	3.25%
	More than 5 years, less than 10	3.25	3.25	3.25
	More than 10 years, less than 20	3.25	3.25	3.25
	More than 20 years	3.25	3.25	3.25
2021	5 years or less	3.00%	3.00%	3.00%
	More than 5 years, less than 10	3.00	3.00	3.00
	More than 10 years, less than 20	3.00	3.00	3.00
	More than 20 years	3.00	3.00	3.00
2022	5 years or less	3.50%	3.50%	3.25%
	More than 5 years, less than 10	3.50	3.50	3.25
	More than 10 years, less than 20	3.50	3.50	3.25
	More than 20 years	3.25	3.25	3.25
2023	5 years or less	5.25%	5.00%	4.25%
	More than 5 years, less than 10	5.00	5.00	4.25
	More than 10 years, less than 20	4.75	4.75	4.25
	More than 20 years	4.50	4.50	4.00

APPENDIX

The maximum reserve valuation interest rates are based on reference interest rates, which are averages of corporate bond earnings published by Moody's Investors Service, Inc., and weighting factors prescribed by Section 4217, which defines running averages of the published monthly yield rates for 12-month and 36-month periods.

The following table shows the 12-month and 36-month yield averages for recent years:

TABLE 1

For Period Ending <u>June 30 of Year</u>	12-Month Running <u>Average</u> (1)	36-Month Running <u>Average</u> (2)	<u>Lesser of Two Averages</u> (3)
1981	13.71%	11.57%	11.57%
1982	15.70%	13.64%	13.64%
1983	13.39%	14.26%	13.39%
1984	13.22%	14.10%	13.22%
1985	13.01%	13.21%	13.01%
1986	10.75%	12.33%	10.75%
1987	9.40%	11.05%	9.40%
1988	10.32%	10.15%	10.15%
1989	10.09%	9.93%	9.93%
1990	9.52%	9.97%	9.52%
1991	9.63%	9.74%	9.63%
1992	8.88%	9.34%	8.88%
1993	8.13%	8.88%	8.13%
1994	7.52%	8.18%	7.52%
1995	8.42%	8.03%	8.03%
1996	7.55%	7.83%	7.55%
1997	7.74%	7.90%	7.74%
1998	7.11%	7.47%	7.11%
1999	6.96%	7.27%	6.96%
2000	7.93%	7.33%	7.33%
2001	7.72%	7.54%	7.54%
2002	7.44%	7.70%	7.44%
2003	6.71%	7.29%	6.71%
2004	6.26%	6.80%	6.26%

TABLE 1
(cont.)

For Period Ending <u>June 30 of Year</u>	12-Month Running <u>Average</u> (1)	36-Month Running <u>Average</u> (2)	Lesser of <u>Two Averages</u> (3)
2005	5.78%	6.25%	5.78%
2006	5.87%	5.97%	5.87%
2007	6.00%	5.88%	5.88%
2008	6.21%	6.02%	6.02%
2009	6.79%	6.33%	6.33%
2010	5.75%	6.25%	5.75%
2011	5.37%	5.97%	5.37%
2012	4.55%	5.22%	4.55%
2013	4.15%	4.69%	4.15%
2014	4.72%	4.48%	4.48%
2015	4.19%	4.36%	4.19%
2016	4.39%	4.44%	4.19%
2017	4.05%	4.21%	4.05%
2018	4.05%	4.17%	4.05%
2019	4.31%	4.14%	4.14%
2020	3.35%	3.90%	3.35%
2021	2.96%	3.54%	2.96%
2022	3.52%	3.28%	3.28%
2023	5.16%	3.88%	3.88%

The maximum nonforfeiture interest rate for Life Insurance, under Section 4221(k), for a particular issue year, is equal to 125% of the maximum reserve valuation interest rate for the same issue year, rounded to the nearer 1/4%.

Should the computed maximum reserve valuation interest rate for Life Insurance (other than Single Premium Life Insurance covered in Category B on pages 2-4) for a particular issue year be different from the actual maximum reserve valuation interest rate for the next previous issue year by less than 1/2%, then the maximum reserve valuation interest rate for such particular issue year will be the same as that for such next previous issue year.

Appendix C-2

Interpretations of the Emerging Actuarial Issues (E) Working Group

Introduction

The former Emerging Actuarial Issues (E) Working Group (EAIWG) and the current Valuation Analysis (E) Working Group (VAWG) respond to questions of application, interpretation and clarification with respect to *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38). Following an abbreviated public comment and review period of no less than seven days, the Working Group will adopt by consensus formal interpretations on issues presented before it. These interpretations will then be reported to the Financial Condition (E) Committee, which, after adopting, will direct the Financial Analysis (E) Working Group to follow the interpretations in performing its reviews of the reserving methodologies under AG 38. These interpretations will not become effective until formally adopted by the Financial Condition (E) Committee. In no event shall a consensus opinion of the former EAIWG or current VAWG supersede or otherwise conflict with AG 38.

Actuarial INT 01.....	C-42	Actuarial INT 23.....	C-66
Actuarial INT 02.....	C-43	Actuarial INT 24.....	C-67
Actuarial INT 03.....	C-44	Actuarial INT 25.....	C-68
Actuarial INT 04.....	C-45	Actuarial INT 26.....	C-69
Actuarial INT 05.....	C-46	Actuarial INT 27.....	C-70
Actuarial INT 06.....	C-48	Actuarial INT 28.....	C-71
Actuarial INT 07.....	C-49	Actuarial INT 29.....	C-72
Actuarial INT 08.....	C-50	Actuarial INT 30.....	C-74
Actuarial INT 09.....	C-51	Actuarial INT 31.....	C-75
Actuarial INT 10.....	C-52	Actuarial INT 32.....	C-76
Actuarial INT 11.....	C-53	Actuarial INT 33.....	C-77
Actuarial INT 12.....	C-54	Actuarial INT 34.....	C-78
Actuarial INT 13.....	C-55	Actuarial INT 35.....	C-79
Actuarial INT 14.....	C-56	Actuarial INT 36.....	C-80
Actuarial INT 15.....	C-57	Actuarial INT 37.....	C-81
Actuarial INT 16.....	C-58	Actuarial INT 38.....	C-82
Actuarial INT 17.....	C-59	Actuarial INT 39.....	C-83
Actuarial INT 18.....	C-60	Actuarial INT 40.....	C-85
Actuarial INT 19.....	C-61	Actuarial INT 41.....	C-86
Actuarial INT 20.....	C-62	Actuarial INT 42.....	C-88
Actuarial INT 21.....	C-63		
Actuarial INT 22.....	C-65		

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 01

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. The Guideline does not seem to preclude a company from using the Alternative Reserve Methodology for yearend 2012, thus avoiding the Primary Reserve Methodology calculations, even if in prior valuations their total reserve held was not at least as great as the total reserve determined in accordance with the November 1, 2011 Life Actuarial (A) Task Force (LATF) statement. In other words, at yearend 2012 a company can switch to any alternative reserve methodology as long as the total reserve held is at least as great as the total reserve determined in accordance with the November 1, 2011, LATF statement using the required lapses and mortality. Is that a correct interpretation?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. The requirements as written provide for use of either 8D(a) or 8D(b) for the 12/31/12 valuation.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 02

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. If a company uses the Alternative Reserve Methodology for yearend 2012, can they switch to the Primary Reserve Methodology for future valuations? What, if anything, should be reported in Exhibit 5A-Changes in Basis of Valuation for yearend 2012 or in future years as a result of these AG 38 revisions and any switch to the Primary Reserve Methodology or to the Alternative Reserve Methodology?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. A company, pursuant to the requirements of AG 38, 8D, may switch between the Primary Reserve Methodology and the Alternative Reserve Methodology.
3. For 12/31/12 or subsequent reserve valuations any change to or from the Primary or Alternative reserve methodologies should be reported in Exhibit 5A.
4. The company should check with their domestic state whether approval is required for any subsequent change to or from the Primary or Alternative reserve methodologies for reserves after 12/31/12.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 03

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. The Alternative Reserve Methodology calls for deficiency reserve mortality to be based on the VM-20 deterministic reserve mortality. Since XXX calls for segments to be based on deficiency reserve mortality this could affect segment lengths. However, at least the spirit of AG46, which came out when the 2001 CSO Preferred Risk tables came out, seems to allow for segments to continue to be based on the mortality table in use when the policy was issued. Does AG46 apply here and thus the original mortality basis for the segment lengths can continue to be used?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The original mortality basis for determining the segment length can continue to be used. 8D is not intended to be more restrictive in determination of segments.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 04

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. The Guideline states “The requirements of this Section 8D apply to a company on December 31, 2012, and on any subsequent valuation date if (1) on the applicable date, the in force face amount (direct plus assumed) of universal life insurance to which this Section 8D would otherwise apply exceeds 2% of the company’s face amount of individual permanent life insurance in force...” Does the referenced individual permanent life insurance exclude term insurance?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. Term is excluded.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 05

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. Subsection 8Da states that the Primary Reserve is determined by adding any excess of (2) over (1), where (1) is the reserve according to the methodology and assumptions used to calculate the reserves reported as of December 31, 2011. In the following three scenarios, what is the basis for the determination of (1)? Assume that scenarios 1 and 2 involve universal life with secondary guarantees (ULSG) policies issued between July 1, 2005 and December 31, 2006, with a higher set of cost of insurance (COI) charges being triggered if the shadow account value ever becomes 0 after issue:

- a. Issue 1) Reserves have always been calculated using the wrong methodology for determining the ratio in the fourth step of Section 8B. In applying Section 8D, would the reserves for 8Da1 be based on the correct methodology or on the methodology actually used by the company for year-end 2011?
- b. Issue 2) A policy has a negative account value but has not lapsed due to the secondary guarantee. The shadow account value eventually drops to 0 and then becomes negative, and the policyholder pays a premium during the grace period intended on keeping the policy in force. The company invokes the higher secondary guarantee charges to calculate the shadow account value, but the policyholder argues that the lower shadow account COI charges apply due to the premium being paid during the state required grace period; i.e. that during the grace period the policyholder has the opportunity to pay a premium based on the lower COI charges rather than based on the much higher set of COI charges. This is litigated, and a ruling is made that the higher COI rates cannot be charged unless the shadow account value has not been positive for a period of time greater than the grace period. Based on this ruling, the assumption in the AG38 calculation that the higher set of COI charges would be triggered at the end of the first policy year would not be valid. Would the reserves for 8Da1 continue to be based on the assumption that the higher COI charges would be triggered after the first policy year, or would they be modified to reflect the lower COI charges?
- c. Issue 3) Policies with multiple sets of COI charges have only been issued in 2012. What is the basis for the value of (1)?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Issue 1) The reserves determined by the company under 8D(a)(1) are intended to be consistent with the methodology used by the company for the 12/31/2011 valuation. If a calculation error has been made in applying the 2011 methodology, this error should not be repeated in applying this methodology for the 2012 year-end valuation.
3. Issue 2) Where a valid court decision has interpreted the provisions of a policy, those interpretations should be reflected in future reserve calculations. In effect, the court ruled that the company made a mistake in applying certain policy provisions. Therefore, the 2012 reserve calculations should incorporate the correct view of the affected policies' provisions as determined by the court. As in 1) above, any error in the 2011 reserve calculations due to this company mistake should not be perpetuated in the 2012 reserve calculations.
4. Issue 3) In this case, the value of (1) would be based on the company's methodology for reserving these policies for 2012 quarterly reporting.

Not for Distribution

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 06

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. Is the report documenting the special 2012 sensitivity test described at the end of Section 8D required to be a stand-alone document or can it be included in the required Section 8D Actuarial Memorandum?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Considering the special nature of the 2012 sensitivity test, the documentation should be contained either in a stand-alone document or included as a separate appendix in the Actuarial Memorandum.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 07

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. If all of a company's universal life with secondary guarantees (ULSG) policies subject to Section 8D are the same identical policies that are subject to Section 8C, are they still required to perform the separate Section 8C stand-alone asset adequacy analysis or does the Section 8D Primary Reserve Methodology calculation suffice?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Such policies are still required to perform the separate Section 8C stand-alone asset adequacy analysis. Section 8D, second paragraph, clarifies that Section 8D is "in addition to any testing that may be required under Section 8C."

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 08

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(a)

Issue / Question

1. For companies using the Primary Reserve Methodology, is it expected that the full deterministic reserve calculations will be performed every quarter or just annually?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This methodology would be used at least annually, with appropriate approximations used as permitted pursuant to quarterly statutory reporting requirements.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 09

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(a)

Issue / Question

1. If the deterministic reserve “wins” for the Primary Reserve Methodology calculation, what impact should that have on tax reserves?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This question involves determination of values under the requirements of the Internal Revenue Code. The NAIC has no comment on how those values should be determined.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 10

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(a)(2)

Issue / Question

1. In relation to the Valuation Manual, Item 2. under the Primary Reserve Methodology section references "...or in any version subsequently adopted by the NAIC...." Please clarify exactly what constitutes "adopted by the NAIC." Does it have to be adopted by Executive/Plenary or just the A Committee or just Life Actuarial (A) Task Force (LATF)? "version" includes amendments that have been adopted, correct?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Adopted by the NAIC means the Valuation Manual and any amendments adopted through Executive & Plenary as of the 7/1 preceding the year-end valuation date.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 11

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. My question is on section 8E, regarding when a product would fall under method 1 or method 2. If you have a shadow account product that has either a single set of charges, or multiple sets of charges, and the product meets the crediting rate limitations defined in method 1, is there anything that could cause the product to be deemed to be subject to method 2? To put it another way, when I read section 8E, it seems that any shadow account product meeting the interest crediting limits would fall under method 1. This is because all shadow accounts have either a single set of charges or multiple sets of charges, so all shadow account products that meet the interest crediting limitation would fall under policy design 1 or policy design 3. Is this a correct interpretation, or if not, why?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This interpretation is not completely correct. In drafting the revisions to AG 38, regulators were aware of the possibility that all existing and future product designs might not fit the three generic product designs noted in AG 38, independent of the crediting rate limitation. Method II was intended to provide a default reserve methodology for these other product designs, together with the more generic product designs containing interest crediting guarantees higher than the company-selected interest index plus 3 percent. The considerations in satisfying the actuarial opinion requirements contained in Section 8E should enable the opining actuary to determine the appropriate reserving methodology for a particular universal life with secondary guarantees (ULSG) product design.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 12

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D(b)

Issue / Question

1. Section 8D(b), Alternate Methodology, requires the company to determine its deficiency reserve under Model 830 using mortality and lapse assumptions according to the same requirements for determining the deterministic reserve in the Valuation Manual. Does this require the company to determine its Triple-X segments (under the segmentation method) using the qx and lapse rates of the VM, or simply use these qx and lapse rates in calculating the deficiency reserve once the segments are determined using the company's current approach for determining such segments?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The original mortality basis for determining the segment length can continue to be used. 8D is not intended to be more restrictive in determination of segments.

Note: This response is similar to that for question Actuarial INT 03.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 13

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. Given all of the focus that the Guideline places on what premiums to use for these universal life with secondary guarantees (ULSG) reserve calculations, we are having unexpected difficulty finding published guidance on what premiums to assume in the deterministic reserve calculations for the Primary Reserve Methodology. Does such guidance exist and if so, where can we find it?
2. This question specifically asks for published guidance, but if none exists, perhaps the Working Group could provide such guidance or at least common practices/approaches they are aware of. Guidance is needed to create consistency amongst how companies are approaching this step of the calculation.

Interpretation of Emerging Actuarial Issues (E) Working Group

3. For 8D(a)(2) reserve calculations, the company should use the expected premium to be paid by the policyholder, determined either policy-by-policy or by appropriate policy groupings. The Valuation Manual adopted by the A Committee on 8/17/12 provides requirements regarding premiums for the deterministic reserve calculation. Such requirements include those in Section 4(A), Section 7(B), and Sections 9(A) and 9(D).

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 14

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. In the case of a Method I type product that is currently being sold and will continue to be sold unmodified after 12/31/12, the company would have to do a standalone asset adequacy analysis under Section 8C for issues 1/1/07 through 12/31/12 but they would not have to do a standalone asset adequacy analysis for issues after 12/31/12 even though it is the same product. Correct?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. It is a correct interpretation that the stand-alone asset adequacy analysis in 8C does not include policies issued after 12/31/12.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 15

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. The minimum schedule of premiums required to be identified/tested for in Method II is something that is expected to be needed to be done separately for every age/sex cell, correct?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. The schedule of minimum gross premiums should be based on all appropriate attributes unique to the policy being valued.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 16

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. If all of a company's currently approved universal life with secondary guarantees (ULSG) policy forms fall under the same Method I policy design, pass the Index Test, and meet the minimum premium requirements, can a single Actuarial Opinion and a single Company Representation be submitted that lists each policy form or does a separate Actuarial Opinion and a separate Company Representation need to be submitted for each form?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. This is up to the state of domicile. Some groupings may make sense but any special qualification or language needed should result in a separate opinion and representation.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 17

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. Is the greatest deficiency reserve test to be performed on a seriatim or product level basis? What if we see mixed results (For example, 70% pattern 1 and 30% pattern 2)

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The test should be performed on a seriatim basis, except to the extent it may be practical to group policies with identical attributes. It is possible that several combination premium patterns will be identified as having broad applicability. Regardless, each policy should assume a premium pattern that produces the greatest deficiency reserve as of the issue date consistent with good faith testing and review.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 18

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. For the combination premium patterns, what does it mean "...to have access to better charges and credits...."? Can this be ignored if the product only has one set of charges?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Better charges and credits can be understood as lower charges and/or higher credits that may be triggered based on the magnitude of the premium paid, the shadow account or other measures generally dependent on policyholder behavior. For example, a higher interest rate might apply to amounts above or below some defined premium dollar limit in particular policy years or based simply on the level of the shadow account. Higher or lower premium payments could lead directly to the most favorable interest rate (or weighted average interest rate) accessible within product design constraints. Better charges and credits would generally lead to lower minimum gross premiums and potentially greater deficiency reserves. For purposes of this question this requirement cannot be ignored, particularly if there are multiple sets of credits in addition to the assumed single set of charges.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 19

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. When testing combination premium patterns, do premium patterns that break segments need to be considered?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. It is not necessary to reverse engineer premium patterns solely to create unfavorable segment breaks. However, segment breaks that result from premium patterns consistent with the applicability of favorable charges and credits must be considered.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 20

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 20, 2012

Date Adopted by Financial Condition (E) Committee

December 1, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E(II)

Issue / Question

1. Do patterns with dump-in premiums need to be tested? If so, how should the dump-in premium be reflected in the determination of the uniform percentage (i.e., do you include the dump-in premium in determining the k percentage).

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Premium patterns that involve dump-in premiums must be considered, and testing may be appropriate. In the absence of more definitive guidance, the uniform percentage should be determined in accordance with Actuarial Guideline 21.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 21

Date Adopted by Emerging Actuarial Issues (E) Working Group

January 30, 2013

Date Adopted by Financial Condition (E) Committee

February 20, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D (a)(2a)

Issue / Question

1. Should the VM-20 deterministic reserve starting asset requirement related to the 2% collar be applied before or after the Primary Reserve Methodology caps on starting and reinvestment assets are applied?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Subsection a.2.a) (I) of Section 8D requires the determination of one of two portfolios of existing assets to support the initial reserve estimate for the block. Once this initial asset portfolio is determined, the deterministic gross premium reserve is determined using as the discount rates the net investment returns generated by the future projected cash flows calculated using the selected initial portfolio and future net reinvestment rates established according to subsection a.2.a) (II) of Section 8D.

3. If the resulting reserve falls within the +/- 2% collar (referenced in VM-20) relative to the initial reserve estimate (and corresponding level of initial assets), the calculated reserve is the final reserve. If the calculated reserve breaches the +/- 2% collar, the actuary must either provide a detailed rationale as to why the calculated reserve is appropriate or redo the reserve calculation assuming revised initial reserve and asset levels.

4. In performing the additional reserve calculation(s), use the same asset portfolio (adjusted upward or downward as below based on the results of the deterministic reserve calculation), either that of subsection a.2.a) (I) (i) or a.2.a) (I) (ii), as chosen for the initial reserve calculation.

5. If the initial or subsequently determined reserve is greater than the prior reserve estimate and the asset portfolio used in the deterministic reserve calculation is:

- a. as described in subsection a.2.a)(I)(i), then the prior asset portfolio shall be adjusted upward using assets as described in subsection a.2.a)(I)(i) to the extent such assets remain available in the company's portfolio after which such assets shall be adjusted upward as needed using assets as described in subsection a.2.a)(I)(ii). The recommended method for adjusting the prior asset portfolio upward is to do so in a pro rata fashion. Any other method proposed for adjusting the prior asset portfolio upward must be clearly documented in the Actuarial Memorandum and shall not involve changing the asset composition of the prior asset portfolio but shall constitute only additions to that portfolio.

Appendix C-2

- b. as described in subsection a.2.a)(I)(ii), then the prior asset portfolio shall be adjusted upward as needed in a pro rata fashion using assets as described in subsection a.2.a)(I)(ii).
- 6. Regardless of which portfolio is chosen for the initial deterministic reserve calculation, if the initial or subsequently determined, reserve is less than the prior reserve estimate, then the prior asset portfolio shall be adjusted downward as needed in a pro rata fashion.

Not for Distribution

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 22

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E/8D

Issue / Question

1. Consider the following: A universal life policy with a secondary guarantee requires that a shadow account be maintained at a positive level for the secondary guarantee to remain in effect. Once the shadow account value goes down to zero, the secondary guarantee terminates and cannot be reactivated. There is only one set of charges and credits that apply to the shadow account. In determining reserves for this policy under section 8E, would the assumption be made that the secondary guarantee terminates at the end of the first policy year since, if only the minimum premium is paid, the shadow account value would be zero at the end of the first policy year?
2. If the policy was written before 2012, would it be subject to section 8D?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. For issues in or after January 1, 2013, 8E would be applicable. But the policy, as described, would not fit into Method I because the minimum premium derived according to Method I would not satisfy the secondary guarantee requirements. Calculation of the reserve using Method I requires that the minimum premium keep the secondary guarantee in effect. Therefore, it must be reserved according to Method II.
4. For issues between July 1, 2005 and December 31, 2012 (inclusive), any regulatory response regarding applicability of Section 8D would require analysis of the policy form and dialog with the valuation actuary.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 23

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. Under 8E, Method I, Policy Design #1 applies for policies containing a secondary guarantee that uses a shadow account with a single set of charges and credits. For those policies, the minimum gross premium for any policy year is the premium that, when paid into a policy with a zero shadow account value at the beginning of the policy year, produces a zero shadow account value at the end of the policy year, using the guaranteed shadow account charges and credits specified under the secondary guarantee. Presumably, this will result in a yearly renewable term (YRT)-like pattern for the minimum premium.
2. The actuarial opinion required by 8E includes the statement "the minimum gross premiums determined under Policy Design # ___ are not inconsistent with the minimum premiums, charges and credits that are expected to apply under the policy." What is meant by "expected to apply"?
3. Since it is not likely that the policyholder will fund the policy using the YRT-like pattern that is the minimum premium, it does not seem as if "expected to apply" means "expected to be paid." It appears that "expected to apply" should be interpreted to mean that the YRT-type pattern will either fund the secondary guarantee or it is less than the minimum amount necessary to fund the guarantee.

Interpretation of Emerging Actuarial Issues (E) Working Group

4. The phrase "expected to apply" is intended to mean that the minimum premiums determined (\$0-to-\$0) are based on charges/credits generally consistent with those expected to apply to premium scales likely to be received from policyholders. For example, high premium loads at later durations would not be expected to apply for products with charges and credits that encourage a limited-pay or single-pay premium pattern. Other design features that should give the opining actuary pause, and could draw regulatory scrutiny, include negative charges and credits or unusual patterns of charges and credits. In addition, the actuary should not favorably opine on a product for Method I reserves with variables resulting in minimum gross premiums that would be inconsistent with the premiums a reasonable person would pay to limit advance funding. If the actuary is unable to opine favorably, the reserves should be calculated under Method II.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 24

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 19, 2012

Date Adopted by Financial Condition (E) Committee

December 20, 2012

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. A shadow account has a product design feature where the premium load is expressed as a fixed percentage of premium up to the target premium, and the target premium is reasonably consistent with level premium funding of the lifetime guarantee. In effect, there is a fixed dollar cap on the annual premium charge. The literal form of the charge is simply a specified percentage of premiums up the target premium and 0% thereafter. This will always mathematically produce the same result as the capped charge described above. Please clarify that a fixed dollar cap for the premium load, regardless of how the cap is expressed, does not make such a product incompatible with Policy Design # 1.

Interpretation of Emerging Actuarial Issues (E) Working Group

2. A flat percentage of premium charge, subject to an annual maximum, would be compatible with Policy Design (PD) #1 provided the actuary is able to issue an unqualified actuarial opinion. The specified percentage rate subject to an annual maximum may be construed as a single rate even though an alternative expression of this charge could be viewed as involving a second rate equal to zero. However, it should be noted that the actuary might be unable to opine favorably in the case of designs with credit/charge structures that encourage limited-pay premium schedules.
3. The above interpretation does not extend to designs using a flat percentage load for premiums up to a break point and a different (non 0%) load for premiums above that. Such a design should be considered as PD#3, as would any design with tiered interest rate credits or other tiered credits/charges.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 25

Date Adopted by Emerging Actuarial Issues (E) Working Group

January 30, 2013

Date Adopted by Financial Condition (E) Committee

February 20, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. Does the exemption for UL policies with short guarantee periods (see below) still apply in Section 8E of AG38?
2. This language is from the XXX model reg (Model 830)
 - 3.A.(2) This regulation shall not apply to any universal life policy that meets all the following requirements:
 - (a) Secondary guarantee period, if any, is five (5) years or less;
 - (b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the CSO valuation tables as defined in Section 4F and the applicable valuation interest rate; and
 - (c) The initial surrender charge is not less than 100 percent of the first year annualized specified premium for the secondary guarantee period.

Interpretation of Emerging Actuarial Issues (E) Working Group

3. Yes.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 26

Date Adopted by Emerging Actuarial Issues (E) Working Group

February 12, 2013

Date Adopted by Financial Condition (E) Committee

April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. Section 8D(a) references the deterministic reserve calculation in the VM20 valuation manual in the definition of the Primary Reserve Methodology. As part of the asset assumptions used in the deterministic reserve calculation, page 82 of the VM20 manual describes the derivation of the Illustrative Current Market Benchmark Spreads. We have reviewed the JP Morgan US Liquid Index data referenced, and the final published values appear to be derived from the underlying data for the index as opposed to referencing published table views. Does the Working Group agree that using an updated table would be preferred? Would the Working Group consider publishing an updated table as of 9/30 or providing additional details on how the table values (shown on page 89) were derived? The values for Table G (page 90) for the below investment grade bonds were taken directly from the source index so they are easy to replicate.

Interpretation of Emerging Actuarial Issues (E) Working Group

2. For the 12/31/12 AG 38, 8D valuation it may be assumed that the 9/30/09 Tables H & I approximate both Tables F & G and Tables H & I as of 12/31/12. This assumption is based on benchmarking with current spread information from other sources as of 12/31/12. It is understood that strict technical compliance for each and every asset may not be possible due to modeling limitations. Professional judgment should be used to produce results that comply with the spirit of this standard, i.e., no lessening of conservatism. For example, if a company has access to current data sources and can reconstruct Tables F and G as of 12/31/12 then this would be an acceptable approach. In any event, appropriate explanation and justification should be provided for the methodology that was employed and the results that were obtained. The NAIC intends to provide updated tables for future year end AG 38, 8D, valuations.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 27

Date Adopted by Emerging Actuarial Issues (E) Working Group

February 12, 2013

Date Adopted by Financial Condition (E) Committee

April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. If the modified VM-20 deterministic reserve ends up being the minimum reserve held in the AG 38 8D calculation, can a reinsurance reserve credit also be calculated under the guidance of VM-20 (in particular for YRT reinsurance)?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The Section 8D reserve methodology (VM-20 deterministic) applies for calculating the company's aggregate gross reserve before reinsurance. AG 38, 8D, does not address how the credit for reinsurance is determined. The approach to determine the credit for YRT reinsurance shall be documented in the stand-alone Actuarial Memorandum required by AG 38, Section 8D(c).

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 28

Date Adopted by Emerging Actuarial Issues (E) Working Group

February 12, 2013

Date Adopted by Financial Condition (E) Committee

April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation

Issue / Question

1. A product has a shadow account product design feature where, in addition to the fixed charges and credits associated with the policy, there is a shadow account premium charge in the event that the policyholder underfunds the policy. This premium charge is expressed as a fixed percentage of the premium shortfall when compared to a given level premium.
2. Please clarify whether a shadow account charge expressed as a fixed percentage of the premium shortfall is regarded as “multiple sets of charges” or as a “single set of charges” and thus whether such a product is compatible with Policy Design # 1 or Policy Design # 3.

Interpretation of Emerging Actuarial Issues (E) Working Group

3. This charge and treatment as Policy Design 1 does not appear consistent with the type of charge and treatment addressed by adopted INT 24 (formerly referred to as Pending Submission 6 prior to its adoption).
4. INT 24 deals with a single charge that all policyholders will incur which stops after a certain level of premiums have been paid. The charge described here is not incurred by all policyholders and provides the potential for a reserve premium being subject to the full impact of this charge whereas the premiums actually expected to be paid would not incur this charge.
5. More information is needed to fully assess the applicable Policy Design but based on the information provided Policy Design 3 appears appropriate.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 29

Date Adopted by Emerging Actuarial Issues (E) Working Group

April 4, 2013

Date Adopted by Financial Condition (E) Committee

April 8, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E I) 3 Actuarial Opinion and Company Representation section

Issue / Question

1. A company currently issues a ULSG product that is clearly a Policy Design #3. Two hypothetical examples of the charge/credit structure are shown in Tables 1 and 2 below. Under either structure, the policy form:

- Is clearly Policy Design #3
- Does not run afoul of the “Index plus 3%” of 8E

2. The purpose of the bifurcated cost of insurance charge structure in Table 1 or bifurcated premium charge structure in Table 2 is to optimize management of policyholder premium paying pattern behavior. The exact insurance charge for any given policy under the Table 1 design is either COI 1 or COI 2, where the rate is determined by comparing the actual fund value to a pre-defined fund value. If the actual fund value is in excess of the pre-defined fund value, COI 1 is used, otherwise COI 2 is used. Similarly, the exact premium charge amount for any given policy under the Table 2 design is PremPct1 for amounts paid up to a target amount plus PremPct2 for amounts paid in excess of the target amount.

3. The company’s approach to establishing statutory reserves has always been to determine AG XXXVIII Step 1 minimum premiums based on the lowest charges from Table 1 (or Table 2). The actuary concludes that everything in the reserving practices of the company with respect to this policy form is in compliance with the letter and spirit of AG XXXVIII, and except for the third statement in the Actuarial Opinion (of Section E), the actuary feels s/he could sign such an attestation. The third statement declares “the minimum gross premiums determined under Policy Design #3 are not inconsistent with the minimum premiums, charges and credits that are expected to apply”.

4. What is the actuary expected to do in such a situation?

TABLE 1					TABLE 2				
	COI 1	COI 2	Interest	Prem Load		COI	Interest	Up to Target PremPct1	In excess PremPct2
45	0.000066	0.000231	3.75%	15%	45	0.000149	4.00%	15%	5%
46	0.000108	0.000378	3.75%	15%	46	0.000243	4.00%	15%	5%
47	0.000146	0.000511	3.75%	15%	47	0.000329	4.00%	15%	5%
48	0.000180	0.000630	3.75%	15%	48	0.000405	4.00%	15%	5%
49	0.000212	0.000742	3.75%	15%	49	0.000477	4.00%	15%	5%
50	0.000242	0.000847	3.75%	15%	50	0.000545	4.00%	15%	5%
51	0.000276	0.000966	3.75%	15%	51	0.000621	4.00%	15%	5%
52	0.000316	0.001106	3.75%	15%	52	0.000711	4.00%	15%	5%
53	0.000364	0.001274	3.75%	15%	53	0.000819	4.00%	15%	5%
54	0.000422	0.001477	3.75%	15%	54	0.000950	4.00%	15%	5%
55	0.000486	0.001701	3.75%	15%	55	0.001094	4.00%	15%	5%
56	0.000556	0.001946	3.75%	15%	56	0.001251	4.00%	15%	5%
57	0.000632	0.002212	3.75%	15%	57	0.001422	4.00%	15%	5%
58	0.000712	0.002492	3.75%	15%	58	0.001602	4.00%	15%	5%
59	0.000796	0.002786	3.75%	15%	59	0.001791	4.00%	15%	5%
60	0.000882	0.003087	3.75%	15%	60	0.001985	4.00%	15%	5%
61	0.000972	0.003402	3.75%	15%	61	0.002187	4.00%	15%	5%
62	0.001070	0.003745	3.75%	15%	62	0.002408	4.00%	15%	5%
63	0.001180	0.004130	3.75%	15%	63	0.002655	4.00%	15%	5%
64	0.001310	0.004585	3.75%	15%	64	0.002948	4.00%	15%	5%
65	0.001470	0.005145	3.75%	15%	65	0.003308	4.00%	15%	5%

Interpretation of Emerging Actuarial Issues (E) Working Group

5. As indicated in INT 23, the actuary who is unable to opine favorably would be required to calculate reserves in accordance with Method II.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 30

Date Adopted by Emerging Actuarial Issues (E) Working Group

June 6, 2013

Date Adopted by Financial Condition (E) Committee

July 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. Does Section 8E apply to the following.... (a) a 10 year secondary guarantee of the cumulative minimum premium variety where there is no interest credited to the premiums, and premiums are expected to be level (b) same question as above except the secondary guarantee period is 15 years.

Interpretation of Emerging Actuarial Issues (E) Working Group

2. Yes. Section 8E applies to both, for policies issued on or after 1/1/2013.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 31

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 23, 2013

Date Adopted by Financial Condition (E) Committee

August 26, 2013

Reference

1. Subsection 8D states in the second paragraph that: “This section does not apply if the minimum gross premiums for the policies are determined by applying the set of charges and credits that produces the lowest premiums, ...”
2. Interpretation ACT INT 02 states that a company may switch between the Primary Reserve Methodology and the Alternative Reserve Methodology.

Issue / Question

3. Can a company use the Alternative Reserve Methodology found in sub-section 8D of AG38 for a policy with multiple sets of interest credits or charges if the reserves have previously been calculated using the lowest minimum gross premiums?

Interpretation of Emerging Actuarial Issues (E) Working Group

4. The applicability language in the second paragraph of AG 38, Section 8D, should not be interpreted to preclude a company from using AG 38, Section 8D(b), “Alternative Reserve Methodology”, pursuant to the requirements of 8D(b) and any applicable interpretations adopted by the NAIC.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 32

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 23, 2013

Date Adopted by Financial Condition (E) Committee

August 26, 2013

Reference

Regulation XXX; *Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation*, Section 8D

Issue / Question

1. The company states that reserves equal to the deterministic reserve required in the valuation manual of the valuation law (model 820) are lower than produced under the above methodology, but states that it would hold reserves per the valuation manual if that produced greater reserves in aggregate for the block. If tested for each policy, the reserve required per the valuation manual would in some cases be higher than as calculated based on regulation XXX. Can the valuation manual floor be applied in aggregate rather than for each policy?

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The deterministic reserve as required by Actuarial Guideline 38 8D(a) should be applied in the aggregate versus policy by policy.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 33

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 23, 2013

Date Adopted by Financial Condition (E) Committee

August 26, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 7 and Steps 1, 2, and 8 of Section 8E

Issue / Question

1. Does the language “This result may be negative.” occurring twice in Step 3 of Section 8E of Actuarial Guideline 38 (AG 38) apply only to the Method II reserve approach in AG 38 or to both Method I and Method II reserve approaches? Step 3 of Section 8E of AG 38 provides for the determination of the amount of actual premium payments (or shadow account) greater than or less than the minimum gross premiums (or shadow account based on minimum premiums), as defined in Section 8E.
2. The issue regarding the referenced language relates to the interpretation of Step 3 as it applies particularly to (i) cumulative premium secondary guarantee designs with a “premium catch-up provision” or (ii) shadow account secondary guarantee designs where, if the shadow account is below the level necessary to maintain the secondary guarantee, there is a “catch-up provision” where the shadow account may be reinstated prior to the end of the secondary guarantee period.
3. In addition to Section 8E of AG 38, it appears that Section 7 of AG 38 applies in this situation. For Section 8E Method I reserve calculations, the language of Section 7 appears to deal with any deficiency indicated in Step 3 of Section 8E satisfactorily since that deficiency is measured relative to the guarantees (cumulative premium or shadow account). In this case, the value of the numerator in Step 3 of Section 8E would be zero and the floor basic and deficiency reserve would be set at the minimums defined in Section 7.
4. However, for Section 8E Method II reserve calculations, for purposes of applying Section 8E, the deficiency in Step 3 is measured relative to the premium defined in Step 1 which is the schedule of minimum gross premiums that create the greatest deficiency reserve rather than the schedule of minimum gross premiums based on the policy guarantees. This is inconsistent with the requirements and intent of Section 7 and therefore would allow for the ratio in Step 4 of Section 8E to be negative.

Interpretation of Emerging Actuarial Issues (E) Working Group

5. The recommended response is essentially correct. The phrase, “This result may be negative” applies only to Method II policies in Section 8E, Step 3. This phrase does not apply to the Step 3 amount for Method I policies given the requirements of AG 38, Section 7. Method I policies that would otherwise have a negative Step 3 amount were it not for Section 7 are those policies that are underfunded but provide for a catch up provision as addressed by Section 7. The Step 2 basic and deficiency reserves for such policies, used to calculate the “reserve floor” in Step 8 (c), must be adjusted as provided by Section 7 prior to calculating the “reserve floor” in Step 8 (c).

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 34

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 22, 2013

Date Adopted by Financial Condition (E) Committee

December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.a.2(a)

Issue / Question

1. Section 8D directs companies to use “...the same requirements for determining the deterministic reserve in the version of the valuation manual specified...but with two modifications...” In determining future Treasury yield rates used in calculating the sale price of any asset existing on the valuation date, this language in Section 8D of AG38 can be interpreted in one of two ways:

- a. Assuming a level series of future Treasury yield curves for all future years of the model projection period. In this case, any gains or losses arising from the sale of existing assets during the projection period would be determined using a level Treasury yield curve scenario prospectively, and a spread applicable to the asset, as determined on the valuation date.
- b. Assuming the series of future Treasury yield curves is that described under Scenario 12 from the prescribed set of interest rate scenarios used in the stochastic exclusion test in VM-20. To these Treasury rates is added a spread to determine the yield rate to be used on the sale of an existing asset during the model projection period.

Interpretation of Emerging Actuarial Issues (E) Working Group

2. It is recommended that the approach outlined in paragraph 1.a. be the interpretation of the relevant language of Actuarial Guideline 38 Section 8D.a.2(a).

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 35

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 13, 2013

Date Adopted by Financial Condition (E) Committee

December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.A.2(a)(I)

Issue / Question

1. Section 8.D.A.2(a)(I) states, “net investment returns based on a portfolio of A-rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue of those bonds” shall be calculated.
2. A possible interpretation of this language is that a company may be permitted to determine this hypothetical portfolio book yield for each year using their actual A-rated bonds purchased in that year, i.e. their own A-rated bonds. Is this approach acceptable?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. It was the intent of this provision that a company use a hypothetical portfolio composed of A-rated corporate bonds with yields commensurate with the A-rated corporate bond yields available in the year of issue. If the yields associated with the company's actual A-rated bonds purchased in the year of issue are commensurate with A-rated corporate bond yields available in the year of issue, then the company's approach is acceptable. If the yields associated with the company's bonds are significantly higher than A-rated corporate bond yields available in the year of issue, then the approach is unacceptable.
4. If such an approach was used, the appointed actuary should address this question in the memorandum. Reasonable approaches for comparison to a company's assets include using a published index of A-rated corporate bond yields such as Moody's at an appropriate point in the year of issue or an average over the course of the year. Another reasonable approach would be to use a Treasury yield curve at an appropriate point in the year of issue or an average over the course of the year plus an appropriate published spread of A-rated corporate bond yields over Treasuries. An appropriate point in time would be June 30 of that year if the business was sold uniformly throughout the year. If the comparison does not show the yields from company's assets to be commensurate with the published index or adjusted yield curve rate, then (a) the sample size of the company's own A-rated portfolio relative to the total portfolio backing the liabilities, and (b) the year to year consistency of asset allocation become major items to be addressed in the memorandum.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 36

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 13, 2013

Date Adopted by Financial Condition (E) Committee

December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.a

Issue / Question

1. Section 8D.a. applies to a company's aggregate gross reserve before reinsurance. The reserve calculation requires a projection of future year-by-year cash flows, which includes such items as investment earnings and general insurance expenses. If a company has ceded 100% of the business to an authorized reinsurer by use of coinsurance, the assets and net liabilities are no longer on the ceding company's books. Additionally, the administration is also generally transferred to the reinsurer. In such circumstances, the projection of future cash flows is "hypothetical" in that one must assume a starting asset portfolio, future investment strategy, future general insurance expenses, and so on. Furthermore, the ceding company generally does not have the data or systems to determine the reserves and must rely on the assuming company.

2. Since the assuming company is required to calculate the reserves on both direct and assumed business, may the ceding company use the reserves as reported by the reinsurer in the reinsurer's annual statement?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. Under 100% coinsurance agreements with an authorized reinsurer, the ceding company is permitted to report reserves equal to those calculated by the reinsurer in the reinsurer's Exhibit 5/Schedule S.

4. Note that this interpretation was not being requested for coinsurance with funds withheld, modified coinsurance, or agreements where the reinsurer is unauthorized.

5. The Working Group recommends the above interpretation as guidance for yearend 2013, provided there is no conflict with the accounting requirements in the *Accounting Practices and Procedures Manual*. The issue/question will be submitted to the Life Actuarial (A) Task Force for broader consideration and possible amendment to the valuation manual.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 37

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 13, 2013

Date Adopted by Financial Condition (E) Committee

December 17, 2013

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Sections 8B and 8C

Issue / Question

1. Step 4 of Section 8E says "...determine the minimum amount of shadow account required to fully fund the guarantee." Should this determination take into account actual history, or is this a purely theoretical value?
2. Consider a hypothetical policy valued on its 5th anniversary. It has a shadow fund value of \$12,000. Premiums of \$2,500 were paid on each anniversary. If the policyholder paid an additional \$63,000 (net of premium loads) on the valuation date, the guarantee would be fully funded. However, due to the product design, if the \$12,000 shadow fund value resulted from a single premium of \$10,000 at issue, the guarantee would be fully funded by payment of an additional \$60,000 (net) at the valuation date. Is the "minimum amount" \$75,000 or \$72,000?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. Step 4 of Section 8E states that the determination is to be made as of "the valuation date for the policy being valued...", indicative of a seriatim calculation that considers the actual circumstances of the policy. If on the valuation date a specific set of charges and credits are applicable for future shadow account calculations, such charges and credits should be used in the determination regardless of any more favorable charges and credits that may have been available as of the issue date.
4. Given the information that the policyholder has no control over the future charges and credits to be applied in fully funding the guarantee, it is presumed that a single set of charges/credits (with no caps or floors) is operative as of the valuation date. While an unqualified response is not possible in the absence of a full understanding of the policy design, the minimum amount appears to be \$75,000 rather than \$72,000.
5. Also, per AG38, Section 8E, the actuary must ensure that the methodology is compatible with the intent that the funding ratio (Step 3 result divided by the Step 4 result) measures the level of prefunding.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 38

Date Adopted by Emerging Actuarial Issues (E) Working Group

August 14, 2014

Date Adopted by Financial Condition (E) Committee

August 18, 2014

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D

Issue / Question

1. Actuarial INT 27 clarifies that AG38, Section 8D, addresses the gross reserve requirements and required documentation regarding reinsurance. In reviewing the AG 38, Section 8D Actuarial Memorandum and reinsurance information, it appears that guidance is needed to address situations where the YRT reinsurance agreement reserve credit taken may be significantly different than the reserve an assuming company has set up. Such a significant difference can be due to a larger credit being calculated under VM-20 assumptions versus that set up by an assuming company. Additionally, in some cases the higher gross reserve required under the AG 38, Section 8D modified deterministic reserve, was not reported in the statutory blank prior to the reinsurance credit being taken.

Interpretation of Emerging Actuarial Issues (E) Working Group

2. The reserve established pursuant to AG 38, Section 8D (AG38-8D), should be reported on a gross basis prior to any adjustment for reinsurance. In addition, the reserve credit for reinsurance on policies subject to AG38-8D should be calculated using current statutory requirements and mortality and interest applicable under the AG38-8D.a.1. calculation.
3. Since AG38-8D does not address credit for reinsurance and only addresses calculation of the gross reserve, any determination of such credit would be outside of AG38-8D and, therefore, based on current statutory requirements and accepted practices. For example, for the calculation of the ceding credit to be posted in the statutory statement, current accounting guidance (including SSAP No. 61R, paragraph 37) should be followed. And for asset adequacy analysis, both for general testing of aggregate reserves and for the standalone analysis required by AG38-8C, currently accepted actuarial practice should be followed. AG38-8D does not incorporate VM-20 directly into either of these.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 39

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 14, 2014

Revised November 2, 2015

Date Adopted by Financial Condition (E) Committee

November 18, 2014

Revised November 21, 2015

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D. a.2.a)(I), Section 7.D. of VM-20

Issue / Question

1. Subsection a.2. of Section 8D provides for two exceptions to the usual deterministic reserve requirements of VM-20 in calculating the gross premium reserve in Section 8D.a.2. One of these exceptions, in subsection a.2.a)(I), relates to net investment earnings on starting assets and limits those earnings to "...the lesser of (i) the actual portfolio net investment returns and (ii) the net investment returns based on a portfolio of A-rated corporate bonds..."

2. The language of Section 8D.a.2.a)(I) is not prescriptive as to the process for determining this net investment earnings comparison. One option is to compare actual portfolio yields to hypothetical portfolio yields as of a single point in time, most logically the valuation date. Another option is to develop both an actual and hypothetical portfolio as of the valuation date and project future asset cash flows and net investment returns prospectively and then use the lesser earning portfolio net investment return in each future year. Other prospective-type approaches to determining the Section 8D.a.2.a)(I) lesser net investment return portfolio are also possible. These lesser returns are then combined, in some fashion, with the net reinvestment return prescribed in Section 8D.a.2.a)(II) to develop the final path of discount rates used in the final Section 8D.a.2.c) reserve calculation.

3. In determining an appropriate interpretation of the language of Section 8D.a.2.a)(I) an important question to ask is: Is a prospective-type interpretation and approach illustrated above, or something similar, consistent with the determination of a single starting asset portfolio as described in Section 7.D. of VM-20? The objective of the requirement in Section 8D.a.2.a)(I) is to impose a restriction on the determination of the starting asset portfolio required under VM-20 for the deterministic reserve calculation, not to anticipate the use of multiple portfolios prospectively. The use of future year-by-year net investment returns from multiple portfolios (actual and hypothetical) would appear to be inconsistent with the starting asset portfolio requirement of VM-20.

4. The issues at hand are twofold:

- a. Does a prospective future net investment return comparison interpretation of the language of Section 8D.a.2.a)(I) create an inconsistency with the language of Section 7.D. of VM-20 with respect to the requirements for utilizing a single starting asset portfolio in the deterministic reserve calculation?
- b. Given the multitude of possible approaches that might be used, does a prospective future net investment return comparison interpretation of the language of Section 8D.a.2.a)(I)

lead to the creation of a non-level playing field beyond the range of approaches available in interpreting Section 8D.a.2.a)(I) in a manner that is consistent with VM-20?

Interpretation of Emerging Actuarial Issues (E) Working Group

5. For 12/31/2014 and later Section 8D submissions, for purposes of determining the starting asset portfolio, the language of Section 8D.a.2.a)(I) is interpreted such that the actual/hypothetical starting asset portfolio net investment return comparison is made as of the valuation date and not prospectively. Examples of how the comparison may be made include (i) a comparison of the weighted average hypothetical portfolio versus actual portfolio net investment returns as of the valuation date or (ii) a historical issue-year-by-issue-year hypothetical versus actual portfolio net investment return comparison, perhaps resulting in a starting asset portfolio as of the valuation date that is a hybrid of the company's actual portfolio assets for certain issue years and a hypothetical asset portfolio for other issue years.

6. For purposes of this comparison for 12/31/16 and later, the actual portfolio net investment return is adjusted by the current amortization of IMR allocated to the portfolio. This adjustment is made only for the comparison of portfolio yields to determine the appropriate portfolio to use in the development of the deterministic reserve. The reserve amount is then determined following the procedure defined in VM-20.

Not for Distribution

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 40

Date Adopted by Emerging Actuarial Issues (E) Working Group

November 14, 2014

Date Adopted by Financial Condition (E) Committee

November 18, 2014

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D.a.2.c) and Section 7.C.4. of VM-20

Issue / Question

1. Subsection a.2.c) of Section 8D provides for the calculation of gross premium Primary Reserve to be performed using the path of net investment returns determined in Section 8D.a.2.b) "...to discount the cash flows applicable to those policies.", i.e. those policies subject to Section 8D. The cash flows referenced in Section 8D.a.2.c) are to include, as per Section 4.A.3. of VM-20, death and cash surrender benefits. For the ULSG policy types subject to the requirements of Section 8D, if the interest rate credited to the policy account value is a non-guaranteed element (NGE), the value of the benefits be directly impacted by the net investment earnings of the assets used to back the reserves held in support of the risks assumed under the policies. In addition, lapse rates for these ULSG policy types also may vary depending on the net investment earnings of the assets used to back the reserves held in support of the risks assumed under the policies.
2. Section 7.C. of VM-20, covering NGE cash flows, requires, in subsection 4. that:
 - a. "Projected levels of NGE in the cash flow model must be consistent with the experience assumptions used in each scenario. Policyholder behavior assumptions in the model must be consistent with the NGE assumed in the model."
 - b. There is only a single (level) interest rate scenario applicable for the Section 8D.a.2. reserve gross premium reserve calculation so the issue centers on whether the NGE and policyholder behavior assumptions are "consistent" with the experience assumptions and NGE respectively.

Interpretation of Emerging Actuarial Issues (E) Working Group

3. This interpretation permits the delinking of the liability cash flows used in the Section 8D.a.2.c) gross premium reserve calculation from the net investment returns determined as in Section 8D.a.2.b) provided the actuary can provide justification that the impact of such delinkage on the Section 8D.a.2. reserve calculation is consistent with the requirements of Section 7.C.4 and Section 2G of VM-20.
4. The information required to support the delinked approach would need to present reasonable justification and reflect the consistency of the assumptions used with the particular company's anticipated experience and ULSG product structures. The information provided should be adequate to support the assertion that the requirements of Section 2.G. and Section 7.C.4. of VM-20 have been achieved.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 41

Date Adopted by Emerging Actuarial Issues (E) Working Group

December 11, 2014

Date Adopted by Financial Condition (E) Committee

December 12, 2014

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8D. a.2.a)(I)

Issue / Question

1. Section 8D directs companies to test: “The company’s aggregate gross reserve before reinsurance for the business subject to this Section 8D to be reported in the December 31, 2012, and subsequent annual statutory financial statements of the company will be the aggregate reserve under 1 below, plus any excess of the aggregate reserve determined as defined in 2 below, over 1”.
2. Furthermore Section 8D requires that for existing assets: “The projected net investment earnings from the starting assets shall be the lesser of (i) the actual portfolio net investment returns and (ii) net investment returns based on a portfolio of A-rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue for those bonds.”
3. Is it required to test reinsurance assumed?
 - a. Some companies only test at the direct writer level (using hypothetical portfolios) while other companies test the reinsurance assumed against actual assets.
4. Is it appropriate to use hypothetical portfolios for testing?
 - a. Assuming a company where the reserves are 100% ceded (all but an insignificant amount was coinsurance) and no assets remain. May the company test on the basis of a hypothetical portfolio of A rated bonds described above? While this may be the only interpretation available, there is no connection between the assets and the liabilities or any company investment policy.
 - b. When the existing asset yield is below that of the hypothetical portfolio, is it required to take a hair-cut on the yields of the existing assets or is it acceptable to use a hypothetical portfolio of just one bond per issue year instead?

Interpretation of Emerging Actuarial Issues (E) Working Group

5. Do the requirements of AG38-8D apply to applicable reinsurance assumed?
 - a. Yes. It is required to apply the requirements of AG38-8D to include reinsurance assumed on risks that are within its scope. AG38-8D(a) includes the company’s “aggregate gross reserve before reinsurance...”. This is interpreted, for applicable business, to be the company’s direct written business plus coinsurance reinsurance assumed and prior to any

reinsurance ceded. Only this interpretation is consistent with the scope of AG38-8D and the reporting of reserves in Exhibit 5 of the annual statement.

6. Is it appropriate to use hypothetical portfolios for testing?
 - a. There are two types of hypothetical portfolios possible for this question.
 - i. The first type of hypothetical portfolio is required by AG-38, 8D(a)(2)(a)(I)(ii). This citation provides for a derivation of a hypothetical “portfolio of A rated corporate bonds purchased in the year of issue of the policies based on yields available in the year of issue for those bonds.”
 - ii. There may be a second type of hypothetical portfolio to use in place of the actual portfolio pursuant to AG38, 8D(a)(2)(a)(I)(i) if that actual portfolio is incomplete or unavailable for a company that has ceded some or all of the risk through coinsurance. In this case the company may coordinate with and make use of the reserve calculations of the assuming reinsurer, as provided in VM-20 Section 8.A.1. However, the ceding company, in calculating the pre-reinsurance ceded reserve or gross reserve required by AG-38 Section 8D, must assure that such modeling and assumptions are appropriate as provided by the first paragraph of VM-20 Section 8.D.2 and as provided by VM-20 Section 8.D.2.b.

Interpretation of the Emerging Actuarial Issues (E) Working Group

Actuarial INT 42

Date Adopted by Emerging Actuarial Issues (E) Working Group

May 14, 2015

Date Adopted by Financial Condition (E) Committee

August 17, 2015

Reference

Actuarial Guideline 38—The Application of the Valuation of Life Insurance Policies Model Regulation, Section 8E

Issue / Question

1. A universal life policy contains a secondary guarantee based on the value of a shadow account. As long as the shadow account is positive, the policy is guaranteed not to lapse, even if the cash surrender value is not positive. The shadow account value accumulates with interest from one period to another, with deductions for COI charges. The interest credited to the shadow account is calculated as follows:

- 10% interest is credited to the shadow account up to a threshold amount.
- 0% interest is credited to the any excess of the shadow account over the threshold amount.
- The threshold amount is equal to the accumulation of the level premium that would keep the shadow account positive throughout the secondary guarantee period, assuming 10% interest is credited.

2. The shadow account is not larger than the threshold amount on the valuation date. For purposes of the fourth step in sections 8B and 8C of the Guideline, what interest rate should be used to determine the shadow account value that would fully fund the secondary guarantee?

Interpretation of Emerging Actuarial Issues (E) Working Group

3. This interpretation is qualified for issues within the scope of AG 38, Section 8E, only and applies to those section 8E products issued on and after 1/1/16. The intent of the ratio in AG 38 8E Step 4 is to measure the level of pre-funding and to specify its use to establish reserves in its application to the Net Single Premium. The objective is to provide for reserves equal to the appropriate portion of the Net Single Premium represented by pre-funding as of the valuation date. The ratio is a practical convention for this objective.

4. For shadow account secondary guarantee product designs with multiple charges/multiple credits where consistency of charges and credits in the numerator and denominator of the ratio is difficult to achieve, reasonable efforts must be made to establish a ratio which, on an aggregate basis, carries out the objective above.

5. Otherwise, reasonable efforts should be made to produce a conservative estimate of the present value of future benefits on a statutory basis which, in the aggregate, carries out the objective above. Such conservative estimate, when divided by the Net Single Premium calculated in AG 38 8E, Step 5, produces the ratio.

6. For any shadow account secondary guarantee product designs with multiple charges/multiple credits the denominator of the ratio shall be limited to be no larger than the Net Single Premium as calculated in AG 38 8E, Step 5.

Not for Distribution

Appendix D

GAAP Cross-Reference to SAP as of December 2023

Introduction

As expressed in the Statement of Concepts, statutory accounting principles (SAP) utilize the framework established by Generally Accepted Accounting Principles (GAAP). Appendix D includes GAAP pronouncements that have been considered or are pending consideration in the development of SAP.

The NAIC Codification of Statutory Accounting Principles Working Group addressed all GAAP pronouncements included in Category A, Category B and Category C issued through 1996 during the initial drafting of the SSAPs, as well as the AICPA Accounting Interpretations included in Category D. This working group is now called the Statutory Accounting Principles (E) Working Group (SAPWG).

- o Category A – FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins
- o Category B – FASB Technical Bulletins, Board-Directed FASB Staff Positions, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position
- o Category C – Consensus positions of the FASB Emerging Issues Task Force (EITF) and AICPA Practice Bulletins
- o Category D – AICPA Accounting Interpretations

Subsequent to the NAIC codification of statutory accounting principles, as documented in the Policy Statement on the Maintenance of Statutory Accounting Principles (included in Appendix F), the SAPWG continued to review new GAAP guidance for applicability to SAP. Beginning January 1, 1999, the Emerging Accounting Issues (E) Working Group (EAIWG) was formed and began addressing FASB EITF opinions issued subsequent to 1996. The positions of the EAIWG are documented in an interpretation (INT) as indicated by reference in the applicable column of the GAAP Cross-Reference to SAP chart. Appendix B includes the full text of EAIWG INTs issued before December 31, 2015. In October 2010, the SAPWG undertook a project to incorporate authoritative guidance related to specific topics in one location. This means that guidance within INTs has been incorporated into the applicable SSAPs, where possible. Appendix D now references the applicable SSAP, not the nullified INT. Therefore, completely superseded SSAPs and nullified INTs are removed from the Manual and retained in *Appendix H – Superseded SSAPs and Nullified Interpretations*, which is posted for public reference on the SAPWG web page at https://content.naic.org/cmt_e_app_sapwg.htm. Under this approach, only current guidance is included in the Manual, while preserving the historical reference of previous authoritative SSAPs and INTs for accounting purposes.

In addition to the GAAP Cross Reference to SSAP, Appendix D includes a Nonapplicable GAAP Pronouncements supplement which contains a listing of GAAP pronouncements that have been considered in the development of SAP and deemed not applicable.

In June 2009, the FASB issued *FASB Statement 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS 168)*, effective for interim and annual periods ending after Sept. 15, 2009. FAS 168 (Topic 105 of the FASB Codification) identified the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. Pursuant to this standard:

- FASB Accounting Standards Codification was established as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. (SEC guidance included within the FASB Codification is provided for convenience and relates only to SEC entities.)
- Accounting Standards Updates issued after the effective date of FAS 168 are not considered authoritative in their own right. Such standards serve only to update the FASB Codification, provide background information, and provide the bases of conclusions on the changes to the FASB Codification.
- Effective September 15, 2009, all non-SEC accounting and reporting standards were superseded. Additionally, all nongrandfathered, non-SEC accounting literature not included in the Codification was deemed nonauthoritative. As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting.

As a result of FAS 168, Appendix D – GAAP Cross Reference to SAP has been revised to include reference of FASB Accounting Standards Updates, as well as the Accounting Standards Codification Reference (Topic and Subtopic) for pre-codification GAAP guidance. Pre-codification GAAP guidance that has been superseded as a result of exclusion from the GAAP Codification has been identified within Appendix D. Users of the NAIC *Accounting Practices and Procedures Manual* shall continue to refer to the FASB pre-codification standards, and the applicable references to such standards, to determine the GAAP guidance that has been adopted, adopted with modification or rejected for statutory accounting.

To assist users in tracing pre-codification GAAP standards to the FASB Codification, Appendix D – GAAP Cross-Reference to SAP includes the Topic and Subtopic for all pre-codification GAAP standards that have been included in the FASB Codification. This FASB Codification reference does not reflect GAAP guidance adopted for statutory accounting. Only the guidance detailed in specific SSAPs or INTs shall be utilized in determining the GAAP guidance adopted, adopted with modification or rejected for statutory accounting. Items noted with “Not Explicitly Included in Codification” are no longer included in the FASB Cross Reference tool.

Information Provided in Appendix D – GAAP Cross-Reference to SSAP:

- o Status – This column includes the SAPWG status of review. A “pending” status indicates that the SAPWG has not completed deliberation of the GAAP pronouncement. Items noted as “Not Board-Directed or SEC Update” will not be reviewed by the SAPWG unless specifically requested for review.
- o Disposition – This column represents the general conclusion of the SAPWG/EAIWG for the stated GAAP pronouncement. This information is included in Appendix D as a reference tool, however, the guidance in the specific SSAP or INT shall be the authoritative source in determining the GAAP guidance adopted, adopted with modification or rejected for statutory accounting.
- o Statutory Reference – This column provides the statutory accounting source addressing the GAAP pronouncement.
- o Accounting Standards Codification Topic and Subtopic – This column provides a reference guide to trace pre-codification GAAP standards to the new FASB Codification.

In addition to the “GAAP Cross Reference to SSAP,” Appendix D includes the “FASB Codification to Pre-Codification GAAP” supplement. This supplement serves as a reference tool in tracing the FASB Codification to pre-codification GAAP standards that have been reviewed or are pending review as part of the current NAIC statutory accounting maintenance process. This supplement does not indicate which GAAP standards have been adopted, adopted with modification or rejected for statutory accounting. Pre-codification GAAP guidance not captured as part of the statutory accounting maintenance process, but that has been incorporated in the FASB Codification, has not been referenced within this supplement. Future consideration will occur on whether this pre-codification GAAP guidance will be reviewed for statutory accounting. Pre-codification GAAP included in the FASB codification, but not referenced within this supplement includes: FASB Derivative Implementation Group Issues; EITF Appendix D Topics; FASB Statement No. 138 Examples; FASB Staff Implementation Guides; AICPA Technical Inquiry Service and Audit and Accounting Guides. (The Audit and Accounting Guides (AAG) related to insurance have been reviewed for statutory accounting and are referenced in this supplement – HCO: Health Care Organizations, LHI: Life and Health Insurance and PLI: Property and Liability Insurance Companies. This supplement also does not include reference to the SEC standards incorporated within the FASB Codification: SEC Financial Reporting Releases; SEC Interpretive Releases; SEC Staff Accounting Bulletins; and SEC Regulation S-X.

Appendix D - GAAP Cross-Reference to SAP Table of Contents	Page
FASB Codification:	
Accounting Standards Updates.....	D-1
Pre-FASB Codification:	
Category A - FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins.....	D-20
Category B - FASB Technical Bulletins, FASB Staff Positions, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position	D-51
Category C - Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins	D-74
Category D - AICPA Accounting Interpretations	D-120
Nonapplicable GAAP Pronouncements.....	D-122
FASB Codification Cross Reference to GAAP Pronouncements.....	D-134

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2009-01	Topic 105—Generally Accepted Accounting Principles—Amendments based on—Statement of Financial Accounting Standards No. 168—The <i>FASB Accounting Standards Codification</i> TM and the Hierarchy of Generally Accepted Accounting Principles	Complete	Adopt (Adopted FAS 168)	Preamble	Not Explicitly Included in Codification.
2009-02	Omnibus Update—Amendments to Various Topics for Technical Corrections	Complete	N/A	App D – NA GAAP	Not Explicitly Included in Codification.
2009-03	SEC Update—Amendments to Various Topics Containing SEC Staff Accounting Bulletins (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-04	Accounting for Redeemable Equity Instruments—Amendment to Section 480-10-S99 (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-05	Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value	Pending			820 825
2009-06	Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities	Pending			740
2009-07	Accounting for Various Topics—Technical Corrections to SEC Paragraphs (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-08	Earnings per Share—Amendments to Section 260-10-S99 (SEC Update)	SEC Update			260
2009-09	Accounting for Investments—Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees—Amendments to Sections 323-10-S99 and 505-50-S99 (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-10	Financial Services—Broker and Dealers: Investments—Other—Amendment to Subtopic 940-325 (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2009-11	Extractive Activities—Oil and Gas—Amendment to Section 932-10-S99 (SEC Update)	SEC Update			932

¹ To assist users in tracing pre-codification GAAP standards to the FASB Codification, the FASB Codification Topic and Subtopic for all pre-codification GAAP standards has been included in this Appendix. This FASB Codification reference does not reflect GAAP guidance adopted for statutory accounting. The Accounting Practices and Procedures Manual (E) Subgroup was formed to assess changes necessary to reflect the new GAAP Codification within statutory accounting principles. Until this process is complete, or as otherwise noted in specific SSAPs or Interpretations, users of the *NAIC Accounting Practices and Procedures Manual* shall continue to refer to the FASB pre-codification standards, and the applicable references to such standards, to determine the GAAP guidance that has been adopted, adopted with modification, or rejected for statutory accounting.

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2009-12	Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)	Complete	Adopt	100R	820
2009-13	Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements	Complete	N/A Nullifies INT 04-18	App D - NA GAAP	605
2009-14	Software (Topic 985): Certain Revenue Arrangements That Include Software Elements	Complete	Adopt/M	16R	985
2009-15	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing	Complete	N/A	App D - NA GAAP	470
2009-16	Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets (FAS 166)	Complete	Adopt/M	103R	Not Explicitly Included in Codification.
2009-17	Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FAS 167)	Complete	Reject	25	Not Explicitly Included in Codification.
2010-01	Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash	Complete	N/A	App D - NA GAAP	505
2010-02	Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—A Scope Clarification	Complete	Reject	25	805 810 845
2010-03	Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures	Complete	N/A	App D - NA GAAP	932
2010-04	Accounting for Various Topics: Technical Corrections to SEC Paragraphs	SEC Update			Not Explicitly Included in Codification.
2010-05	Compensation—Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation (SEC Update)	SEC Update			Not Explicitly Included in Codification.
2010-06	Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements	Complete	Adopt/M	92, 100R, 102	715 820
2010-07	Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions	Pending			Not Explicitly Included in Codification.
2010-08	Technical Corrections to Various Topics	Complete	Adopt para. 815-20-25-15 Reject all others	86	Various
2010-09	Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements	Complete	Reject	9	855

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2010-10	Consolidation (Topic 810): Amendments for Certain Investment Funds	Complete	Reject	25	810
2010-11	Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives	Complete	Adopt/M Paragraph 815-10-50k Reject all others	27, 86	815
2010-12	Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts	SEC Update			740
2010-13	Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades	Complete	Adopt/M	104R	718
2010-14	Accounting for Extractive Activities—Oil & Gas: Amendments to Paragraph 932-10-S99-1 (SEC Update)	SEC Update			932
2010-15	Financial Services—Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments	Pending			944
2010-16	Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities	Complete	N/A	App D - NA GAAP	924
2010-17	Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition	Complete	N/A	App D - NA GAAP	605
2010-18	Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset	Pending			310
2010-19	Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates	SEC Update			830
2010-20	Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses	Complete	Adopt/M for mortgage loans Reject all others	36, 37	310
2010-21	Accounting for Technical Amendments to Various SEC Rules and Schedules: Amendments to SEC Paragraphs Pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies (SEC Update)	SEC Update			Various
2010-22	Accounting for Various Topics—Technical Corrections to SEC Paragraphs (SEC Update)	SEC Update			Various
2010-23	Health Care Entities (Topic 954): Measuring Charity Care for Disclosure	Complete	Adopt/M	54R	954

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2010-24	Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries	Complete	N/A	App D - NA GAAP	954
2010-25	Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans	Complete	N/A	App D - NA GAAP	310 962
2010-26	Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts	Complete	Reject	71	944
2010-27	Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers	Complete	N/A	App D - NA GAAP	720
2010-28	Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts	Complete	Reject	68, 90	350
2010-29	Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations	Pending			805 958
2011-01	Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20	Complete	See ASU 2011-02	36	310
2011-02	Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring	Complete	Adopt/M Paragraphs 310-40-15-13 through 18 and 310-40-15-20 Reject all others	36	310
2011-03	Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements	Complete	Adopt	103R	860
2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs	Pending			715 805 820
2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income	Complete	N/A	App D - NA GAAP	205 220
2011-06	Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers	Complete	Adopt/M	106	405 720
2011-07	Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities	Complete	N/A	App D - NA GAAP	954
2011-08	Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment	Complete	Reject	68, 90	350
2011-09	Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan	Complete	Adopt	92, 102	715

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2011-10	Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—A Scope Clarification	Complete	Reject	97	360
2011-11	Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities	Complete	Reject	64	210 270
2011-12	Comprehensive Income (Topic 220)—Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05	Complete	N/A	App D - NA GAAP	220
2012-01	Health Care Entities (Topic 954)—Continuing Care Retirement Communities— Refundable Advance Fees	Complete	N/A	App D - NA GAAP	954
2012-02	Intangibles—Goodwill and Other (Topic 350)—Testing Indefinite-Lived Intangible Assets for Impairment	Complete	Reject	68, 90	350
2012-03	Technical Amendments and Corrections to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22	SEC Update			Not Explicitly Included in Codification.
2012-04	Technical Corrections and Improvements	Complete	N/A	App D - NA GAAP	Various
2012-05	Statement of Cash Flows (Topic 230)—Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows	Complete	Adopt/M	69	230 958
2012-06	Business Combinations (Topic 805)—Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution	Pending			805
2012-07	Entertainment—Films (Topic 926)—Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs	Complete	N/A	App D - NA GAAP	926
2013-01	Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities	Complete	Reject	64	210
2013-02	Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income	Complete	N/A	App D - NA GAAP	220 270
2013-03	Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities	Complete	Reject	100R	825
2013-04	Liabilities: Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount is Fixed at the Reporting Date (Topic 405)	Complete	Adopt/M	5R	405

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2013-05	Foreign Currency Matters: Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (Topic 830)	Complete	Adopt/M	23	805 810 830
2013-06	Not-for-Profit Entities: Services Received from Personnel of an Affiliate (Topic 958)	Complete	Reject	25	954 958
2013-07	Presentation of Financial Statements: Liquidation Basis of Accounting (Topic 205)	Complete	N/A	App D - NA GAAP	205 960 962 965
2013-08	Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements (Topic 946)	Complete	Reject	App D NA GAAP	230 323 810 820 946
2013-09	Fair Value Measurements: Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04	Pending			820
2013-10	Derivatives and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes	Complete	Adopt	86	815
2013-11	Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists	Complete	Reject	101	740
2013-12	Definition of a Public Business Entity, An Addition to the Master Glossary	Complete	N/A	App D - NA GAAP	Glossary
2014-01	Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects	Complete	Adopt/M	93	323
2014-02	Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill	Complete	Reject	68, 90	350
2014-03	Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach (PCC)	Complete	Reject	86	815 825
2014-04	Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure	Complete	Adopt/M	37	270 310
2014-05	Service Concession Arrangements (Topic 853)	Complete	Adopt/M	22R	853
2014-06	Technical Corrections and Improvements Related to Glossary Terms	Complete	N/A	App D – NA GAAP	Glossary
2014-07	Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (PCC)	Complete	Reject	25	810

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2014-08	Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity	Complete	Adopt/M	24	205 360
2014-09	Revenue from Contracts with Customers (Topic 606)	Complete	Reject	47	Various
2014-10	Development Stage Entities (Topic 915), Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation	Complete	N/A	App D - NA GAAP	275 925
2014-11	Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures	Pending			860
2014-12	Compensation—Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period	Complete	Adopt	104R	718
2014-13	Consolidation (Topic 810)—Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity	Complete	N/A	App D - NA GAAP	805 810 820
2014-14	Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)—Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure	Complete	Adopt	37	310
2014-15	Presentation of Financial Statements—Going Concern (Subtopic 205-40)—Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern	Complete	Adopt	1	205
2014-16	Derivatives and Hedging (Topic 815)—Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity	Complete	Reject	86	815
2014-17	Business Combinations (Topic 805)—Pushdown Accounting	Pending			805
2014-18	Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)	Pending			805
2015-01	Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)—Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items	Complete	Adopt/M	24	225
2015-02	Consolidation (Topic 810)—Amendments to the Consolidation Analysis	Complete	Reject	25	810
2015-03	Interest—Imputation of Interest (Subtopic 835-30)—Simplifying the Presentation of Debt Issuance Costs	Complete	Reject	15	835
2015-04	Compensation—Retirement Benefits (Topic 715)—Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	Complete	Adopt/M	92, 102	715

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2015-05	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	Complete	Adopt	16R	350
2015-06	Earnings Per Share (Topic 260)—Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions	Complete	Reject	App D - NA GAAP	260
2015-07	Fair Value Measurement (Topic 820)—Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)	Complete	Adopt	100R	820
2015-08	Business Combination (Topic 805)—Pushdown Accounting, Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115	Complete	Reject	App D - NA GAAP	805
2015-09	Financial Services—Insurance (Topic 944)—Disclosures about Short-Duration Contracts	Complete	Reject	55, 65	944
2015-10	Technical Corrections and Improvements	Complete	Reject	App D - NA GAAP	
2015-11	Inventory (Topic 330)—Simplifying the Measurement of Inventory	Complete	Reject	App D - NA GAAP	330
2015-12	Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965)—I. Fully Benefit-Responsive Investment Contracts; II. Plan Investment Disclosures; III. Measurement Date Practical Expedient (consensus of the FASB Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	960 962 965
2015-13	Derivatives and Hedging (Topic 815)—Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	815
2015-14	Revenue from Contracts with Customers (Topic 606)—Deferral of the Effective Date	Complete	Reject	47	606
2015-15	Interest—Imputation of Interest (Subtopic 835-30)—Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting	Complete	Reject	15	835
2015-16	Business Combinations (Topic 805)—Simplifying the Accounting for Measurement-Period Adjustments	Pending			805
2015-17	Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes	Complete	Reject	101	740
2016-01	Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	Complete	Reject	26R, 30R, 32, 43R, 100R	825
2016-02	Leases (Topic 842)	Complete	Reject	22R	840 842

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2016-03	Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a consensus of the Private Company Council)	Complete	Reject	3, 68, 86	350 805 815
2016-04	Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)	Complete	N/A	App D - NA GAAP	405
2016-05	Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)	Complete	Adopt/M	86	815
2016-06	Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)	Complete	Reject	86	815
2016-07	Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting	Complete	Adopt/M	30R, 48, 97	323
2016-08	Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	Complete	Reject	47	606
2016-09	Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting	Complete	Adopt/M	104R	718
2016-10	Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing	Complete	Reject	47	606
2016-11	Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)	Complete	N/A	App D - NA GAAP	605
2016-12	Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients	Complete	Reject	47	606
2016-13	Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	Complete	Reject	2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, 105R INT 06-07	326
2016-14	Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities	Complete	Reject	App D - NA GAAP	958

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	Complete	Adopt	69	320
2016-16	Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	Complete	Reject	101	740
2016-17	Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control	Complete	Reject	25	810
2016-18	Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	Complete	Adopt	1, 69	230
2016-19	Technical Corrections and Improvements	Complete	Adopt/M	5R, 92, 102, 103R	Various
2016-20	Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers	Complete	Reject	47	606
2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business	Pending			805
2017-02	Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity	Complete	Reject	App D - NA GAAP	958
2017-03	Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): SEC Update	Complete	Reject	App D - NA GAAP	250 323 326 606 842
2017-04	Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Complete	Reject	68, 90	350 985
2017-05	Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	Pending			310 323 350 360 606 610 805 810 845 860 970
2017-06	Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	960 962 965
2017-07	Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Complete	Reject	92, 102	220 330 715 958 980

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2017-08	Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	Complete	Reject	26R	310 342 346
2017-09	Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	Complete	Adopt/M	104R	718
2017-10	Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force)	Complete	Adopt	22R	853
2017-11	Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception	Complete	Reject	5R, 72, 86	260 480 505 815
2017-12	Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	Complete	Adopt/M	86	220 320 815 954
2017-13	Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017, EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments	Complete	Reject	App D - NA GAAP	605 606 842
2017-14	Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update)	Complete	Reject	App D - NA GAAP	220 605 606
2017-15	Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995	Complete	Reject	App D - NA GAAP	740 995
2018-01	Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842	Complete	Reject	22R	842
2018-02	Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	Complete	Reject	App D - NA GAAP	220
2018-03	Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	Complete	Reject	26R, 30R, 32, 43R, 86, 100R	825
2018-04	Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)	Complete	Reject	App D - NA GAAP	320 980

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)	Complete	Reject	App D - NA GAAP	740
2018-06	Codification Improvements to Topic 942, Financial Services—Depository and Lending	Complete	Reject	App D - NA GAAP	942
2018-07	Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting	Complete	Adopt/M	95, 104R	718
2018-08	Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	Complete	Reject	App D - NA GAAP	958
2018-09	Codification Improvements	Complete	Reject	App D - NA GAAP	Various
2018-10	Codification Improvements to Topic 842, Leases	Complete	Reject	22R	842
2018-11	Leases (Topic 842): Targeted Improvements	Complete	Reject	22R	842
2018-12	Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	Complete	Reject	Preamble 50, 51R, 52, 54R, 55, 56, 71, 86	944
2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	Complete	Adopt/M	100R	820
2018-14	Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans	Complete	Adopt/M	92, 102	715
2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)	Complete	Adopt/M	16R	350
2018-16	Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	Complete	Adopt	86	815
2018-17	Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities	Complete	Reject	25	810
2018-18	Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606	Complete	Reject	47	808

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2018-19	Codification Improvements to Topic 326, Financial Instruments—Credit Losses	Complete	Reject	2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, 105R	326
2018-20	Leases (Topic 842): Narrow-Scope Improvements for Lessors	Complete	Reject	22R	842
2019-01	Leases (Topic 842): Codification Improvements	Complete	Reject	22R	842 942
2019-02	Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials (a consensus of the FASB Emerging Issues Task Force)	Complete	Reject	App D - NA GAAP	920 926
2019-03	Not-for-Profit Entities (Topic 958): Updating the Definition of Collections	Complete	Reject	App D - NA GAAP	360 958
2019-04	Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments	Complete	Reject	2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, 105R	310 320 321 323 326 815 825 830 942 948
2019-05	Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief	Complete	Reject	100R	326
2019-06	Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities	Complete	Reject	68, 97	323 350 805 958

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2019-07	Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates	Complete	Reject	App D – NA GAAP	205 210 220 235 270 470 505 810 932 942 944 946 942 962 970 974
2019-08	Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer	Complete	Adopted/M	47, 95, 104R	260 470 606 718 845
2019-09	Financial Services—Insurance (Topic 944): Effective Date	Complete	Reject	App D - NA GAAP	944
2019-10	Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates	Complete	Reject	2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, 105R	326 350 815 842
2019-11	Codification Improvements to Topic 326, Financial Instruments—Credit Losses	Complete	Reject	2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, 105R	320 326 805
2019-12	Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	Pending			323 718 740
2020-01	Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815	Complete	Reject	48, 86, 97	321 323 815 825

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2020-02	Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)	Complete	Reject	App D - NA GAAP	326 842
2020-03	Codification Improvements to Financial Instruments	Complete	Reject	2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, 105R	326 470 820 825 860 942
2020-04	Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting	Complete	Adopted/M	App B – INT 20-01	848
2020-05	Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)—Effective Dates for Certain Entities	Complete	Reject	App D - NA GAAP	606 842
2020-06	Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting for Convertible Instruments and Contracts in an Entity's Own Equity	Complete	Reject	5R, 72, 86	260 470 505 718 740 815 820 825 835 848
2020-07	Not-for-Profit Entities (Topic 958)—Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets	Complete	Reject	App D - NA GAAP	820 958
2020-08	Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs	Complete	Reject	26R	310
2020-09	Debt (Topic 470)—Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762	Complete	Reject	App D – NA GAAP	270 460 505

ACCOUNTING STANDARDS UPDATES

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2020-10	Codification Improvements	Complete	Reject	App D - NA GAAP	105 205 220 250 260 270 310 460 715 740 830 835 852 942 946 958 965 970
2020-11	Financial Services—Insurance (Topic 944): Effective Date and Early Application	Complete	Reject	App D - NA GAAP	944
2021-01	Reference Rate Reform (Topic 848): Scope	Complete	Adopted/M	App B - INT 20- 01	848
2021-02	Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient	Complete	Reject	47	606 952
2021-03	Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events	Complete	Reject	68	323 350 805 958
2021-04	Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)	Complete	Reject	72	260 470 505 718 815
2021-05	Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments	Complete	Reject	22R	255 310 450 805 810 840 842 860 970

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2021-06	Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946)—Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants	Complete	Reject	App D - NA GAAP	205 942 946
2021-07	Compensation—Stock Compensation (Topic 718)—Determining the Current Price of an Underlying Share	Complete	Adopted/M	104R	718
2021-08	Business Combinations (Topic 805)—Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	Complete	Reject	47, 68	805
2021-09	Leases (Topic 842)—Discount Rate for Lessees That Are Not Public Business Entities	Complete	Reject	22R	842
2021-10	Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance	Complete	Reject	24	832
2022-01	Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method	Complete	Adopted/M	86	310 320 326 815 860 948
2022-02	Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures	Complete	Reject	36	270 310 320 326 360 470 842 942 958 978
2022-03	Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	Complete	Adopt/M	100R	820 940
2022-04	Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations	Complete	Reject	105R	270 405
2022-05	Financial Services—Insurance (Topic 944): Transition for Sold Contracts	Complete	Reject	50 51R 52 56 71 86	944
2022-06	Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848	Complete	Reject	INT 20-01	848
2023-01	Leases (Topic 842): Common Control Arrangements	Pending			842

ACCOUNTING STANDARDS UPDATES

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2023-02	Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)	Pending			270 323 740 810
2023-03	Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock (SEC Update)	Pending			220 480 505 718
2023-04	Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121 (SEC Update)	Pending			405
2023-05	Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement	Pending			205 350 450 730 740 805 808 810 815 842 845 958
2023-06	Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative	Pending			105 230 250 260 270 440 470 505 815 860 932 946 974
2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	Pending			270 280
2023-08	Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	Pending			230 270 350 958

ACCOUNTING STANDARDS UPDATES

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt. ¹
2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures	Pending			230 740

Not for Distribution

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 01	Disclosure of Foreign Currency Translation Information	Superseded by FAS 8 & FAS 52			
FAS 02	Accounting for Research and Development Costs	Complete	Adopt	17	730-10
FAS 03	Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28	Superseded by FAS 154 Complete	N/A	App D - NA GAAP	
FAS 04	Reporting Gains and Losses from Extinguishment of Debt—An Amendment of APB Opinion No. 30	Superseded by FAS 145 Complete	Reject	15	
FAS 05	Accounting for Contingencies	Complete	Adopt Adopt paragraph 15	5R 72	310-10 360-10 440-10 450-10 450-20 450-30 460-10 505-10 720-20 730-20 944-20 944-40 944-60
FAS 06	Classification of Short-Term Obligations Expected to Be Refinanced—An Amendment of ARB No. 43, Chapter 3A	Complete	N/A	App D - NA GAAP	210-10 470-10
FAS 07	Accounting and Reporting by Development Stage Enterprises	Complete	Reject	17	915-10 915-205 915-210 915-215 915-225 915-230 915-235 915-340 915-605 915-810 980-10
FAS 08	Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements	Superseded by FAS 52			
FAS 09	Accounting for Income Taxes: Oil and Gas Producing Companies—An Amendment of APB Opinions 11 and 23	Superseded by FAS 19			

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 10	Extension of “Grandfather” Provisions for Business Combinations—An Amendment of APB Opinion No. 16	Superseded by FAS 141 Complete	Reject	68	
FAS 11	Accounting for Contingencies: Transition Method—An Amendment of FASB Statement No. 5	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification. See FAS 5
FAS 12	Accounting for Certain Marketable Securities	Superseded by FAS 115			
FAS 13	Accounting for Leases Reject except certain guidance on operating leases, leveraged leases, and sale leaseback transactions	Superseded by ASU 2016-02 Complete	Adopt paragraph 15, 16(b, c, d), 19 (a, b), 23(b, c), 36, 37, 39(c), 42-47 Reject all others N/A	22 22R	360-10 410-20 440-10 450-10 460-10 470-10 840-10 840-20 840-30 840-40 958-810 980-840
FAS 14	Financial Reporting for Segments of a Business Enterprise	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 15	Accounting by Debtors and Creditors for Troubled Debt Restructurings	Complete	Adopt/M	36	310-40 450-20 470-60
FAS 16	Prior Period Adjustments	Complete	Reject	3	250-10 270-10 450-20
FAS 17	Accounting for Leases: Initial Direct Costs—An Amendment of FASB Statement No. 13	Superseded by FAS 91			
FAS 18	Financial Reporting for Segments of a Business Enterprise: Interim Financial Statements—An Amendment of FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 19	Financial Accounting and Reporting by Oil and Gas Producing Companies	Complete	N/A	App D - NA GAAP	932-10 932-235 932-270 932-360 932-470 932-720 932-740
FAS 20	Accounting for Forward Exchange Contracts—An Amendment of FASB Statement No. 8	Superseded by FAS 52			
FAS 21	Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises—An Amendment of APB Opinion No. 15 and FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 22	Changes In the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt—An Amendment of FASB Statement No. 13	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-30
FAS 23	Inception of the Lease—An Amendment of FASB Statement No. 13	Superseded by ASU 2016-02 Complete	Adopt paragraph 10 - Reject all others N/A	22 22R	840-10
FAS 24	Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report—An Amendment of FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 25	Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies—An Amendment of FASB Statement No. 19	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification See FAS 19
FAS 26	Profit Recognition on Sales-Type Leases of Real Estate—An Amendment of FASB Statement No. 13	Superseded by FAS 98			

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 27	Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases—An Amendment of FASB Statement No. 13	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	Not Directly Included in Codification Included as amendments to FAS 13
FAS 28	Accounting for Sales with Leasebacks—An Amendment of FASB Statement No. 13	Superseded By ASU 2016-02 Complete	Adopt/M N/A	22 22R	840-40
FAS 29	Determining Contingent Rentals—An Amendment of FASB Statement No. 13	Complete	Adopt paragraphs 8 & 11 - Reject all others	22	840-10
FAS 30	Disclosure of Information about Major Customers—An Amendment of FASB Statement No. 14	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
FAS 31	Accounting for Tax Benefits Related to U. K. Tax Legislation Concerning Stock Relief	Superseded by FAS 96 & FAS 109			
FAS 32	Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters—An Amendment of APB Opinion No. 20	Superseded by FAS 111			
FAS 33	Financial Reporting and Changing Prices	Superseded by FAS 89			
FAS 34	Capitalization of Interest Cost	Complete	Adopt	44	360-10 835-20
FAS 35	Accounting and Reporting by Defined Benefit Pension Plans	Complete	N/A	App D - NA GAAP	460-10 960-10 960-20 960-30 960-205 960-310 960-325 960-360 962-10 965-10
FAS 36	Disclosure of Pension Information—An Amendment of APB Opinion No. 8	Superseded by FAS 87			

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 37	Balance Sheet Classification of Deferred Income Taxes—An Amendment of APB Opinion No. 11	Complete	N/A	App D - NA GAAP	740-10
FAS 38	Accounting for Preacquisition Contingencies of Purchased Enterprises—An Amendment of APB Opinion No. 16	Superseded by FAS 141 Complete	Reject	68	
FAS 39	Financial Reporting and Changing Prices: Specialized Assets—Mining and Oil and Gas—A Supplement to FASB Statement No. 33	Superseded by FAS 89			
FAS 40	Financial Reporting and Changing Prices: Specialized Assets—Timberlands and Growing Timber—A Supplement to FASB Statement No. 33	Superseded by FAS 89			
FAS 41	Financial Reporting and Changing Prices: Specialized Assets—Income-Producing Real Estate—A Supplement to FASB Statement No. 33	Superseded by FAS 89			
FAS 42	Determining Materiality for Capitalization of Interest Cost—An Amendment of FASB Statement No. 34	Complete	Adopt	44	835-20
FAS 43	Accounting for Compensated Absences	Complete	Adopt	11	420-10 710-10
FAS 44	Accounting for Intangible Assets of Motor Carriers—An Amendment of Chapter 5 of ARB No. 43 and an Interpretation of APB Opinions 17 and 30	Superseded by FAS 145 Complete	N/A	App D - NA GAAP	
FAS 45	Accounting for Franchise Fee Revenue	Complete	N/A	App D - NA GAAP	850-10 952-10 952-340 952-440 952-605 952-720
FAS 46	Financial Reporting and Changing Prices: Motion Picture Films	Superseded by FAS 89			
FAS 47	Disclosure of Long-Term Obligations	Complete	N/A	App D - NA GAAP	440-10 470-10
FAS 48	Revenue Recognition When Right of Return Exists	Complete	N/A	App D - NA GAAP	450-10 460-10 605-15
FAS 49	Accounting for Product Financing Arrangements	Complete	N/A	App D - NA GAAP	470-40

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 50	Financial Reporting in the Record and Music Industry	Complete	N/A	App D - NA GAAP	928-10 928-340 928-405 928-430 928-440 928-605 928-720
FAS 51	Financial Reporting by Cable Television Companies	Complete	N/A	App D - NA GAAP	922-10 922-350 922-360 922-430 922-605 922-720 922-835
FAS 52	Foreign Currency Translation	Complete	Reject	23, 31	205-10 440-10 815-20 830-10 830-20 830-30
FAS 53	Financial Reporting by Producers and Distributors of Motion Picture Films	Superseded by FAS 139 Complete	N/A	App D - NA GAAP	
FAS 54	Financial Reporting and Changing Prices: Investment Companies—An Amendment of FASB Statement No. 33	Superseded by FAS 89			
FAS 55	Determining whether a Convertible Security is a Common Stock Equivalent—An Amendment of APB Opinion No. 15	Superseded by FAS 111			
FAS 56	Designation of AICPA Guide and Statement of Position (SOP) 81-1 on Contractor Accounting and SOP 81-2 Concerning Hospital-Related Organizations as Preferable for Purposes of Applying APB Opinion 20—An Amendment of FASB Statement No. 32	Superseded by FAS 111			
FAS 57	Related Party Disclosures	Complete	Adopt/M	25	850-10 958-20 958-810
FAS 58	Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method—An Amendment of FASB Statement No. 34	Complete	Adopt	44	835-20
FAS 59	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—An Amendment of FASB Statement No. 35	Superseded by FAS 75			

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 60	Accounting and Reporting by Insurance Enterprises	Complete	Reject paragraph 52 Reject	40R 50, 51R, 52, 53, 54R, 57, 59, 71	325-10 944-10 944-20 944-30 944-40 944-50 944-60 944-80 944-310 944-325 944-360 944-505 944-605 944-740 944-805
FAS 61	Accounting for Title Plant	Complete	Adopt/M	57	950-350
FAS 62	Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants—An Amendment of FASB Statement No. 34	Complete	Adopt/M	44	835-20
FAS 63	Financial Reporting by Broadcasters	Complete	N/A	App D - NA GAAP	920-10 920-350 920-405 920-440 920-845
FAS 64	Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements—An Amendment of FASB Statement No. 4	Superseded by FAS 145 Complete	 Reject	 15	
FAS 65	Accounting for Certain Mortgage Banking Activities	Complete	N/A	App D - NA GAAP	310-10 440-10 860-50 948-10 948-310 948-340 948-605 948-720 958-320
FAS 66	Accounting for Sales of Real Estate	Complete	Adopt/M	40R	360-20 440-10 460-10 605-10 840-10 976-10 976-310 976-330 976-605 976-705

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 67	Accounting for Costs and Initial Rental Operations of Real Estate Projects	Complete	Adopt	40R	970-10 970-340 970-360 970-605 970-720
FAS 68	Research and Development Arrangements	Complete	N/A	App D - NA GAAP	440-10 730-20
FAS 69	Disclosures about Oil and Gas Producing Activities—An Amendment of FASB Statements 19, 25, 33, and 39	Complete	N/A	App D - NA GAAP	932-235
FAS 70	Financial Reporting and Changing Prices: Foreign Currency Translation—An Amendment of FASB Statement No. 33	Superseded by FAS 89			
FAS 71	Accounting for the Effects of Certain Types of Regulation	Complete	N/A	App D - NA GAAP	840-30 980-10 980-250 980-340 980-350 980-405 980-410 980-450 980-470 980-605 980-710 980-810 980-835 980-840
FAS 72	Accounting for Certain Acquisitions of Banking or Thrift Institutions—An Amendment of APB Opinion No. 17, an Interpretation of APB Opinions 16 and 17, and an Amendment of FASB Interpretation No. 9	Superseded by FAS 141R Complete	N/A	App D - NA GAAP	
FAS 73	Reporting a Change in Accounting for Railroad Track Structures—An Amendment of APB Opinion No. 20	Superseded by FAS 154 Complete	N/A	App D - NA GAAP	
FAS 74	Accounting for Special Termination Benefits Paid to Employees	Superseded by FAS 88			
FAS 75	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—An Amendment of FASB Statement No. 35	Superseded by FAS 135 Complete	N/A	App D - NA GAAP	

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 76	Extinguishment of Debt—An Amendment of APB Opinion No. 26	Superseded by FAS 125 & FAS 140			
FAS 77	Reporting by Transferors for Transfers of Receivables with Recourse	Superseded by FAS 125 & FAS 140			
FAS 78	Classification of Obligations That Are Callable by the Creditor—An Amendment of ARB No. 43, Chapter 3A	Complete	N/A	App D - NA GAAP	470-10
FAS 79	Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises—An Amendment of APB Opinion No. 16	Superseded by FAS 141			
		Complete	Reject	68	
FAS 80	Accounting for Futures Contracts	Superseded by FAS 133			
		Complete	Reject	31	
FAS 81	Disclosure of Postretirement Health Care and Life Insurance Benefits	Superseded by FAS 106			
FAS 82	Financial Reporting and Changing Prices: Elimination of Certain Disclosures—An Amendment of FASB Statement No. 33	Superseded by FAS 89			
FAS 83	Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20—An Amendment of FASB Statement No. 32 and APB Opinion No. 30 and a Rescission of FASB Interpretation No. 10	Superseded by FAS 111			
FAS 84	Induced Conversions of Convertible Debt—An Amendment of APB Opinion No. 26	Complete	Adopt	15	470-20
FAS 85	Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent—An Amendment of APB Opinion No. 15	Superseded by FAS 128			
		Complete	N/A	App D - NA GAAP	
FAS 86	Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed	Complete	Adopt/M	17	730-10 985-20 985-330 985-705

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 87	Employers' Accounting for Pensions	Complete	Adopt/M	8, 89, 92, 102	420-10 715-10 715-20 715-30 715-80 805-20 835-20 958-715 960-10 962-10 965-10 980-715
FAS 88	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits	Complete	Adopt/M Adopt paragraph 15	8, 89, 92, 102 11	710-10 712-10 715-30 715-60 958-10 958-715
FAS 89	Financial Reporting and Changing Prices	Complete	N/A	App D - NA GAAP	255-10
FAS 90	Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs—an Amendment of FASB Statement No. 71	Complete	N/A	App D - NA GAAP	980-360 980-835
FAS 91	Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—An Amendment of FASB Statements No. 13, 60, and 65 and a Rescission of FASB Statement No. 17	Complete	Reject	26R, 37, 43R	310-20 440-10 840-30
FAS 92	Regulated Enterprises—Accounting for Phase-In Plans—An Amendment of FASB Statement No. 71	Complete	N/A	App D - NA GAAP	360-10 980-340
FAS 93	Recognition of Depreciation by Not-for-Profit Organizations	Complete	N/A	App D - NA GAAP	958-360 958-720
FAS 94	Consolidation of All Majority-Owned Subsidiaries—An Amendment of ARB No. 51, with Related Amendments of APB Opinion No. 18 and ARB No. 43, Chapter 12	Complete	Reject	3	810-10 840-10
FAS 95	Statement of Cash Flows	Complete	Reject	69	230-10 310-10 815-10 815-20 830-230 942-230
FAS 96	Accounting for Income Taxes	Superseded by FAS 109			

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 97	Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments	Complete	Reject	50, 51R, 52, 71	944-20 944-30 944-40 944-60 944-605 944-825
FAS 98	Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases—An Amendment of FASB Statements No. 13, 66, and 91 and a Rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11	Superseded by ASU 2016-02 Complete	Adopt paragraphs 1-13, 17-22 (a, b, d & e) Adopt/M paragraphs 22j, 27, 30, and 31 Reject all others N/A	22 22R	840-40 980-840
FAS 99	Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations—An Amendment of FASB Statement No. 93	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification. See FAS 99
FAS 100	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96—An Amendment of FASB Statement No. 96	Superseded by FAS 103, FAS 108 & FAS 109			
FAS 101	Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71	Complete	N/A	App D - NA GAAP	980-20
FAS 102	Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale—An Amendment of FASB Statement No. 95	Complete	Reject	69	230-10 310-10 960-205 962-205 970-230
FAS 103	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96—An Amendment of FASB Statement No. 96	Superseded by FAS 108 & FAS 109			
FAS 104	Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows From Hedging Transactions—An Amendment of FASB Statement No. 95	Complete	Reject	69	Not Directly Included in Codification. Included as amendments to FAS 95

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 105	Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk	Superseded by FAS 133 Complete	Adopt/M	27, 31	
FAS 106	Employers' Accounting for Postretirement Benefits Other Than Pensions	Complete	Adopt/M	14, 92	420-10 710-10 715-10 715-20 715-30 715-60 715-70 715-80 805-20 958-715 980-715
FAS 107	Disclosures about Fair Value of Financial Instruments	Complete	Adopt	100R	310-10 825-10 942-470 958-320
FAS 108	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96	Superseded by FAS 109			
FAS 109	Accounting for Income Taxes	Superseded by ASU 2016-02 Complete	Adopt paragraphs 256-258 Adopt/M N/A	22 10, 10R, 101 22R	225-20 272-10 450-10 718-740 740-10 740-20 740-30 805-740 830-20 830-740 840-30 852-740 942-740 944-740 946-740 958-720 980-740 995-740
FAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts—An Amendment of FASB Statement No. 35	Complete	N/A	App D - NA GAAP	960-325
FAS 111	Rescission of FASB Statement No. 32 and Technical Corrections	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Technical Amendments to Various Standards

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 112	Employers' Accounting for Postemployment Benefits—An Amendment of FASB Statements No. 5 and 43	Complete	Adopt	11	420-10 712-10
FAS 113	Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts	Complete	Adopt/M	61R, 62R	450-10 944-20 944-30 944-40 944-210 944-310 944-340 944-405 944-605 944-825
FAS 114	Accounting by Creditors for Impairment of a Loan—An Amendment of FASB Statements No 5 and 15	Complete	Adopt FAS 5 amendments and paragraphs 35 and 36 of CON 6 Adopt paragraphs 9, 22, and 25 Reject paragraphs 6d, 13 & 21 Adopt/M	5R 36 37	310-10 310-30 310-40
FAS 115	Accounting for Certain Investments in Debt and Equity Securities	Complete	Reject	26R, 30R, 32, 43R	320-10 942-320
FAS 116	Accounting for Contributions Received and Contributions Made	Complete	Adopt	67	440-10 605-10 720-25 835-10 958-10 958-30 958-205 958-310 958-320 958-325 958-360 958-450 958-605
FAS 117	Statements of Not-for-Financial-Profit Organizations	Complete	N/A	App D - NA GAAP	954-225 958-205 958-210 958-225 958-230 958-320 958-720

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 118	Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures	Complete	Adopt for troubled debt re-structuring Adopt/M	36 37	310-10 310-40
FAS 119	Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments	Superseded by FAS 133 Complete	 Adopt/M	 31, 100R	
FAS 120	Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts	Complete	Reject	50, 51R, 52	944-20
FAS 121	Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of	Superseded by FAS 144 Complete	 Adopt/M Adopt paragraphs 12, 14a & 14b Reject, paragraphs 13, 14c & d	 40R 68	
FAS 122	Accounting for Mortgage Servicing Rights	Superseded by FAS 125 & FAS 140			
FAS 123	Accounting for Stock-Based Compensation	Superseded by FAS 123(R) Complete	 Reject	 13	
FAS 123(R)	Share-Based Payment	Complete	Adopt/M	104R	260-10 505-60 718-10 718-20 718-30 718-50 718-740 815-10
FAS 124	Accounting for Certain Investments Held by Not-For-Profit Organizations	Complete	N/A	App D - NA GAAP	954-320 958-205 958-320 958-325

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 125	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	Superseded by FAS 140 Complete	Reject paragraph 83 Adopt 9-13 15-17,23-25 27-30,66-71 Reject paragraph 14 Adopt/M For Securitizations Adopt/M	42 45 33 18	
FAS 126	Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities	Complete	Reject	100R	825-10
FAS 127	Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125	Superseded by FAS 140 Complete	Reject	18	
FAS 128	Earnings per Share	Complete	N/A	App D - NA GAAP	205-20 250-10 260-10
FAS 129	Disclosure of Information about Capital Structure	Complete	Adopt paragraphs 6, 7 and 9, rejecting all others	72	470-10 505-10
FAS 130	Reporting Comprehensive Income	Complete	N/A	App D - NA GAAP	205-10 220-10 323-10 505-10 715-30 965-205
FAS 131	Disclosures about Segments of an Enterprise and Related Information	Complete	N/A	App D - NA GAAP	280-10

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 132	Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106	Superseded by FAS 132(R)			230-10
FAS 132(R)	Employers' Disclosures about Pensions and Other Postretirement Benefits—An Amendment of FASB Statements No. 87, 88 and 106	Complete	Adopt/M	8, 11, 14, 89	
		Complete	Adopt/M	14, 89, 92, 102	450-20 715-20 715-70 715-80 958-715
			Adopt paragraphs 5(a), 5(b), 5(h), 5(q), and 8(m) as modified by FAS 158.	11	
FAS 133	Accounting for Derivative Instruments and Hedging Activities	Complete	Adopt/M	86	220-10 310-10 440-10 815-10 815-15 815-20 815-25 815-30 815-35 960-325
			Adopt/M regarding short sales	103R	
FAS 134	Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise an amendment of FASB Statement No. 65	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to FAS 65
FAS 135	Rescission of FASB Statement No. 75 and Technical Corrections	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Technical Amendments to Various Standards
FAS 136	Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others	Complete	N/A	App D - NA GAAP	958-20 958-30 958-205 958-225 958-605
FAS 137	Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133	Complete	Reject	86	Not Explicitly Included in Codification. See FAS 133

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 138	Accounting for Certain Derivative Instruments and Certain Hedging Activities—An Amendment of FASB Statement No. 133	Complete	Adopt/M	86	815-10 815-20 815-25 815-30
FAS 139	Rescission of FASB Statement No. 53 and amendments to FASB Statements No. 63, 89 and 121	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to FAS 63, FAS 89 and FAS 121
FAS 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, A Replacement of FASB Statement 125	Superseded by FAS 166 Complete	Adopt/M	91R, 103R	310-10 320-10 405-20 460-10 470-50 815-20 840-30 860-10 860-20 860-30 860-50
FAS 141 FAS 141 (Revised)	Business Combinations – June 2001 Business Combinations – December 2007	Superseded by FAS 141 revised in 12/07 Complete Pending	Reject	68	 805-10 805-20 805-30 805-40 805-50 805-740 958-805
FAS 142	Goodwill and Other Intangible Assets	Complete	Reject	68	205-20 280-10 323-10 350-10 350-20 350-30
FAS 143	Accounting for Asset Retirement Obligations	Complete	N/A	App D - NA GAAP	360-10 410-20 450-20 835-20 840-10 840-40 980-410

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 144	Accounting for the Impairment or Disposal of Long-Lived Assets	Complete	Reject paragraphs 44.a.-44.c.	24	205-10 205-20 225-20 360-10 840-20 840-30 855-10 958-225 958-360
FAS 145	Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections	Superseded by ASU 2016-02 Complete	Adopt paragraph 9.c.c. Reject all others N/A	22 22R	470-50
FAS 146	Accounting for Costs Associated with Exit or Disposal Activities	Superseded by ASU 2016-02 Complete	Adopt paragraphs 420-10-25-11 through 13 and 420-10-30-8 All others rejected N/A	22 24 22R	280-10 420-10 450-20 712-10 715-30 840-10 912-275 958-225
FAS 147	Acquisitions of Certain Financial Institutions—An Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9	Superseded by FAS 141(R) Complete	N/A	App D - NA GAAP	
FAS 148	Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123	Superseded by FAS 123(R) Complete	Reject	13	
FAS 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities	Complete	Paragraphs 4 and 25 adopted. Reject all others.	86	815-10

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 150	Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity	Complete	Adopted as referenced in SSAP No. 104R only. All other rejected as not applicable.	104R	260-10 460-10 480-10 835-10
FAS 151	Inventory Costs—An Amendment of ARB No. 43, Chapter 4	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to ARB 43, Chp 4
FAS 152	Accounting for Real Estate Time-Sharing Transactions—An Amendment of FASB Statements No. 66 and 67	Complete	Adopt	40R	Not Directly Included in Codification. Included as amendments to FAS 66 and FAS 67
FAS 153	Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29	Complete	Adopt/M	90, INT 00-26	Not Directly Included in Codification. Included as amendments to APB 29
FAS 154	Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and FASB Statement No. 3	Complete	Reject	3	250-10 835-20
FAS 155	Accounting for Certain Hybrid Financial Instruments—An Amendment of FASB Statements No. 133 and 140	Pending			815-15
FAS 156	Accounting for Servicing of Financial Assets—An Amendment of FASB Statement No. 140	Complete	Adopt/M	91R, 103R	860-50
FAS 157	Fair Value Measurements	Complete	Adopt/M	100R	250-10 270-10 815-10 820-10
FAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106 and 132(R)	Complete	Adopt/M Paragraphs 1-7, 16-17, Appendices D and E. Adopt/M Paragraphs 1-7, 16-17, Appendices C and E.	92 102	715-20 715-30 715-60 958-715

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB STATEMENTS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FAS 159	The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115	Complete	Reject	App D - NA GAAP	470-20 825-10 954-825
FAS 160	Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
FAS 161	Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133	Pending			815-10
FAS 162	The Hierarchy of Generally Accepted Accounting Principles	Replaced by FAS 168 Complete	Adopt/M	Preamble	
FAS 163	Accounting for Financial Guarantee Insurance Contracts—An Interpretation of FASB Statement No. 60	Pending			944-20 944-40 944-310 944-605
FAS 164	Not-for-Profit Entities: Mergers and Acquisitions—Including an Amendment of FASB Statement No. 142	Pending			740-10 805-10 805-50 954-805 954-810 958-805 958-810
FAS 165	Subsequent Events	Complete	Adopt/M	9	855-10
FAS 166	Accounting for Transfers of Financial Assets—An Amendment of FASB Statement No. 140	Complete (ASU 2009-16)	Adopt/M	103R	860-10
FAS 167	Amendments to FASB Interpretation No. 46(R)	Pending (ASU 2009-17)			810-10
FAS 168	The <i>FASB Accounting Standards Codification</i> TM and the Hierarchy of Generally Accepted Accounting Principles—A Replacement of FASB Statement No. 162	Complete	Adopt	Preamble	105-10

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP FASB INTERPRETATIONS					
GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 01 (APB 20)	Accounting Changes Related to the Cost of Inventory	Complete	N/A	App D - NA GAAP	250-10 330-10
FIN 02 (APB 21)	Imputing Interest on Debt Arrangements Made under the Federal Bankruptcy Act	Superseded by FAS 15			
FIN 03 (APB 8)	Accounting for the Cost of Pension Plans subject to the Employee Retirement Income Security Act of 1974	Superseded by FAS 87			
FIN 04 (FASB 2)	Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method	Superseded by FAS 141R Complete	Reject	68	
FIN 05 (FASB 2)	Applicability of FASB Statement No. 2 to Development Stage Enterprises	Superseded by FAS 7			
FIN 06 (FASB 2)	Applicability of FASB Statement No. 2 to Computer Software	Complete	Adopt	17	730-10 985-20
FIN 07 (FASB 7)	Applying FASB Statement No. 7 in Financial Statements of Established Operating Enterprises	Complete	Reject	17	915-10 915-810
FIN 08 (FASB 6)	Classification of a Short-Term Obligation Repaid Prior to Being Replaced by a Long-Term Security	Complete	N/A	App D - NA GAAP	470-10
FIN 09 (APB 16 & 17)	Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method	Superseded by FAS 141R Complete	N/A	App D - NA GAAP	
FIN 10 (FASB 12)	Application of FASB Statement No. 12 to Personal Financial Statements	Superseded by FAS 83			
FIN 11 (FASB 12)	Changes in Market Value after the Balance Sheet Date	Superseded by FAS 115			
FIN 12 (FASB 12)	Accounting for Previously Established Allowance Accounts	Superseded by FAS 115			
FIN 13 (FASB 12)	Consolidation of a Parent and Its Subsidiaries Having Different Balance Sheet Dates	Superseded by FAS 115			
FIN 14 (FASB 5)	Reasonable Estimation of the Amount of a Loss	Complete	Adopt/M	5R	450-20
FIN 15 (FASB 8)	Translation of Unamortized Policy Acquisition Costs by a Stock Life Insurance Company	Superseded by FAS 52			
FIN 16 (FASB 12)	Clarification of Definitions and Accounting for Marketable Equity Securities That Become Nonmarketable	Superseded by FAS 115			
FIN 17 (FASB 8)	Applying the Lower of Cost or Market Rule in Translated Financial Statements	Superseded by FAS 52			
FIN 18 (APB 28)	Accounting for Income Taxes in Interim Periods	Complete	Reject	10, 10R, 101	225-20 740-270

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
FASB INTERPRETATIONS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 19 (FASB 13)	Lessee Guarantee of the Residual Value of Leased Property	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	460-10 840-10
FIN 20 (APB 20)	Reporting Accounting Changes under AICPA Statements of Position	Superseded by FAS 154 Complete	Reject	3	
FIN 21 (FASB 13)	Accounting for Leases in a Business Combination	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-10 840-30 958-805
FIN 22 (APB 11 & 23)	Applicability of Indefinite Reversal Criteria to Timing Differences	Superseded by FAS 96 & FAS 109			
FIN 23 (FASB 13)	Leases of Certain Property Owned by a Governmental Unit or Authority	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-10
FIN 24 (FASB 13)	Leases Involving Only Part of a Building	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-10
FIN 25 (APB 2, 4, 11, & 16)	Accounting for an Unused Investment Tax Credit	Superseded by FAS 96 & FAS 109			
FIN 26 (FASB 13)	Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-30

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP FASB INTERPRETATIONS					
GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 27 (FASB 13 & APB 30)	Accounting for a Loss on a Sublease	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	Glossary Term
FIN 28 (APB 15 & 25)	Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans	Superseded by FAS 123(R) Complete	Adopt N/A	13 104R	
FIN 29 (APB 23 & 24)	Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees	Superseded by FAS 96 & FAS 109			
FIN 30 (APB 29)	Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets	Complete	Adopt/M	28, 95	450-10 605-40 740-10
FIN 31 (APB 15 & FASB 28)	Treatment of Stock Compensation Plans in EPS Computations	Superseded by FAS 128 Complete	N/A	App D - NA GAAP	
FIN 32 (APB 2, 4 & 11)	Application of Percentage Limitations in Recognizing Investment Tax Credit	Superseded by FAS 96 & FAS 109			
FIN 33 (FASB 34)	Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method	Complete	N/A	App D - NA GAAP	932-835
FIN 34 (FASB 5)	Disclosure of Indirect Guarantees of Indebtedness of Others	Superseded by FIN 45 Complete	Adopt	5R	
FIN 35 (APB 18)	Criteria for Applying the Equity Method of Accounting for Investments in Common Stock	Complete	Adopt	46, 88, 97	323-10
FIN 36 (FASB 19)	Accounting for Exploratory Wells in Progress at the End of a Period	Complete	N/A	App D - NA GAAP	932-360
FIN 37 (FASB 52)	Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity	Complete	Reject	23	830-30
FIN 38 (APB 25)	Determining the Measurement Date for Stock Option, Purchase and Award Plans Involving Junior Stock	Superseded by FAS 123(R) Complete	Adopt N/A	13 104R	

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP FASB INTERPRETATIONS					
GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FIN 39 (APB 10 & FASB 105)	Offsetting of Amounts Related to Certain Contracts	Complete	Adopt/M	64	210-20 450-30 815-10
FIN 40 (FASB 12, 60, 97 & 113)	Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises	Complete	Reject	51R, 52	Not Directly Included in Codification. Issue Addressed in FAS 168 and APB 22
FIN 41 (APB 10 and FIN 39)	Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements	Complete	Reject	64, 103R	210-20 860-30
FIN 42 (FASB 116)	Accounting for Transfers of Assets in Which a Not-for-Profit Organization is Granted Variance Power	Superseded by FAS 136 Complete	N/A	App D - NA GAAP	
FIN 43	Real Estate Sales	Complete	Adopt/M	40R, 77	360-20 978-10
FIN 44 (APB 25)	Accounting for Certain Transactions involving Stock Compensation	Superseded by FAS 123(R)	N/A	104R	
FIN 45 (FASB 5, 57 & 107)	Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others	Complete	Adopt/M	5R	460-10 840-10 850-10
FIN 46 (ARB 51)	Consolidation of Variable Interest Entities	Superseded by FIN 46(R)			
FIN 46(R)	Consolidation of Variable Interest Entities	Complete Pending	Reject	3	323-10 712-10 715-30 715-60 810-10 860-10 954-810 958-810
FIN 47 (FASB 143)	Accounting for Conditional Asset Retirement Obligations	Complete	N/A	App D - NA GAAP	410-20 450-20
FIN 48 (FASB 109)	Accounting for Uncertainty in Income Taxes	Complete	Reject	101	740-10 740-270 805-740 835-10

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP APB OPINIONS					
GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
APB 1	New Depreciation Guidelines and Rules	Superseded by FAS 96 and 109			
APB 2	Accounting for the "Investment Credit"	Complete	Adopt/M paragraphs 9-15, Reject all others	10, 10R, 101	740-10
APB 3	The Statement of Source and Application of Funds	Superseded by APB 19			
APB 4	Accounting for the "Investment Credit" (Amending No. 2)	Complete	Reject	10, 10R, 101	740-10
APB 5	Reporting of Leases in Financial Statements of Lessee	Superseded by FAS 13			
APB 6	Status of Accounting Research Bulletins	Complete	Adopt /M Paragraph 12 Reject all others Reject paragraph 16	72 28, 95	Not Directly Included in Codification. Included as amendments to ARB 43
APB 7	Accounting for Leases in Financial Statements of Lessors	Superseded by FAS 13			
APB 8	Accounting for the Cost of Pension Plans	Superseded by FAS 87			
APB 9	Reporting the Results of Operations	Complete	Reject paragraphs 1-19 and 26-27 Adopt paragraph 28 Paragraphs 20-25 and 29 superseded by APB 20 & 30 and FAS 16	3 72	225-10 225-20 250-10 505-10

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP APB OPINIONS					
GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
APB 10	Omnibus Opinion—1966	Complete	Adopt paragraphs 10 & 11 Reject paragraph 12 Adopt/M paragraphs 1, 7 & 13 Adopt paragraph 6 All other paragraphs rejected	72 64 10, 10R, 101	210-20 605-10 740-10
APB 11	Accounting for Income Taxes	Superseded by FAS 96 & 109			
APB 12	Omnibus Opinion—1967	Complete	Adopt paragraphs 4 & 5 Adopt/M paragraphs 9 & 10 Adopt/M paragraphs 2 and 3 Adopt paragraphs 6, 6A and 7 Adopt/M paragraphs 6 - 8 Adopt paragraphs 16 & 17 Paragraphs 11-15 superseded	19 72 5R 11 14 15	210-10 310-10 360-10 505-10 710-10 715-20 835-30
APB 13	Amending Paragraph 6 of APB Opinion No. 9, Application to Commercial Banks	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included as amendments to APB 9

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP APB OPINIONS					
GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
APB 14	Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants	Complete	Adopt	15	470-20 505-10
APB 15	Earnings Per Share	Superseded by FAS 128 Complete	N/A	App D - NA GAAP	
APB 16	Business Combinations	Superseded by FAS 141 Complete	Reject	68	
APB 17	Intangible Assets	Superseded by FAS 142 Complete	Reject	68	
APB 18	The Equity Method of Accounting for Investments in Common Stock	Complete	Reject	46, 88, 97	225-20 250-10 260-10 323-10 325-20 460-10 810-10 850-10 958-20 958-810 970-810
APB 19	Reporting Changes in Financial Position	Superseded by FAS 95			
APB 20	Accounting Changes	Superseded by FAS 154 Complete	Reject	3	
APB 21	Interest on Receivables and Payables	Complete	Adopt/M	15	310-10 470-10 740-10 835-30
APB 22	Disclosure of Accounting Policies	Complete	Adopt	1	235-10

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP APB OPINIONS					
GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
APB 23	Accounting for Income Taxes—Special Areas	Complete	Adopt paragraphs 1-3, 5-9, 12-13, 15-18 Reject paragraphs 19-23, 25, 31-33 Adopt paragraphs 1-3, 5-9, 12-13, 15-18 Reject paragraphs 19-25, 31-33	10R 101	740-30 942-740
APB 24	Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method (Other than Subsidiaries and Corporate Joint Ventures)	Superseded by FAS 96 & 109			
APB 25	Accounting for Stock Issued to Employees	Superseded by FAS 123(R) Complete	Adopt/M N/A	13 104R	
APB 26	Early Extinguishment of Debt	Complete	Adopt/M	15	470-50 850-10
APB 27	Accounting for Lease Transactions by Manufacturer or Dealer Lessors	Superseded by FAS 13			
APB 28	Interim Financial Reporting	Complete	Adopt paragraphs 19 & 20 Reject all others	10, 10R, 101	225-20 250-10 270-10 450-10 740-270
APB 29	Accounting for Nonmonetary Transactions	Complete Amended by FAS 153	Adopt/M	28, 95	605-40 610-30 845-10
APB 30	Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions	Complete	Reject	24	225-20 830-10
APB 31	Disclosure of Lease Commitments by Lessees	Superseded by FAS 13			

**PRE-CODIFICATION STANDARDS - CATEGORY A GAAP
ACCOUNTING RESEARCH BULLETINS**

GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
ARB 43	Restatement and Revision of Accounting Research Bulletins:				
	Chapter 1	Complete	Reject	72	310-10 505-10 605-10 850-10
	Chapter 2A	Complete	Adopt	1	205-10
	Chapter 2B	Deleted by APB 9			
	Chapter 3A	Complete	Reject	20	210-10 310-10 340-10 470-10 958-210
	Chapter 3B	Replaced by APB 10			
	Chapter 4	Complete	N/A	App D - NA GAAP	330-10 440-10 450-20
	Chapter 5	Deleted by FAS 142			
	Chapter 6	Deleted by FAS 5			
	Chapter 7A	Complete	Adopt/M	72	852-20
	Chapter 7B	Complete	Adopt paragraphs 1- 4 and paragraphs 10- 16 Adopt paragraphs 1- 9	72 28, 95	505-20
	Chapter 7C	Deleted by ARB 48			
	Chapter 8	Deleted by APB 9			
	Chapter 9A	Complete	Reject	19	Not Explicitly Included in Codification.
	Chapter 9B	Replaced by APB 6			
	Chapter 9C	Complete	Reject	19	360-10
	Chapter 10A	Complete	Reject	40R	720-30
	Chapter 10B	Deleted by APB 11			

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP ACCOUNTING RESEARCH BULLETINS					
GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
ARB 43 continued	Chapter 11	Complete	Reject	20	912-10 912-20 912-210 912-225 912-275 912-310 912-330 912-405 912-605
	Chapter 12	Complete	Reject	23	Not Directly Included in Codification. Issue Addressed in FAS 133
	Chapter 13A	Deleted by APB 8			
	Chapter 13B	Deleted by FAS 123(R) Complete	Adopt/M N/A	13 104R	
	Chapter 14	Deleted by APB 5			
	Chapter 15	Deleted by APB 26			
ARB 44	Declining-Balance Depreciation	Superseded by ARB 44 (Rev.)			
ARB 44 (Rev.)	Declining-Balance Depreciation	Superseded by FAS 96 & 109			
ARB 45	Long-Term Construction-Type Contracts	Complete	N/A	App D - NA GAAP	440-10 605-35
ARB 46	Discontinuance of Dating Earned Surplus	Complete	Adopt/M	72	Not Directly Included in Codification. Included as amendments to ARB 43, Chapter 7a
ARB 47	Accounting for Costs of Pension Plans	Superseded by APB 8			
ARB 48	Business Combinations	Superseded by APB 16			
ARB 49	Earnings per Share	Superseded by APB 9			
ARB 50	Contingencies	Superseded by FAS 5			

PRE-CODIFICATION STANDARDS - CATEGORY A GAAP ACCOUNTING RESEARCH BULLETINS					
GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
ARB 51	Consolidated Financial Statements	Complete	Reject	3	505-10 810-10 850-10 860-10 958-810 970-810

Not for Distribution

**PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB79-1 (Revised)	Purpose and Scope of FASB Technical Bulletins and Procedures for Issuance	Complete	N/A	App D - NA GAAP	Not Included in Codification. No Longer Applicable or Relevant.
TB79-2	Computer Software Costs	Superseded by FAS 86			
TB79-3	Subjective Acceleration Clauses in Long-Term Debt Agreements	Complete	N/A	App D - NA GAAP	470-10
TB79-4	Segment Reporting of Puerto Rican Operations	Complete	N/A	App D - NA GAAP	280-10
TB79-5	Meaning of the Term “Customer” as it Applies to Health Care Facilities under FASB Statement No. 14	Complete	N/A	App D - NA GAAP	954-280
TB79-6	Valuation Allowances Following Debt Restructuring	Superseded by FAS 114			
TB79-7	Recoveries of a Previous Writedown under a Troubled Debt Restructuring Involving a Modification of Terms	Superseded by FAS 114			
TB79-8	Applicability of FASB Statements 21 and 33 to Certain Brokers and Dealers in Securities	Superseded by FAS 131 Complete	N/A	App D - NA GAAP	
TB79-9	Accounting in Interim Periods for Changes in Income Tax Rates	Complete	Reject	10, 10R, 101	740-270
TB79-10	Fiscal Funding Clauses in Lease Agreements	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-10
TB79-11	Effect of a Penalty on the Term of a Lease	Superseded by FAS 98			
TB79-12	Interest Rate used in Calculating the Present Value of Minimum Lease Payments	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	Glossary Terms

**PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB79-13	Applicability of FASB Statement No. 13 to Current Value Financial Statements	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-10
TB79-14	Upward Adjustment of Guaranteed Residual Values	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-30
TB79-15	Accounting for Loss on a Sublease Not Involving the Disposal of a Segment	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-20 840-30
TB79-16 (Revised)	Effect of a Change in Income Tax Rate on the Accounting for Leveraged Leases	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-30
TB79-17	Reporting Cumulative Effect Adjustment from Retroactive Application of FASB Statement No. 13	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	Not Explicitly Included in Codification. See FAS 13
TB79-18	Transition Requirement of Certain FASB Amendments and Interpretations of FASB Statement No. 13	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	Not Explicitly Included in Codification. See FAS 13
TB79-19	Investor's Accounting for Unrealized Losses on Marketable Securities Owned by an Equity Method Investee	Complete	Reject	46, 88, 97	Not Directly Included in Codification. Included within FAS 115 and FAS 133
TB80-1	Early Extinguishment of Debt through Exchange for Common or Preferred Stock	Complete	Adopt/M	15	470-50
TB80-2	Classification of Debt Restructurings by Debtors and Creditors	Complete	Adopt	36	310-40 470-60

**PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB81-1	Disclosure of Interest Rate Futures Contracts and Forward and Standby Contracts	Superseded by FAS 80			
TB81-2	Accounting for Unused Investment Tax Credits Acquired in a Business Combination Accounted for by the Purchase Method	Superseded by FAS 96 & FAS 109			
TB81-3	Multi-Employer Pension Plan Amendments Act of 1980	Superseded by FAS 111			
TB81-4	Classification as Monetary or Non-monetary Items	Superseded by FAS 89			
TB81-5	Offsetting Interest Cost to Be Capitalized with Interest Income	Superseded by FAS 62			
TB81-6	Applicability of Statement 15 to Debtors in Bankruptcy Situations	Complete	Adopt	36	470-60
TB82-1	Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases	Complete	Adopt	10, 10R, 101	Not Directly Included in Codification. Included within FAS 109, APB 22 and APB 30
TB82-2	Accounting for the Conversion of Stock Options into Incentive Stock Options as a Result of the Economic Recovery Tax Act of 1981	Superseded by FAS 123 and 123(R) Complete	N/A	App D - NA GAAP	
TB83-1	Accounting for the Reduction in the Tax Basis of an Asset Caused by the Investment Tax Credit	Superseded by FAS 96 & FAS 109			
TB84-1	Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within FAS 141R
TB84-2	Accounting for the Effects of the Tax Reform Act of 1984 on Deferred Income Taxes Relating to Domestic International Sales Corporations	Superseded by FAS 96 & FAS 109			
TB84-3	Accounting for the Effects of the Tax Reform Act of 1984 on Deferred Income Taxes of Stock Life Insurance Enterprises	Superseded by FAS 96 & FAS 109			
TB84-4	In-Substance Defeasance of Debt	Superseded by FAS 125 & FAS 140			
TB85-1	Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within APB 29

**PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB85-2	Accounting for Collateralized Mortgage Obligations (CMOs)	Superseded by FAS 125 & FAS 140			
TB85-3	Accounting for Operating Leases with Scheduled Rent Increases	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-20
TB85-4	Accounting for Purchases of Life Insurance	Complete	Adopt/M	21R	325-30
TB85-5	Issues Relating to Accounting for Business Combinations, Including Costs of Closing Duplicate Facilities of an Acquirer, Stock Transactions between Companies under Common Control, Downstream Mergers, Identical Common Shares for a Pooling of Interests, and Pooling of Interests by Mutual and Cooperative Enterprises	Superseded by FAS 141R Complete	Reject	68	
TB85-6	Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending Against a Takeover Attempt	Complete	Reject	72	225-20 505-30
TB86-1	Accounting for Certain Effects of the Tax Reform Act of 1986	Superseded by FAS 96 & FAS 109			
TB86-2	Accounting for an Interest in the Residual Value of a Leased Asset Acquired by a Third Party or Retained by a Lessor That Sells the Related Minimum Rental Payments	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	360-10 840-30
TB87-1	Accounting for a Change in Method of Accounting for Certain Postretirement Benefits	Superseded by FAS 106			
TB87-2	Computation of a Loss on an Abandonment	Complete	N/A	App D - NA GAAP	980-360 980-740
TB87-3	Accounting for Mortgage Servicing Fees and Rights	Complete	N/A	App D - NA GAAP	860-50

**PRE-CODIFICATION STANDARDS – CATEGORY B GAAP
FASB TECHNICAL BULLETINS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
TB88-1	Issues Relating to Accounting for Leases: Time Pattern of the Physical Use of the Property in an Operating Lease, Lease Incentives in an Operating Lease, Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor, Money-Over-Money Lease Transactions, and Wrap Lease Transactions	Superseded by ASU 2016-02 Complete	Adopt paragraphs 1—12 Reject all others N/A	22 22R	840-10 840-20 840-30 840-40
TB88-2	Definition of a Right of Setoff	Superseded by FIN 39			
TB90-1	Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts	Complete	N/A	App D - NA GAAP	460-10 605-20
TB94-1	Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring	Complete	Reject	36	320-10
TB97-1	Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option (Amended with FAS 123(R) - not superseded.)	Complete	Adopt/M	104R	718-50
TB01-1	Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets	Complete	Reject	91R, 103R	Glossary Terms

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 13-1	Accounting for Rental Costs Incurred during a Construction Period	Not Board Directed			840-20
FSP FAS 13-2	Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	Not Directly Included in Codification. Included within FAS 13
FSP FAS 19-1	Accounting for Suspended Well Costs	Complete	N/A	App D - NA GAAP	932-360
FSP FAS 97-1	FSP FAS 97-1—Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, Permit or Require Accrual of an Unearned Revenue Liability	Not Board Directed			944-605
FSP FAS 106-1	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003	Superseded by FSP FAS 106-2			
FSP FAS 106-2	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003	Complete	Adopt/M	INT 04-17	715-60 740-10
FSP FAS 107-1 and APB 28-1	Interim Disclosures about Fair Value of Financial Instruments	Complete	Adopt	100R	Not Explicitly Included in Codification.
FSP FAS 109-1	Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004	Complete	Adopt	101	740-10
FSP FAS 109-2	Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004	Complete	Reject	App D - NA GAAP	Not Explicitly Included in Codification. See FAS 109

² On December 5, 2009, the Statutory Accounting Principles (E) Working Group adopted revisions to the NAIC *Accounting Practices and Procedures Manual* to refer to the FASB Accounting Standards Codification as prescribed in *FAS 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168). With the issuance of FAS 168, and the establishment of the FASB Codification, the previous GAAP hierarchy established in *FAS 162, The Hierarchy of Generally Accepted Accounting Principles* (FAS 162) has been eliminated. As a result of FAS 168, the FASB Accounting Standards Codification is the source of authoritative accounting principles recognized by the FASB. (SEC guidance included within the codification is provided for convenience and relates only to SEC entities.) Pursuant to previous decisions by the Statutory Accounting Principles (E) Working Group, FASB Staff Positions (FSPs) issued after May 9, 2008, will be reviewed as part of the statutory accounting maintenance review process. FSPs issued prior to May 9, 2008, will be reviewed as part of the maintenance process if considered to be “Board-directed”. (Board-directed FSPs were issued to provide narrow and limited revisions to the FASB statements or FASB interpretations formerly provided in FASB Technical Bulletins.) FSPs that were not considered “Board-directed” were considered to provide application guidance similar to that found in FASB Staff Implementation Guides and Staff Announcements and were previously classified (pre-FAS 162) as NAIC Level 5 guidance. Due to this Level 5 classification, these FSPs were not reviewed as part of the statutory accounting maintenance review process.

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 115-1 and FAS 124-1	The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments	Complete	Adopt/M	26R, 32, 34 INT 06-07	320-10 325-20 958-325
FSP FAS 115-2 and 124-2	Recognition and Presentation of Other-Than-Temporary Impairments	Pending			320-10
FSP FAS 117-1	Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds	Complete	N/A	App D - NA GAAP	958-205
FSP FAS 123(R)-1	Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)	Complete	Adopt/M	104R	718-10
FSP FAS 123(R)-2	Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)	Not Board Directed Complete	Adopt/M	104R	718-10
FSP FAS 123(R)-3	Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards	Not Board Directed Complete	Rejected	104R	Not Explicitly Included in Codification. See FAS 123R
FSP FAS 123(R)-4	Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event	Complete	Adopt/M	104R	718-10
FSP FAS 123(R)-5	Amendment of FASB Staff Position FAS 123(R)-1	Complete	Adopt/M	104R	Not Directly Included in Codification. Included within FAS 123R-1
FSP FAS 123(R)-6	Technical Corrections of FASB Statement No. 123(R)	Complete	Adopt/M	104R	Not Directly Included in Codification. Included within FAS 123R
FSP FAS 126-1	Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within APB 28, FAS 69, FAS 109, FAS 126, FAS 131, FAS 132R and 141R

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 129-1	Disclosure Requirements under FASB Statement No. 129 Relating to Contingently Convertible Securities	Not Board Directed			470-10 505-10 815-10
FSP FAS 132(R)-1	Employers' Disclosures about Postretirement Benefit Plan Assets	Complete	Revisions to paragraph 5d of FAS 132 adopted. Reject all others.	92, 102	Not Explicitly Included in Codification.
FSP FAS 133-1 and FIN 45-4	Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161	Complete	Adopt	86, 5R	Not Explicitly Included in Codification.
FSP FAS 140-1	Accounting for Accrued Interest Receivable Related to Securitized and Sold Receivables under FASB Statement No. 140	Not Board Directed			860-20
FSP FAS 140-2	Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140	Not Board Directed			Not Explicitly Included in Codification.
FSP FAS 140-3	Accounting for Transfers of Financial Assets and Repurchase Financing Transactions	Complete	Adopt	91R, 103R	860-10
FSP FAS 140-4 and FIN 46(R)-8	Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities	Superseded by ASU 2009-17			810-10
FSP FAS 141-1 & 142-1	Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and EITF Issue No. 04-2, Whether Mineral Rights Are Tangible or Intangible Assets	Superseded by FAS 141R Complete	Reject	68	
FSP FAS 141R-1	Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies	Pending			805-10 805-20 805-30
FSP FAS 142-2	Application of FASB Statement No. 142 to Oil- and Gas-Producing Entities	Not Board Directed			932-350
FSP FAS 142-3	Determination of the Useful Life of Intangible Assets	Complete	Reject	68	275-10 350-30
FSP FAS 143-1	Accounting for Electronic Equipment Waste Obligations	Complete	N/A	App D - NA GAAP	410-20 720-40
FSP FAS 144-1	Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15 and the Measurement of Cumulative Losses Previously Recognized under Paragraph 37 of FASB Statement No. 144	Not Board Directed			310-40
FSP FAS 146-1	Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement	Not Board Directed			420-10 715-30

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FAS 150-1	Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150	Not Board Directed			480-10
FSP FAS 150-2	Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares under FASB Statement No. 150	Not Board Directed			480-10
FSP FAS 150-3	Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity	Complete	N/A	App D - NA GAAP	480-10
FSP FAS 150-4	Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150	Not Board Directed			480-10
FSP FAS 150-5	Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares that are Redeemable	Complete	N/A	App D - NA GAAP	480-10
FSP FAS 157-1	Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13	Complete	Adopt/M	100R	Not Directly Included in Codification. Included within FAS 157 and FAS 13
FSP FAS 157-2	Effective Date of FASB Statement No. 157	Complete	Reject	100R	Not Explicitly Included in Codification.
FSP FAS 157-3	Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active	Superseded by FSP FAS 157-4 Complete	 Reject	 100R	Not Explicitly Included in Codification.
FSP FAS 157-4	Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly	Complete	Adopt/M	100R	Not Explicitly Included in Codification.
FSP FAS 158-1	Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides	Not Board Directed Complete	 Adopt/M	 92, 102	Not Directly Included in Codification. Included within FAS 87, FAS 88 and FAS 106

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FIN 39-1	Amendment of FASB Interpretation No. 39	Complete	Reject	64, 86	Not Directly Included in Codification. Included within FIN 39
FSP FIN 45-1	Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45	Not Board Directed			460-10
FSP FIN 45-2	Whether FASB Interpretation No. 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value	Not Board Directed			460-10
FSP FIN 45-3	Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners	Complete	Adopt/M	5R	460-10 954-460
FSP FIN 46(R)-1	Reporting Variable Interests in Specified Assets of Variable Interest Entities as Separate Variable Interest Entities under Paragraph 13 of FASB Interpretation No. 46 (revised December 2003)	Not Board Directed			810-10
FSP FIN 46(R)-2	Calculation of Expected Losses under FASB Interpretation No. 46 (revised December 2003)	Not Board Directed			810-10
FSP FIN 46(R)-3	Evaluating Whether, as a Group, the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46 (revised December 2003)	Not Board Directed			810-10 952-810
FSP FIN 46(R)-4	Technical Correction of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities"	Pending			
FSP FIN 46(R)-5	Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003)	Pending			810-10
FSP FIN 46(R)-6	Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)	Not Board Directed			810-10
FSP FIN 46(R)-7	Application of FASB Interpretation No. 46(R) to Investment Companies	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within FIN 46R
FSP FIN 48-1	Definition of Settlement in FASB Interpretation No. 48	Pending			740-10

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP FIN 48-2	Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises	Complete	Reject	101	Not Explicitly Included in Codification. See FIN 48
FSP FIN 48-3	Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises	Complete	Reject	101	Not Explicitly Included in Codification.
FSP APB 14-1	Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)	Pending			470-20 815-15 825-10
FSP APB 18-1	Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence	Complete	Reject	88, 97	323-10 323-30
FSP FTB 85-4-1	Accounting for Life Settlement Contracts by Third-Party Investors	Pending			325-30
FSP EITF 85-24-1	Application of EITF Issue No. 85-24 When Cash for the Right to Future Distribution Fees for Shares Previously Sold is Received from Third Parties	Complete	N/A	App D - NA GAAP	946-605
FSP EITF 99-20-1	Amendments to the Impairment Guidance of EITF Issue No. 99-20	Complete	Adopt	43R	Not Explicitly Included in Codification.
FSP EITF 00-19-1	Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation	Superseded by FSP FAS 123(R)-1			
FSP EITF 00-19-2	Accounting for Registration Payment Arrangements	Complete	Adopt/M	5R	470-20 815-10 815-40 825-20
FSP EITF 03-1-1	Effective Date of Paragraphs 10–20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments	Superseded by FSP FAS 115-1/124-1 Complete	Reject	INT 06-07	
FSP EITF 03-6-1	Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities	Complete	Reject	104R	260-10
FSP AAG INV-1 and SOP 94-4-1	Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans	Complete	N/A	App D - NA GAAP	946-205 946-210
FSP AUG AIR-1	Accounting for Planned Major Maintenance Activities	Complete	N/A	App D - NA GAAP	340-10 360-10 908-360
FSP SOP 78-9-1	Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5	Complete	N/A	App D - NA GAAP	970-810

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
FASB STAFF POSITIONS²**

GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
FSP SOP 90-7-1	An Amendment of AICPA Statement of Position 90-7	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 90-1
FSP SOP 94-3-1 and AAG HCO-1	Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations	Complete	N/A	App D - NA GAAP	958-810
FSP SOP 94-6-1	Terms of Loan Products That May Give Rise to a Concentration of Credit Risk	Not Board Directed			310-10 825-10
FSP SOP 07-1-1	Effective Date of AICPA Statement of Position 07-1	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 07-1

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA INDUSTRY AUDIT & ACCOUNTING GUIDES**

GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
	Audits of Stock Life Insurance Companies	Complete	Reject	51R, 52	944 – Financial Services - Insurance
	Audits of Property and Liability Insurance Companies	Complete	Reject	65	944 – Financial Services - Insurance
	Audits of Health Care Organizations	Complete	Reject	73	954 – Health Care Entities

Not for Distribution

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
14,040	Confirmation of Insurance Policies in Force	Withdrawn Complete	N/A	App D - NA GAAP	
14,060	Auditing Property and Liability Reinsurance	Withdrawn Complete	N/A	App D - NA GAAP	
14,070	Auditing Life Reinsurance	Withdrawn Complete	N/A	App D - NA GAAP	
74-6	Withdrawn 1985				
74-8	Superseded 1996	Complete	N/A	App D - NA GAAP	
74-11	Superseded 1987				
74-12	Withdrawn 1985				
75-1	Withdrawn 1981				
75-2	Accounting Practices of Real Estate Investment Trusts	Complete	N/A	App D - NA GAAP	974-10 974-605 974-835
75-3	Superseded 1986				
75-4	Superseded 1986				
75-5	Withdrawn 1985				
75-6	Withdrawn 1985				
76-1	Withdrawn 1985				
76-2	Withdrawn 1985				
76-3	Accounting Practices for Certain Employee Stock Ownership Plans	Complete	N/A	App D - NA GAAP	Grandfathered 105-10-70-2c
77-1	Superseded 1987				
77-2	Superseded 1986				
78-1	Superseded 1990				
78-2	Superseded 1993				
78-3	Withdrawn 1985				
78-4	Withdrawn 1985				
78-5	Withdrawn 1985				
78-6	Withdrawn 1985				
78-7	Superseded 1986				
78-8	Withdrawn 1981				
78-9	Accounting for Investments in Real Estate Ventures	Complete	Reject	48	320-10 323-30 970-323 970-605 970-810 970-835

³ As of September 15, 2009, AICPA Statements of Position are no longer reviewed as part of the statutory maintenance process as they are no longer considered authoritative GAAP literature. If the AICPA were to address an issue that affects the FASB Codification, an accounting standard update (ASU) would be issued and reviewed for applicability to statutory accounting. Therefore, this table will no longer be updated after SOP 09-1.

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
78-10	Superseded 1996	Complete	N/A	App D - NA GAAP	
79-1	Superseded 1987				
79-2	Withdrawn 1985				
79-3	Withdrawn 1985				
79-4	Withdrawn 1985				
80-1	Withdrawn 1985				
80-2	Superseded 1986				
80-3	Withdrawn 1985				
81-1	Accounting for Performance of Construction-Type and Certain Production-Type Contracts	Complete	N/A	App D - NA GAAP	210-10 460-10 605-35 910-20 912-20
81-2	Superseded 1990				
82-1	Accounting and Financial Reporting for Personal Financial Statements	Complete	N/A	App D - NA GAAP	274-10
83-1	Reporting by Banks of Investment Securities Gains or Losses	Superseded Complete	N/A	App D - NA GAAP	
85-1	Superseded 1990				
85-2	Superseded 1991				
85-3	Accounting by Agricultural Producers and Agricultural Cooperatives	Complete	N/A	App D - NA GAAP	905-10 905-205 905-310 905-325 905-330 905-360 905-405 905-605
86-1	Superseded 1991				
87-1	Superseded 1990				
87-2	Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fund-Raising Appeal	Superseded Complete	N/A	App D - NA GAAP	
88-1	Accounting for Developmental and Preoperating Costs, Purchases and Exchanges of Take-off and Landing Slots, and Airframe Modifications	Complete	N/A	App D - NA GAAP	908-350 908-360 908-720 908-845
88-2	Superseded 1991				
89-1	Superseded 1997				
89-2	Reports on Audited Financial Statements of Investment Companies	Withdrawn Complete	N/A	App D - NA GAAP	

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
89-3	Questions Concerning Accountants' Services on Prospective Financial Statements	Withdrawn Complete	N/A	App D - NA GAAP	
89-4	Superseded 1997				
89-5	Superseded 1996				
89-6	Superseded 1992				
89-7	Report on the Internal Control Structure in Audits of Investment Companies	Withdrawn Complete	N/A	App D - NA GAAP	
90-1	Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations	Withdrawn Complete	N/A	App D - NA GAAP	
90-2	Report on Internal Control Structure in Audits of Futures Commission Merchants	Withdrawn Complete	N/A	App D - NA GAAP	
90-3	Definition of Term Substantially the Same for Holders of Debt Instruments, as Used in Certain Audit Guides and a Statement of Position	Complete	Adopt	18, 45, 91R, 103R	860-10
90-4	Superseded 1992				
90-5	Superseded 1996				
90-6	Superseded 1996				
90-7	Financial Reporting by Entities in Reorganization Under the Bankruptcy Code	Complete	N/A	App D - NA GAAP	210-10 852-10 852-20 852-740
90-8	Financial Accounting and Reporting by Continuing Care Retirement Communities	Superseded Complete	N/A	App D - NA GAAP	
90-9	Superseded 1992				
90-10	Superseded 1995				
90-11	Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets	Superseded Complete	Adopt	26R	
91-1	Software Revenue Recognition	Superseded Complete	N/A	App D - NA GAAP	
92-1	Accounting for Real Estate Syndication Income	Complete	Adopt	40R	970-605
92-2	Questions and Answers on the Term Reasonably Objective Basis and Other Issues Affecting Prospective Financial Statements	Withdrawn Complete	N/A	App D - NA GAAP	
92-3	Accounting for Foreclosed Assets	Superseded Complete	Adopt	40R	

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
92-4	Auditing Insurance Entities Loss Reserves	Withdrawn Complete	Reject	55	
92-5	Accounting for Foreign Property and Liability Reinsurance	Complete	Reject	62R	944-605
92-6	Accounting and Reporting by Health and Welfare Benefit Plans	Complete	N/A	App D - NA GAAP	962-325 965-10 965-20 965-30 965-40 965-205 965-310 965-320 965-325 965-360
92-7	Superseded 1994				
92-8	Auditing Property/Casualty Insurance Entities Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
92-9	Audits of Not-for-Profit Organizations Receiving Federal Awards	Superseded Complete	N/A	App D - NA GAAP	
93-1	Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies	Complete	N/A	App D - NA GAAP	450-20 946-320
93-2	Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies	Superseded Complete	N/A	App D - NA GAAP	
93-3	Rescission of Accounting Principles Board Statements	Complete	N/A	App D - NA GAAP	255-10
93-4	Foreign Currency Accounting and Financial Statement Presentation for Investment Companies	Complete	N/A	App D - NA GAAP	946-830
93-5	Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations	Withdrawn Complete	N/A	App D - NA GAAP	
93-6	Employers' Accounting for Employee Stock Ownership Plans	Complete	Adopt/M Reject paragraphs 28-34, 37, 44 & 53.b. Adopt/M paragraphs 13 & 25	12 15	460-10 718-40 718-740

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
93-7	Reporting on Advertising Costs	Complete	Reject	29	340-20 720-35 958-720
93-8	The Auditor's Consideration of Regulatory Risk-Based Capital for Life Insurance Enterprises	Withdrawn Complete	N/A	App D - NA GAAP	
94-1	Inquiries of State Insurance Regulators	Withdrawn Complete	N/A	App D - NA GAAP	
94-2	The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations	Superseded Complete	N/A	App D - NA GAAP	
94-3	Reporting of Related Entities by Not-for-Profit Organizations	Complete	N/A	App D - NA GAAP	954-810 958-810 958-840
94-4	Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans	Complete	N/A	App D - NA GAAP	962-10 962-205 962-325 965-325
94-5	Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises	Complete	Adopt	1	944-10 944-20 944-40 944-505
94-6	Disclosures of Certain Significant Risks and Uncertainties	Complete	Adopt	1	205-20 275-10 330-10 360-10 410-30 450-20 460-10 605-35 740-10 958-205 958-605 985-20
95-1	Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises	Complete	Reject	51R, 52	944-20 944-30 944-40 944-50 944-605
95-2	Financial Reporting by Nonpublic Investment Partnerships	Complete	N/A	App D - NA GAAP	946-20 946-210 946-225
95-3	Accounting for Certain Distribution Costs of Investment Companies	Complete	N/A	App D - NA GAAP	946-20

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
95-4	Letters for State Insurance Regulators to Comply with the NAIC Model Audit Rule	Withdrawn Complete	N/A	App D - NA GAAP	
95-5	Auditor's Reporting on Statutory Financial Statements of Insurance Enterprises	Withdrawn Complete	N/A	App D - NA GAAP	
96-1	Environmental Remediation Liabilities	Complete	Adopt	67	410-30 440-10 450-20
97-1	Accounting by Participating Mortgage Loan Borrowers	Complete	Adopt	40R	310-30 470-30 835-20
97-2	Software Revenue Recognition	Complete	Adopt/M paragraphs 6-91	16R 81	450-10 605-35 730-10 730-20 985-20 985-605
97-3	Accounting by Insurance and Other Enterprises for Insurance-Related Assessments	Complete	Reject Adopt/M	35 35R	310-10 405-30 450-20
98-1	Accounting for the Costs of Computer Software Developed or Obtained for Internal Use	Complete	Adopt/M Paragraphs 11-42 & 93	16R	350-10 350-40 350-50 730-10 985-20
98-2	Accounting for Costs of Activities of Not-for-Profit Organizations and State and Governmental Entities that Include Fund Raising	Complete	N/A	App D - NA GAAP	958-720
98-3	Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards	Superseded Complete	N/A	App D - NA GAAP	
98-4	Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition	Complete	Reject	16R	Not Directly Included in Codification. Included within SOP 97-2
98-5	Reporting on the Costs of Start-Up Activities	Complete	Adopt	76	720-15
98-6	Reporting on Management's Assessment Pursuant to the Life Insurance Ethical Market Conduct Program of the Insurance Marketplace Standards Association	Withdrawn Complete	N/A	App D - NA GAAP	

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
98-7	Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk	Complete	Adopt paragraphs 10-12 & 19b. Reject 13-17, 19a & 19c.	62R	340-30 450-10 835-10
98-8	Engagements to Perform Year 2000 Agreed-Upon Procedures Attestation Engagements Pursuant to Rule 17a-5 of the Securities Exchange Act of 1934, Rule 17Ad-18 of the Securities Exchange Act of 1934, and Advisories No. 17-98 and No. 42-98 of the Commodity Futures Trading Commission	Withdrawn Complete	N/A	App D - NA GAAP	
98-9	Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions	Complete	Adopt/M paragraphs 6-8	16R	Not Directly Included in Codification. Included within SOP 97-2
99-1	Guidance to Practitioners in Conducting and Reporting on an Agreed-Upon Procedures Engagement to Assist Management in Evaluating the Effectiveness of its Corporate Compliance Program	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
99-2	Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans	Complete	N/A	App D - NA GAAP	960-20 960-30 960-205 965-10 965-205
99-3	Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters	Complete	N/A	App D - NA GAAP	962-10 962-325 965-325
00-1	Auditing Health Care Third-Party Revenues and Related Receivables	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-2	Accounting by Producers or Distributors of Films	Complete	N/A	App D - NA GAAP	210-10 430-10 460-10 855-10 926-10 926-20 926-230 926-330 926-405 926-430 926-605 926-705 926-720 926-835 926-845 926-855
00-3	Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts	Pending			944-805
01-1	Amendment to Scope of Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships, to Include Commodity Pools	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 95-2
01-2	Accounting and Reporting by Health and Welfare Benefit Plans	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within EBP AAG and SOP 92-6
01-3	Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
01-4	Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards	Withdrawn Complete	N/A	App D - NA GAAP	
01-5	Amendments to Specific AICPA Pronouncements for Changes Related to the NAIC Codification	Complete	Adopt	1	Not Directly Included in Codification. Included within SOP 94-5

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
01-6	Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others	Complete	N/A Adopt/M guidance on short sales	App D - NA GAAP 103R	310-10 310-20 460-10 605-20 825-10 835-30 860-20 860-50 942-10 942-210 942-305 942-310 942-320 942-325 942-360 942-405 942-470 942-505 942-825 944-320 948-10
02-1	Performing Agreed-Upon Procedures Engagements That Address Annual Claims Payment Reports as Required by the New Jersey Administrative Code	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
02-2	Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator	Complete	N/A	App D - NA GAAP	954-815
03-1	Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts	Complete	Rejected	56	944-20 944-30 944-40 944-80 944-320 944-605
03-2	Attest Engagements on Greenhouse Gas Emissions Information	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
03-3	Accounting for Certain Loans or Debt Securities Acquired in a Transfer	Considered for 43R only Pending	Paragraphs 5, 7 and 9 adopted for 43R only.	43R	310-10 310-30 835-10
03-4	Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within SOP 95-2

**PRE-CODIFICATION STANDARDS - CATEGORY B GAAP
AICPA STATEMENTS OF POSITION³**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
03-5	Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide Audits of Investment Companies	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within INV AAG
04-1	Auditing the Statement of Social Insurance	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
04-2	Accounting for Real Estate Time-Sharing Transactions	Complete	N/A	App D - NA GAAP	978-10 978-230 978-250 978-310 978-330 978-340 978-605 978-720 978-810 978-840
05-1	Statement of Position 05-1 Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts	Complete	Rejected	71	944-30
06-1	Statement of Position 06-1 Reporting Pursuant to the Global Investment Performance Standards	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
07-1	Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies	Complete	N/A	App D - NA GAAP	946-10 946-323 946-810
07-2	Attestation Engagements That Address Specified Compliance of Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers	Complete	N/A	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP
09-1	Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data	Complete	Reject	App D - NA GAAP	Not Included in Codification. Auditing and Attestation SOP

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-1	1984 Tax Reform Act: Deferred Income Taxes of Stock Life Insurance Companies	Resolved by FAS 109			
84-2	Tax Reform Act of 1984: Deferred Income Taxes Relating to Domestic International Sales Corporations	Resolved by FAS 109			
84-3	Convertible Debt "Sweeteners"	Nullified by FAS 84			
84-4	Acquisition, Development and Construction Loans	Resolved by PB 1			810-10 815-15
84-5	Sale of Marketable Securities with a Put Option	Complete	Reject	18, 91R, 103R	460-10 860-20
84-6	Termination of Defined Benefit Pension Plans	Nullified by FAS 88			
84-7	Termination of Interest Rate Swaps	Partially nullified and Partially resolved by FAS 133 Complete	Adopt	31	
84-8	Variable Stock Purchase Warrants Given by Suppliers to Customers	Resolved by FAS 123(R) Complete	N/A	104R	
84-9	Deposit Float of Banks	Superseded by PB 1 and AAG BSI Complete	N/A	App D - NA GAAP	
84-10	LIFO Conformity of Companies Relying on Insilco Tax Court Decision	No EITF Consensus			
84-11	Offsetting Installment Note Receivables and Bank Debt ("Note Monetization")	Resolved by FIN 39			
84-12	Operating Leases with Scheduled Rent Increases	Nullified by FTB 85-3			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-13	Purchase of Stock Options and Stock Appreciation Rights in a Leveraged Buyout	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
84-14	Deferred Interest Rate Setting	Nullified by FAS 133 Complete	Reject	31	
84-15	Grantor Trusts Consolidation	No EITF Consensus			
84-16	Earnings-per-Share Cash-Yield Test for Zero Coupon Bonds	Resolved by FAS 85			
84-17	Profit Recognition on Sales of Real Estate with Graduated Payment Mortgages or Insured Mortgages	Complete	Adopt	40R	360-20
84-18	Stock Option Pyramiding	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
84-19	Mortgage Loan Payment Modifications	Complete	Adopt	37	310-20
84-20	GNMA Dollar Rolls	Complete	Adopt	45	815-10 860-10
84-21	Sale of a Loan with a Partial Participation Retained	Resolved by FAS 125 & FAS 140			
84-22	Prior Years' Earnings per Share following a Savings and Loan Association Conversion and Pooling	Resolved by FAS 141			
84-23	Leveraged Buyout Holding Company Debt	No EITF Consensus			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-24	LIFO Accounting Issues	No EITF Consensus			
84-25	Offsetting Nonrecourse Debt with Sales-Type of Direct Financing Lease Receivables	Resolved by FTB 86-2			
84-26	Defeasance of Special-Purpose Borrowings	Resolved by FAS 125 & FAS 140			
84-27	Deferred Taxes on Subsidiary Stock Sales	Resolved by FAS 109			
84-28	Impairment of Long-Lived Assets	Resolved by FAS 121 and FAS 144			
84-29	Gain and Loss Recognition on Exchanges of Productive Assets and the Effect of Boot	Resolved by EITF 86-29			
84-30	Sales of Loans to Special-Purpose Entities	Resolved by FIN 46 & FIN 46 (R)			
84-31	Equity Certificates of Deposit	Resolved by FAS 133			
84-32	(Not Used)				
84-33	Acquisition of a Tax Loss Carryforward—Temporary Parent-Subsidiary Relationship	Resolved by FAS 144			
84-34	Permanent Discount Restricted Stock Purchase Plans	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	104R	
84-35	Business Combinations: Sale of Duplicate Facilities and Accrual of Liabilities	No EITF Consensus			
84-36	Interest Rate Swap Transactions	Nullified by FAS 133 Complete	Adopt	31	
84-37	Sale-Leaseback Transaction with Repurchase Option	No EITF Consensus			840-40

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
84-38	Identical Common Shares for a Pooling of Interests	Nullified by FTB 85-5			
84-39	Transfers of Monetary and Nonmonetary Assets among Individuals and Entities under Common Control	No longer technically helpful			
84-40	Long-Term Debt Repayable by a Capital Stock Transaction	Nullified by FIN 46, FIN 46 (R) & FAS 150 Complete	Reject	15	
84-41	Consolidation of Subsidiary after Instantaneous In-Substance Defeasance	Resolved by FAS 94			
84-42	Push-Down of Parent Company Debt to a Subsidiary	No EITF Consensus			
84-43	Income Taxes Effects of Asset Revaluations in Certain Foreign Countries	Nullified by FAS 109			
84-44	Partial Termination of a Defined Benefit Pension Plan	Resolved by FAS 88			
85-1	Classifying Notes Received for Capital Stock	Complete	Reject	72	310-10 505-10 850-10
85-2	Classification of Costs Incurred in a Takeover Defense	Nullified by TB 85-6 Complete	Reject	72	
85-3	Tax Benefits Relating to Asset Dispositions Following an Acquisition of a Financial Institution	Nullified by FAS 109			
85-4	Downstream Mergers and Other Stock Transactions between Companies under Common Control	Resolved by FTB 85-5			
85-5	Restoration of Deferred Taxes Previously Eliminated by Net Operating Loss Recognition	Resolved by FAS 109			
85-6	Futures Implementation Questions	Resolved by Q&A 80			
85-7	Federal Home Loan Mortgage Corporation Stock	Resolved by FTB 85-1			
85-8	Amortization of Thrift Intangibles	Nullified by FAS 141(R) Complete	N/A	App D - NA GAAP	
85-9	Revenue Recognition on Options to Purchase Stock of Another Entity	Complete	Adopt	15	470-20

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-10	Employee Stock Ownership Plan Contribution Funded by a Pension Plan Termination	Nullified by FAS 88			
85-11	Use of an Employee Stock Ownership Plan in a Leveraged Buyout	No longer technically helpful			
85-12	Retention of Specialized Accounting for Investments in Consolidation	Complete	N/A	App D - NA GAAP	810-10
85-13	Sale of Mortgage Service Rights on Mortgages Owned by Others	Complete	N/A	App D - NA GAAP	860-50
85-14	Securities That Can Be Acquired for Cash in a Pooling of Interests	Nullified by FAS 141 Complete	Reject	68	
85-15	Recognizing Benefits of Purchased Net Operating Loss Carryforwards	Nullified by FAS 109			
85-16	Leveraged Leases - Real Estate Leases and Sale-Leaseback Transactions - Delayed Equity Contributions by Lessors	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-30
85-17	Accrued Interest upon Conversion of Convertible Debt	Complete	Adopt	15	470-20 835-10
85-18	Earnings-per-Share Effect of Equity Commitment Notes	Partially Nullified by FAS 128 Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included within FAS 128
85-19	(Not Used)				
85-20	Recognition of Fees for Guaranteeing a Loan	Complete Partially nullified by FAS 163	Adopt	27	310-10 460-10 605-20
85-21	Changes of Ownership Resulting in a New Basis of Accounting	No EITF Consensus			805-50
85-22	Retroactive Application of FASB Technical Bulletins	No longer technically helpful			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-23	Effect of a Redemption Agreement on Carrying Value of a Security	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 133
85-24	Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge	Complete	N/A	App D - NA GAAP	946-605 946-720
85-25	Sale of Preferred Stocks with a Put Option	Nullified by FAS 125, 133 & 140			860-20
85-26	Measurement of Servicing Fee Under FASB Statement No. 65 When a Loan is Sold with Servicing Retained	Resolved by FTB 87-3 & FAS 125 & FAS 140			
85-27	Recognition of Receipts from Made-Up Rental Shortfalls	Complete	N/A	App D - NA GAAP	970-360
85-28	Consolidation Issues Relating to Collateralized Mortgage Obligations	Resolved by FAS 94			
85-29	Convertible Bonds with a "Premium Put"	Complete Partially Nullified by FAS 133	Adopt	15	Not Directly Included in Codification. Issue Subject to FAS 133, FAS 155 and FIN 45
85-30	Sale of Marketable Securities at a Gain with a Put Option	Resolved by FAS 125 & FAS 140			
85-31	Comptroller of the Currency's Rule on Deferred Tax Debits	Complete	N/A	App D - NA GAAP	942-740
85-32	Purchased Lease Residuals	Nullified by FTB 86-2			
85-33	Disallowance of Income Tax Deduction for Core Deposit Intangibles	Nullified by FAS 109			
85-34	Banker's Acceptances and Risk Participations	Resolved by FAS 125 and FAS 140			
85-35	Transition and Implementation Issues for FASB Statement No. 86	No longer technically helpful			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-36	Discontinued Operations with Expected Gain and Interim Operating Losses	Nullified by FAS 144 Complete	Reject	24	
85-37	Recognition of Note Received for Real Estate Syndication Activities	Resolved by SOP 92-1			
85-38	Negative Amortizing Loans	No longer technically helpful			
85-39	Implications of SEC Staff Accounting Bulletin No. 59 on Noncurrent Marketable Equity Securities	No EITF Consensus			
85-40	Comprehensive Review of Sales of Marketable Securities with Put Arrangements	Nullified by FAS 125 and partially nullified by FAS 140			
85-41	Accounting for Savings and Loan Associations under FSLIC Management Consignment Program	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 109, FAS 142 and FAS 141R
85-42	Amortization of Goodwill Resulting from Recording Time Savings Deposits at Fair Values	Nullified by FAS 141(R) Complete	N/A	App D - NA GAAP	
85-43	Sale of Subsidiary for Equity Interest in Buyer	Resolved by EITF 86-29			
85-44	Differences between Loan Loss Allowances for GAAP and RAP	Complete	N/A	App D - NA GAAP	Not Included in Codification As No Longer Applicable Or Relevant

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
85-45	Business Combinations: Settlement of Stock Options and Awards	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
85-46	Partnership's Purchase of Withdrawing Partner's Equity	No EITF Consensus			
86-1	Recognizing Net Operating Loss Carryforwards	Nullified by FAS 109			
86-2	Retroactive Wage Adjustments Affecting Medicare Payments	No longer technically helpful Complete	N/A	App D - NA GAAP	
86-3	Retroactive Regulations regarding IRC Section 338 Purchase Price Allocations	No longer technically helpful Complete	N/A	App D - NA GAAP	
86-4	Income Statement Treatment of Income Tax Benefit for Employee Stock Ownership Plan Dividends	Nullified by FAS 109			
86-5	Classifying Demand Notes with Repayment Terms	Complete	N/A	App D - NA GAAP	470-10
86-6	Antispeculation Clauses in Real Estate Sales Contracts	Complete	Adopt	40R	360-20
86-7	Recognition by Homebuilders of Profit from Sales of Land and Related Construction Contracts	Complete	N/A	App D - NA GAAP	970-360
86-8	Sale of Bad-Debt Recovery Rights	Complete	Adopt	15	860-10
86-9	IRC Section 338 and Push-Down Accounting	Complete	Reject	68	805-50 805-740
86-10	Pooling with 10 Percent Cash Payout Determined by Lottery	Nullified by FAS 141 Complete	 Reject	 68	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-11	Recognition of Possible 1986 Tax Law Changes	Resolved by FAS 109			
86-12	Accounting by Insureds for Claims-Made Insurance Policies	Codified in Issue 03-8 Complete	N/A	App D - NA GAAP	
86-13	Recognition of Inventory Market Declines at Interim Reporting Dates	Complete	N/A	App D - NA GAAP	330-10
86-14	Purchased Research and Development Projects in a Business Combination	No EITF Consensus			
86-15	Increasing-Rate Debt	Complete	Adopt	15	470-10 835-10
86-16	Carryover of Predecessor Cost in Leveraged Buyout Transactions	Superseded by EITF 88-16			
86-17	Deferred Profit on Sale-Leaseback Transaction with Lessee Guarantee of Residual Value	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	460-10 840-40
86-18	Debtor's Accounting for a Modification of Debt Terms	Resolved by FIN 39 and Superseded by Issue 96-19 Complete	Adopt	15	
86-19	Change in Accounting for Other Postemployment Benefits	Resolved by FAS 106			
86-20	Accounting for Other Postemployment Benefits of an Acquired Company	Nullified by FAS 106			
86-21	Application of the AICPA Notice to Practitioners regarding Acquisition, Development, and Construction Arrangements to Acquisition of an Operating Property	Complete	Adopt	38	310-10 815-15
86-22	Display of Business Restructuring Provisions in the Income Statement	No EITF Consensus			
86-23	(Not Used)				

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-24	Third-Party Establishment of Collateralized Mortgage Obligations	Nullified by FAS 125 and FAS 140 Complete	N/A	App D - NA GAAP 64	
86-25	Offsetting Foreign Currency Swaps	Complete	Adopt		815-10
86-26	Using Forward Commitments as a Surrogate for Deferred Rate Setting	Resolved by FAS 133			
86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan	Complete	N/A	App D - NA GAAP	715-70
86-28	Accounting Implications of Indexed Debt Instruments	Nullified by FAS 133 Complete	Adopt	15	470-10
86-29	Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value	Codified in EITF 01-2 Complete	Adopt	28, 95	
86-30	Classification of Obligations When a Violation is Waived by the Creditor	Complete	N/A	App D - NA GAAP	470-10
86-31	Reporting the Tax Implications of a Pooling of a Bank and a Savings and Loan Association	Nullified by FAS 141 Complete	N/A	App D - NA GAAP	
86-32	Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock	Complete	Reject	32	505-10 810-10
86-33	Tax Indemnifications in Lease Agreements	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	460-10 840-10
86-34	Futures Contracts Used as Hedges of Anticipated Reverse Repurchase Transactions	Nullified by FAS 133 Complete	Reject	31	
86-35	Debentures with Detachable Stock Purchase Warrants	Superseded by EITF No. 96-13			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-36	Invasion of a Defeasance Trust	Complete	Adopt	15	Not Included in Codification As No Longer Applicable Or Relevant
86-37	Recognition of Tax Benefit of Discounting Loss Reserves of Insurance Companies	Nullified by FAS 109			
86-38	Implications of Mortgage Prepayments on Amortization of Servicing Rights	Section A - Nullified by FAS 122 & FAS 125 Section B – Nullified by FAS 125 Section C – Superseded by EITF No. 89-4			
86-39	Gains from the Sale of Mortgage Loans with Servicing Rights Retained	Nullified by FAS 122, FAS 125 & FAS 140			
86-40	Investments in Open-End Mutual Funds That Invest in U.S. Government Securities	Complete	N/A	App D - NA GAAP	320-10
86-41	Carryforward of the Corporate Alternative Minimum Tax Credit	Nullified by FAS 109			
86-42	Effect of a Change in Tax Rates on Assets and Liabilities Recorded Net-of-Tax in a Purchase Business Combination	Nullified by FAS 109			
86-43	Effect of a Change in Tax Law or Rates on Leveraged Leases	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-30
86-44	Effect of a Change in Tax Law on Investments in Safe Harbor Leases	Complete	N/A	App D - NA GAAP	Not Included in Codification As No Longer Applicable Or Relevant
86-45	Imputation of Dividends on Preferred Stock Redeemable at the Issuer's Option with Initial Below-Market Dividend Rate	No EITF Consensus			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
86-46	Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986	Complete	N/A	App D - NA GAAP	330-10
87-1	Deferral Accounting for Cash Securities That Are Used to Hedge Rate or Price Risk	Resolved by FAS 133			
87-2	Net Present Value Method of Valuing Speculative Foreign Exchange Contracts	Nullified by FAS 133			
		Complete	Reject	31	
87-3	(Not Used)				
87-4	Restructuring of Operations: Implications of SEC Staff Accounting Bulletin No. 67	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 144 and EITF 94-3
87-5	Troubled Debt Restructurings: Interrelationship between FASB Statement No. 15 and the AICPA Savings and Loan Guide	Nullified by FAS 114			
87-6	Adjustments Relating to Stock Compensation Plans	Nullified by FIN 44			
		Complete	Adopt	13	
			Nullified	104R	
87-7	Sale of an Asset Subject to a Lease and Nonrecourse Financing: "Wrap-Lease Transactions"	Superseded by ASU 2016-02			Not Directly included in Codification Issue Subject to EITF 88-1 and FAS 13
		Complete	Reject	22	
			N/A	22R	
87-8	Tax Reform Act of 1986: Issues Related to the Alternative Minimum Tax	Superseded by ASU 2016-02			740-10 840-30
		Issues 1 – 9 and 11 nullified by FAS 96 & 109			
		Issue 10	Adopt	22	
			N/A	22R	
87-9	Profit Recognition on Sales of Real Estate with Insured Mortgages or Surety Bonds	Complete	Adopt	40R	360-20

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
87-10	Revenue Recognition by Television (Barter) Syndicators	Guidance revised by FAS 139 Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to SOP 00-2
87-11	Allocation of Purchase Price to Assets to Be Sold	Nullified by FAS 144 Complete	Reject	68	
87-12	Foreign Debt-for-Equity Swaps	Complete	Reject	23	830-20
87-13	Amortization of Prior Service Cost for a Defined Benefit Plan When There Is a History of Plan Amendments	Resolved by Q&A 87, Question 20			
87-14	(Not Used)				
87-15	Effect of a Standstill Agreement on Pooling-of-Interests Accounting	Nullified by FAS 141 Complete	Reject	68	
87-16	Whether the 90 Percent Test for a Pooling of Interests is Applied Separately to Each Company or on a Combined Basis	Nullified by FAS 141 Complete	Reject	68	
87-17	Spinoffs or Other Distributions of Loans Receivable to Shareholders	Codified in EITF 01-2			
87-18	Use of Zero Coupon Bonds in a Troubled Debt Restructuring	Complete Partially resolved by FAS 125 & FAS 140	Adopt/M	36	310-40
87-19	Substituted Debtors in a Troubled Debt Restructuring	Complete	Adopt/M	36	310-40
87-20	Offsetting Certificates of Deposit against High-Coupon Debt	Partially resolved by FAS 125 and Superseded by EITF 96-19 Complete	N/A	App D - NA GAAP	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
87-21	Change of Accounting Basis in Master Limited Partnership Transactions	Complete	Reject	46, 88, 97	805-50
87-22	Prepayments to the Secondary Reserve of the FSLIC	Issue Addressed in PB 3 and PB 3 was Withdrawn Complete	N/A	App D - NA GAAP	
87-23	Book Value Stock Purchase Plans	Issues 1 and 2 nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) and Issue 3 nullified by SOP 93-6 Complete	Adopt Nullified	13 104R	
87-24	Allocation of Interest to Discontinued Operations	Complete	N/A	App D - NA GAAP	205-20
87-25	Sale of Convertible, Adjustable-Rate Mortgages with Contingent Repayment Agreement	Resolved by FAS 125 & FAS 140			
87-26	Hedging of Foreign Currency Exposure with a Tandem Currency	Nullified by FAS 133 Complete	Reject	23	
87-27	Poolings of Companies That Do Not Have a Controlling Class of Common Stock	Nullified by FAS 141 Complete	Reject	68	
87-28	Provision for Deferred Taxes on Increases in Cash Surrender Value of Key-Person Life Insurance	Resolved by FAS 109			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
87-29	Exchange of Real Estate Involving Boot	Codified in EITF 01-2 Complete	Adopt	40R	
87-30	Sale of a Short-Term Loan Made under a Long-Term Credit Commitment	Complete	N/A	App D - NA GAAP	860-10
87-31	Sale of Put Options on Issuer's Stock	Codified in EITF No. 96-13			
87-32	(Not Used)				
87-33	Stock Compensation Issues Related to Market Decline	Nullified by FIN 44 Complete	Adopt Nullified	13 104R	
87-34	Sale of Mortgage Servicing Rights with a Subservicing Agreement	Complete	Adopt	18, 91R, 103R	860-50
88-1	Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan	Complete	Adopt	8, 89, 92, 102	715-20 715-30
88-2	(Not Used)				
88-3	Rental Concessions Provided by Landlord	Resolved by FTB 88-1 and EITF 88-10 and 94-3			
88-4	Classification of Payment Made to IRS to Retain Fiscal Year	Complete	N/A	App D - NA GAAP	740-10
88-5	Recognition of Insurance Death Benefits	Complete	Adopt	21	325-30
88-6	Book Value Stock Plans in an Initial Public Offering	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
88-7	(Not Used)				

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
88-8	Mortgage Swaps	Partially nullified and partially resolved by FAS 133 Complete	Reject	31	
88-9	Put Warrants	Nullified by FAS 128, 133, and 150 or superseded by Issue No. 96-13 Complete	Adopt/M	72	
88-10	Costs Associated with Lease Modification or Termination	Superseded by ASU 2016-02 Nullified and resolved by FAS 146 Complete	Adopt (See FAS 146)	22 22R	
88-11	Allocation of Recorded Investment When a Loan or Part of a Loan Is Sold	Nullified by Statement 125 and Statement 140, as amended by Statement 156 Complete	Adopt	18, 91R, 103R	
88-12	Transfer of Ownership Interest as Part of Down Payment under FASB Statement No. 66	Complete	Adopt	40R	360-20
88-13	(Not Used)				
88-14	Settlement of Fees with Extra Units to a General Partner in a Master Limited Partnership	No EITF Consensus			810-10
88-15	Classification of Subsidiary's Loan Payable in Consolidated Balance Sheet When Subsidiary's and Parent's Fiscal Years Differ	No EITF Consensus			470-10 810-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
88-16	Basis in Leveraged Buyout Transactions	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
88-17	Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations	Partially nullified by FAS 125 & superseded by EITF 97-3 Complete	Reject Adopt	37	
88-18	Sales of Future Revenues	Complete	Adopt	18, 91R, 103R	470-10
88-19	FSLIC-Assisted Acquisitions of Thrifts	Complete	N/A	App D - NA GAAP	942-10
88-20	Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio	Complete	N/A	App D - NA GAAP	310-10
88-21	Accounting for the Sale of Property Subject to the Seller's Preexisting Lease	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	840-40
88-22	Securitization of Credit Card and Other Receivable Portfolios	Complete	Adopt	18, 91R, 103R	860-10 860-20
88-23	Lump-Sum Payments under Union Contracts	Complete	Reject	29	710-10
88-24	Effect of Various Forms of Financing under FASB Statement No. 66	Complete	Adopt	40R	360-20
88-25	Ongoing Accounting and Reporting for a Newly Created Liquidating Bank	Complete	N/A	App D - NA GAAP	852-10 942-810
88-26	Controlling Preferred Stock in a Pooling of Interests	Nullified by FAS 141 Complete	Reject	68	
88-27	Effect of Unallocated Shares in an Employee Stock Ownership Plan on Accounting for Business Combinations	Nullified by FAS 141 Complete	Reject	68	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
89-1	Accounting by a Pension Plan for Bank Investment Contracts and Guaranteed Investment Contracts	Resolved by FAS 110 and SOP 94-4			
89-2	Maximum Maturity Guarantees on Transfers of Receivables with Recourse	Nullified by FAS 125 & partially nullified by FAS 140			
89-3	Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions	Complete	N/A	App D - NA GAAP	942-405
89-4	Accounting for a Purchased Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate	Superseded by EITF 99-20 Complete	Reject	43R	
89-5	Sale of Mortgage Loan Servicing Rights	Superseded by EITF 95-5			
89-6	(Not Used)				
89-7	Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity	Codified in EITF 01-2 Complete	Reject	68	
89-8	Expense Recognition for Employee Stock Ownership Plans	Nullified by SOP 93-6			
89-9	Accounting for In-Substance Foreclosures	Nullified by FAS 114			
89-10	Sponsor's Recognition of Employee Stock Ownership Plan Debt	Superseded by SOP 93-6			
89-11	Sponsor's Balance Sheet Classification of Capital Stock with a Put Option Held by an Employee Stock Ownership Plan	Complete	Reject	12	480-10
89-12	Earnings-per-Share Issues Related to Convertible Preferred Stock Held by an Employee Stock Ownership Plan	Superseded by SOP 93-6			
89-13	Accounting for the Cost of Asbestos Removal	Complete	Adopt	40R	410-20 410-30
89-14	Valuation of Repossessed Real Estate	Complete	Adopt	40R	310-40
89-15	Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties	Superseded by EITF 02-4 Complete	Adopt/M	36	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
89-16	Consideration of Executory Costs in Sale-Leaseback Transactions	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-40
89-17	Accounting for the Retail Sale of an Extended Warranty Contract in Connection with the Sale of a Product	Nullified by FTB 90-1			
89-18	Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA	Nullified by FAS 115 Complete	Reject	26R	
89-19	Accounting for a Change in Goodwill Amortization for Business Combinations Initiated Prior to the Effective Date of FASB Statement No. 72	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
89-20	Accounting for Cross Border Tax Benefit Leases	Complete	N/A	App D - NA GAAP	840-40
90-1	(Not Used)				
90-2	Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security	Nullified by FAS 125 and FAS 140 Complete	Reject	43R	
90-3	Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan	Complete	Adopt	8, 89, 92, 102	715-80
90-4	Earnings-per-Share Treatment of Tax Benefits for Dividends on Stock Held by an Employee Stock Ownership Plan	Complete	N/A	App D - NA GAAP	718-40
90-5	Exchanges of Ownership Interests between Entities under Common Control	Nullified by FAS 141R and FAS 160 Complete	Reject	68	
90-6	Accounting for Certain Events Not Addressed in Issue No. 87-11 Relating to an Acquired Operating Unit to Be Sold	Nullified by FAS 144 Complete	Reject	68	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
90-7	Accounting for a Reload Stock Option	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
90-8	Capitalization of Costs to Treat Environmental Contamination	Complete	Adopt	40R	410-20 410-30
90-9	Changes to Fixed Employee Stock Option Plans as a Result of Equity Restructuring	Nullified by FIN 44 Complete	Adopt Nullified	13 104R	
90-10	Accounting for a Business Combination Involving a Majority-Owned Investee of a Venture Capital Company	Resolved by FAS 141			
90-11	Accounting for Exit and Entrance Fees Incurred in a Conversion from the Savings Association Insurance Fund to the Bank Insurance Fund	No longer technically helpful			
90-12	Allocating Basis to Individual Assets and Liabilities for Transactions within the Scope of Issue No. 88-16	Nullified by FAS 141R Complete	Reject	68	
90-13	Accounting for Simultaneous Common Control Mergers	Nullified by FAS 141R and FAS 160 Complete	Reject	68	
90-14	Unsecured Guarantee by Parent of Subsidiary's Lease Payments in a Sale-Leaseback Transaction	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	460-10 840-40

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
90-15	Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions	Superseded by ASU 2016-02 Nullified by FIN 46 & FIN 46 (R) Complete	Reject N/A	22 22R	958-810 958-840
90-16	Accounting for Discontinued Operations Subsequently Retained	Nullified by FAS 144 Complete	N/A	App D - NA GAAP	
90-17	Hedging Foreign Currency Risks with Purchased Options	Affirmed by FAS 133; therefore no longer necessary Complete	Reject	31	
90-18	Effect of a "Removal of Accounts" Provision on the Accounting for a Credit Card Securitization	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 140 and FAS 156
90-19	Convertible Bonds with Issuer Option to Settle for Cash upon Conversion	Nullified by FSP APB 14-1 Complete	Adopt/M	15	Not Explicitly Included in Codification.
90-20	Impact of an Uncollateralized Irrevocable Letter of Credit on a Real Estate Sale-Leaseback Transaction	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	460-10 840-40
90-21	Balance Sheet Treatment of a Sale of Mortgage Servicing Rights with a Subservicing Agreement	Complete	Adopt	18, 91R, 103R	460-10 860-10 860-50
90-22	Accounting for Gas-Balancing Arrangements	No EITF Consensus			932-10 932-815

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
91-1	Hedging Intercompany Foreign Currency Risks	Nullified by FAS 133 Complete	Reject	31	
91-2	Debtor's Accounting for Forfeiture of Real Estate Subject to a Nonrecourse Mortgage	No EITF Consensus			
91-3	Accounting for Income Tax Benefits from Bad Debts of a Savings and Loan Association	Resolved by FAS 109			
91-4	Hedging Foreign Currency Risks with Complex Options and Similar Transactions	Resolved by FAS 133 Complete	Reject	31	
91-5	Nonmonetary Exchange of Cost-Method Investments	Complete	Reject	68	325-20
91-6	Revenue Recognition of Long-Term Power Sales Contracts	Complete	N/A	App D - NA GAAP	440-10 980-605
91-7	Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits	Complete	Adopt	8, 89	715-30
91-8	Application of FASB Statement No. 96 to a State Tax Based on the Greater of a Franchise Tax or an Income Tax	Complete	Reject	10, 10R, 101	740-10
91-9	Revenue and Expense Recognition for Freight Services in Process	Complete	N/A	App D - NA GAAP	605-20
91-10	Accounting for Special Assessments and Tax Increment Financing Entities (TIFEs)	Complete	N/A	App D - NA GAAP	460-10 970-470
92-1	Allocation of Residual Value or First-Loss Guarantee to Minimum Lease Payments in Leases Involving Land and Building(s)	Superseded by ASU 2016-02 Complete	Reject N/A	22 22R	460-10 840-10
92-2	Measuring Loss Accruals by Transferors for Transfers of Receivables with Recourse	Complete	Reject	18, 91R, 103R	Not Directly Included in Codification. Issue Subject to FAS 133, FAS 140, FAS 156 and FIN 45.

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
92-3	Earnings-per-Share Treatment of Tax Benefits for Dividends on Unallocated Stock Held by an Employee Stock Ownership Plan (Consideration of the Implications of FASB Statement No. 109 on Issue 2 of EITF Issue No. 90-4)	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to SOP 93-6
92-4	Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary	Complete	Reject	23	830-10
92-5	Amortization Period for Net Deferred Credit Card Origination Costs	Complete	N/A	App D - NA GAAP	310-20
92-6	(Not Used)				
92-7	Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs	Complete	N/A	App D - NA GAAP	980-605
92-8	Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary	Complete	Adopt	10, 10R, 101	830-740
92-9	Accounting for the Present Value of Future Profits Resulting from the Acquisition of a Life Insurance Company	Complete	Reject	68	944-20
92-10	Loan Acquisitions Involving Table Funding Arrangements	Nullified by FAS 125			
92-11	(Not Used)				
92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises	Complete	N/A	App D - NA GAAP	715-60 980-715
92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992	Complete	N/A	App D - NA GAAP	450-20 715-60 930-715
93-1	Accounting for Individual Credit Card Acquisitions	Complete	N/A	App D - NA GAAP	310-20
93-2	Effect of Acquisition of Employer Shares for/by an Employee Benefit Trust on Accounting for Business Combinations	Resolved by FAS 141			
93-3	Plan Assets under FASB Statement No. 106	Complete	Adopt	14	710-10 715-60
93-4	Accounting for Regulatory Assets	Nullified by FAS 121 & FAS 144			980-340 980-715
93-5	Accounting for Environmental Liabilities	Nullified by SOP 96-1			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
93-6	Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises	Complete	Adopt/M	12 15 62R	944-20
	D-035: FASB Staff Views on Issue No. 93-6, "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises"	Complete	Adopt/M	62R	944-20
93-7	Uncertainties Related to Income Taxes in a Purchase Business Combination	Nullified by FAS 141R			
		Complete	Reject	68	
93-8	Accounting for the Sale and Leaseback of an Asset That is Leased to Another Party	Superseded by ASU 2016-02			840-40
		Complete	Adopt	22	
			N/A	22R	
93-9	Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes	Complete	N/A	App D - NA GAAP	830-740
93-10	Accounting for Dual Currency Bonds	Resolved by FAS 133			
93-11	Accounting for Barter Transactions Involving Barter Credits	Complete	Adopt	28, 95	845-10
93-12	Recognition and Measurement of the Tax Benefit of Excess Tax Deductible Goodwill Resulting from a Retroactive Change in Tax Law	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Included in FAS 109
93-13	Effect of a Retroactive Change in Enacted Tax Rates That is Included in Income from Continuing Operations	Complete	Reject	10, 10R, 101	740-10
93-14	Accounting for Multiple-Year Retrospectively Rated Insurance Contracts by Insurance Enterprises and Other Enterprises	Complete	Reject	66	450-10 720-20 944-20
93-15	(Not Used)				
93-16	Application of FASB Statement No. 109 to Basis Differences within Foreign Subsidiaries That Meet the Indefinite Reversal Criterion of APB Opinion No. 23	Complete	Reject	10, 10R, 101	740-30 830-740
93-17	Recognition of Deferred Tax Assets for a Parent Company's Excess Tax Basis in the Stock of a Subsidiary That Is Accounted for as a Discontinued Operation	Complete	Adopt	10, 10R, 101	740-30

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
93-18	Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate	Superseded by EITF 99-20 Complete	Reject	43R	
94-1	Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects	Complete	Adopt/M	93	323-740 325-20
94-2	Treatment of Minority Interests in Certain Real Estate Investment	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
94-3	Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)	Nullified by FAS 146 Complete	Reject	24	
94-4	Classification of an Investment in a Mortgage-Backed Interest-Only Certificate as Held-to-Maturity	Resolved by FAS 125 & FAS 140			
94-5	Determination of What Constitutes All Risks and Rewards and No Significant Unresolved Contingencies in a Sale of Mortgage Loan Servicing Rights under Issue 89-5	Superseded by EITF 95-5			
94-6	Accounting for the Buyout of Compensatory Stock Options	Nullified by FIN 44 Complete	Adopt Nullified	13 104R	
94-7	Accounting for Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	Codified in EITF 96-13			
94-8	Accounting for Conversion of a Loan into a Debt Security in a Debt Restructuring	Complete	Reject	36	310-40
94-9	Determining a Normal Servicing Fee Rate for the Sale of an SBA Loan	Nullified by FAS 125			
94-10	Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109	Complete	Reject	10, 10R, 101	740-10 740-20
95-1	Revenue Recognition on Sales with a Guaranteed Minimum Resale Value	Complete	N/A	App D - NA GAAP	460-10 605-50 840-10 840-30
95-2	Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party	Nullified by FAS 133 Complete	Reject	23	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
95-3	Recognition of Liabilities in Connection with a Purchase Business Combination	Nullified by FAS 141R Complete	Reject	68	
95-4	Revenue Recognition on Equipment Sold and Subsequently Repurchased Subject to an Operating Lease	Complete	N/A	App D - NA GAAP	605-15 840-10
95-5	Determination of What Risks and Rewards, If Any, Can Be Retained and Whether Any Unresolved Contingencies May Exist in a Sale of Mortgage Loan Servicing Rights	Complete	Adopt	18, 91R, 103R	860-50
95-6	Accounting by a Real Estate Investment Trust for an Investment in a Service Corporation	Complete	N/A	App D - NA GAAP	974-323 974-840
95-7	Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
95-8	Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination	Nullified by FAS 141R Complete	Reject	68	
95-9	Accounting for Tax Effects of Dividends in France in Accordance with FAS Statement No. 109	Complete	Reject	10, 10R, 101	740-10
95-10	Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109	Complete	Reject	10, 10R, 101	740-10
95-11	Accounting for Derivative Instruments Containing Both a Written Option-Based Component and a Forward-Based Component	Resolved by FAS 133			
95-12	Pooling of Interests with a Common Interest in Joint Venture	Nullified by FAS 141 Complete	Reject	68	
95-13	Classification of Debt Issue Costs in the Statement of Cash Flows	Complete	Adopt	69	230-10
95-14	Recognition of Liabilities in Anticipation of a Business Combination	Nullified by FAS 146 Complete	Reject	68	
95-15	Recognition of Gain or Loss When a Binding Contract Requires a Debt Extinguishment to Occur at a Future Date for a Specified Amount	Superseded by EITF 96-19 Complete	Adopt/M	15	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
95-16	Accounting for Stock Compensation Arrangements with Employer Loan Features under APB Opinion No. 25	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	13 104R	
95-17	Accounting for Modifications to an Operating Lease That Do Not Change the Lease Classification	Superseded by ASU 2016-02 Complete	Adopt N/A	22 22R	840-20
95-18	Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements.	Nullified by FAS 144 Complete	Reject	24	
95-19	Determination of the Measurement Date for the Market Price of Securities Issued in a Purchase Business Combination	Codified in EITF 99-12 Complete	Adopt	68	
95-20	Measurement in the Consolidated Financial Statements of a Parent of the Tax Effects Related to the Operations of a Foreign Subsidiary That Receives Tax Credits Related to Dividend Payments	Complete	Reject	10, 10R, 101	740-10
95-21	Accounting for Assets to Be Disposed Of Acquired in a Purchase Business Combination	Resolved by FAS 144			
95-22	Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement	Complete	N/A	App D - NA GAAP	470-10
95-23	The Treatment of Certain Site Restoration/ Environmental Exit Costs When Testing a Long-Lived Asset for Impairment	Complete	Adopt	40R	360-10 360-20
96-1	Sale of Put Options on Issuer's Stock That Require or Permit Cash Settlement	Codified in EITF 96-13			
96-2	Impairment Recognition When a Nonmonetary Asset Is Exchanged or Is Distributed to Owners and Is Accounted for at the Asset's Recorded Amount	Codified in EITF 01-2			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
96-3	Accounting for Equity Instruments That Are Issued for Consideration Other Than Employee Services under FASB Statement No. 123	Superseded by EITF 96-18 Complete	Reject	13	
96-4	Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners	Codified in EITF 01-2 Complete	Reject	28, 95	
96-5	Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination	Complete	Adopt	8, 89, 92, 102	420-10 450-10 710-10 712-10 715-60 718-10 805-20
96-6	Accounting for the Film and Software Costs Associated with Developing Entertainment and Educational Software Products	No EITF Consensus			985-705
96-7	Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
96-8	Accounting for a Business Combination When the Issuing Company Has Targeted Stock	Nullified by FAS 141 Complete	Reject	68	
96-9	Classification of Inventory Markdowns and Other Costs Associated with a Restructuring	Removed from EITF Agenda			330-10 420-10
96-10	Impact of Certain Transactions on the Held-to-Maturity Classification under FASB Statement No. 115	Complete	Reject	26R	320-10
96-11	Accounting for Forward Contracts and Purchased Options to Acquire Securities Covered by FASB Statement No. 115	Complete	Reject	31	320-10 815-10
96-12	Recognition of Interest Income and Balance Sheet Classification of Structured Notes	Complete	Reject	43R	320-10 835-10
96-13	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	Codified in EITF 00-19			
96-14	Accounting for the Costs Associated with Modifying Computer Software for the Year 2000	No longer technically helpful Complete	Adopt	17	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
96-15	Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities	Complete	Reject	23	320-10 830-20
96-16	Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights	Complete	Reject	App D - NA GAAP	810-10
96-17	Revenue Recognition under Long-Term Power Sales Contracts That Contain both Fixed and Variable Pricing Terms	Complete	N/A	App D - NA GAAP	980-350 980-605
96-18	Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services	Complete	Adopted/M	104R	440-10
96-19	Debtor's Accounting for a Modification or Exchange of Debt Instruments	Complete Amended by EITF Issue No. 06-6	Adopt	18, 91R, 103R 103R	470-50
96-20	Impact of FASB Statement No. 125 on Consolidation of Special-Purpose Entities	Nullified by FAS 140 Complete	 Reject	 103R	
96-21	Implementation Issues in Accounting for Leasing Transactions Involving Special-Purpose Entities	Superseded by ASU 2016-02 Complete	 Reject N/A	 22 22R	460-10 840-10 840-20 840-40 958-810 958-840
96-22	Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans	Complete	Adopt	36	310-40
96-23	The Effects of Financial Instruments Indexed to, and Settled in, a Company's Own Stock on Pooling-of-Interests Accounting for a Subsequent Business Combination	Resolved by FAS 141			
97-1	Implementation Issues in Accounting for Lease Transactions, including Those Involving Special-Purpose Entities	Complete	N/A	App D - NA GAAP	450-20 460-10 840-10 840-40 958-840
97-2	Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements	Complete	N/A	App D - NA GAAP	718-10 810-10 954-810

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
97-3	Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations after the Issuance of FASB Statement No. 125	Complete	Reject	App D - NA GAAP	310-20 860-10
97-4	Deregulation of the Pricing of Electricity--- Issues Related to the Application of FASB Statements No. 71 and 101	Complete	N/A	App D - NA GAAP	980-20
97-5	Accounting for the Delayed Receipt of Option Shares upon Exercise under APB Opinion No. 25	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	104R	
97-6	Application of Issue No. 96-20 to Qualifying Special-Purpose Entities Receiving Transferred Financial Assets Prior to the Effective Date of FASB Statement No. 125	Nullified by FAS 140 Complete	N/A	App D - NA GAAP	
97-7	Accounting for Hedges of the Foreign Currency Risk Inherent in an Available-for-Sale Marketable Equity Security	Complete	N/A	App D - NA GAAP	Not Directly Included in Codification. Issue Subject to FAS 130 and 133
97-8	Accounting for Contingent Consideration Issued in a Purchase Business Combination	Nullified by FAS 141R Complete	Adopt	68	
97-9	Effect on Pooling-of-Interests Accounting of Certain Contingently Exercisable Options or Other Equity Instruments	Nullified by FAS 141 Complete	N/A	App D - NA GAAP	
97-10	The Effect of Lessee Involvement in Asset Construction	Complete	Reject	App D - NA GAAP	460-10 840-40
97-11	Accounting for Internal Costs Relating to Real Estate Property Acquisitions	Complete	Adopt	40R	970-340 970-720

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
97-12	Accounting for Increased Share Authorizations in an IRS Section 423 Employee Stock Purchase Plan under APB Opinion No. 25	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	Adopt Nullified	INT 99-17 104R	
97-13	Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation	Complete	Adopt	17	720-45
97-14	Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested	Complete	Adopt/M	104R	260-10 710-10 810-10
97-15	Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combination	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
98-1	Valuation of Debt Assumed in a Purchase Business Combination	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
98-2	Accounting by a Subsidiary or Joint Venture for an Investment in the Stock of Its Parent Company or Joint Venture Partner	Complete	Reject	97	Not Directly Included in Codification. Issue Subject to FIN 46R
98-3	Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business	Nullified by FAS 141R Complete	Adopt/M	INT 00-26	
98-4	Accounting by a Joint Venture for Businesses Received at Its Formation	No EITF Consensus			805-10 845-10
98-5	Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios	Complete	Reject	15	470-20 505-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
98-6	Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Approval or Veto Rights	Removed from EITF Agenda			
98-7	Accounting for Exchanges of Similar Equity Method Investments	Codified in EITF 01-2 Complete	Adopt	Nullified by SSAP No. 95	
98-8	Accounting for Transfers of Investments That Are in Substance Real Estate	Complete	Adopt	40R, 77, 103R	360-20
98-9	Accounting for Contingent Rent	Superseded by ASU 2016-02 Complete	Adopt/M N/A	22 22R	450-20 450-30 840-10
98-10	Accounting for Contracts Involved in Energy Trading and Risk Management Activities	Superseded by EITF 02-03 Complete	N/A	App D - NA GAAP	
98-11	Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations	Pending			740-10
98-12	Application of Issue No. 00-19 to Forward Equity Sales Transactions	Nullified by FAS 150 Complete – Refer to review of FAS 150			
98-13	Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee	Complete	Adopt/M	INT 00-24	320-10 323-10
98-14	Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements	Complete	Reject	15	470-50
98-15	Structured Notes Acquired for a Specified Investment Strategy	Complete	Reject	43R	320-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
99-1	Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary	Superseded by EITF 08-08 Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
99-2	Accounting for Weather Derivatives	Complete Superseded by ASC Topic 105 and Incorporated into ASC 815-45	Adopt/M	86	815-45
99-3	Application of Issue No. 96-13 to Derivative Instruments with Multiple Settlement Alternatives	Codified in EITF 00-19 Complete	N/A	App D - NA GAAP	
99-4	Accounting for Stock Received from the Demutualization of a Mutual Insurance Company	Complete	Adopt	72	325-30
99-5	Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements	Complete	N/A	App D - NA GAAP	340-10 460-10 730-10
99-6	Impact of Acceleration Provisions in Grants Made between Initiation and Consummation of a Pooling-of-Interests Business Combination	Nullified by FAS 141 Complete	N/A	App D - NA GAAP	
99-7	Accounting for an Accelerated Share Repurchase Program	Complete	N/A	App D - NA GAAP	260-10 505-30
99-8	Accounting for Transfers of Assets that are Derivative Instruments but that are not Financial Assets	Pending			815-10 860-10
99-9	Effect of Derivative Gains and Losses on the Capitalization of Interest	Pending			815-25 815-30
99-10	Percentage used to Determine the Amount of Equity Method Losses	Complete	Adopt	INT 00-24	323-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
99-11	Subsequent Events Caused by Year 2000	No longer technically helpful Complete	N/A	App D - NA GAAP	
99-12	Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination	Nullified by FAS 141R Complete	Adopt/M	INT 00-28	
99-13	Application of Issue No. 97-10 and FASB Interpretation No. 23 to Entities that Enter into Leases with Governmental Entities	Complete	N/A	App D - NA GAAP	840-40
99-14	Recognition by a Purchaser of Losses on Firmly Committed Executory Contracts	No EITF Consensus			
99-15	Accounting for Decreases in Deferred Tax Asset Valuation Allowances Established in a Purchase Business Combination As a Result of a Change in Tax Regulations	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
99-16	Accounting for Transactions with Elements of Research and Development Arrangements	Complete	N/A	App D - NA GAAP	810-30
99-17	Accounting for Advertising Barter Transactions	Complete	Adopt/M	95	605-20
99-18	Effect on Pooling-of-Interests Accounting of Contracts Indexed to a Company's Own Stock	Resolved by FAS 141 Complete	N/A	App D - NA GAAP	
99-19	Reporting Revenue Gross as a Principal versus Net as an Agent	Complete	N/A	App D - NA GAAP	605-45
99-20	Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by the Transferor in Securitized Financial Assets	Complete	Adopt	43R	310-20 310-30 320-10 325-40 835-10
00-1	Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures	Complete	Reject	48	323-30 810-10 910-810 930-810 932-810
00-2	Accounting for Web Site Development Costs	Complete	Adopt	16R 82	350-10 350-50

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-3	Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware	Complete	Adopt/M	16R 81	985-20 985-605
00-4	Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary	Nullified by FAS 150 Complete	N/A	App D - NA GAAP	460-10 480-10
00-5	Determining Whether a Nonmonetary Transaction is an Exchange of Similar Productive Assets	Codified in EITF 01-2			
00-6	Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary	Superseded by EITF 08-8 Complete Partially Nullified by FAS 150	N/A	App D - NA GAAP	815-10
00-7	Application of Issue No. 96-13 to Equity Derivative Instruments That Contain Certain Provisions That Require Net Cash Settlement If Certain Events outside the Control of the Issuer Occur	Codified in EITF 00-19 Complete	N/A	App D - NA GAAP	
00-8	Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services	Complete	Adopt/M	104R	845-10
00-9	Classification of a Gain or Loss from a Hedge of Debt That Is Extinguished	Pending			815-30
00-10	Accounting for Shipping and Handling Fees and Costs	Complete	N/A	App D - NA GAAP	605-45
00-11	Lessors' Evaluation of Whether Leases of Certain Integral Equipment Meet the Ownership Transfer Requirements of FASB Statement No. 13	Superseded by ASU 2016-02 Complete	Adopt/M N/A	22 22R	840-10
00-12	Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee	Pending			323-10 505-10 718-10
00-13	Determining Whether Equipment Is "Integral Equipment" Subject to FASB Statements No. 66 and No. 98	Complete	Adopt	40R, 77	360-20 978-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-14	Accounting for Certain Sales Incentives	Codified in EITF 01-9 Complete	N/A	App D - NA GAAP	
00-15	Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option	Nullified by FAS 123R except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	App D - NA GAAP	
00-16	Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation	Complete	Adopt/M	104R	718-10
00-17	Measuring the Fair Value of Energy-Related Contracts in Applying Issue No. 98-10	Superseded by EITF 02-3 Complete	N/A	App D - NA GAAP	
00-18	Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees	Complete	Adopt/M	104R	505-50
00-19	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock	Complete Partially Nullified by FAS 150	N/A	App D - NA GAAP	480-10 505-10 815-10 815-15 815-40
00-20	Accounting for Costs Incurred to Acquire or Originate Information for Database Content and Other Collections of Information	No longer technically helpful			
00-21	Revenue Arrangements with Multiple Deliverables	Complete Nullified by ASU 2009-13	Adopt/M ASU 2009-13 deemed not applicable, nullifying INT 04-18.		605-25

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
00-22	Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future	Codified in EITF 01-9 Complete	N/A	App D - NA GAAP	
00-23	Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44	Nullified by FAS 123(R) except for entities within the scope of paragraph 83 of FAS 123(R) Complete	N/A	104R	
00-24	Revenue Recognition: Sales Arrangements That Include Specified-Price Trade-in Rights	No EITF Consensus			
00-25	Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products	Codified in EITF 01-9			
00-26	Recognition by a Seller of Losses on Firmly Committed Executory Contracts	No EITF Consensus			
00-27	Application of Issue No. 98-5 to Certain Convertible Instruments	Pending Partially Nullified by FAS 150			260-10 470-20 505-10
01-1	Accounting for a Convertible Instrument Granted or Issued to a Nonemployee for Goods or Services or a Combination of Goods or Services and Cash	Complete	Adopt/M	95	470-20
01-2	Interpretations of APB Opinion No. 29	Partially Nullified by FAS 153 Complete	Adopt/M	INT 06-13	810-10 845-10
01-3	Accounting in a Business Combination for Deferred Revenue of an Acquiree	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
01-4	Accounting for Sales of Fractional Interests in Equipment	No EITF Consensus			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
01-5	Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed Of	Complete	Reject	App D - NA GAAP	830-30
01-6	The Meaning of "Indexed to a Company's Own Stock"	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
01-7	Creditor's Accounting for a Modification or Exchange of Debt Instruments	Complete	Adopt	103R	310-20
01-8	Determining Whether an Arrangement Contains a Lease	Superseded by ASU 2016-02 Complete	Adopt/M N/A	22 22R	440-10 815-10 840-10 840-20 840-30
01-9	Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)	Complete	N/A	App D - NA GAAP	330-10 605-50 908-360
01-10	Accounting for the Impact of the Terrorist Attacks of September 11, 2001	Complete	Nullified as no longer relevant, including INT 01-32.		Not included in codification. No longer applicable or relevant.
01-11	Application of Issue No. 00-19 to a Contemporaneous Forward Purchase Contract and Written Put Option	Resolved by FAS 150			
01-12	The Impact of the Requirements of FASB Statement No. 133 on Residual Value Guarantees in Connection with a Lease	Complete	N/A	App D - NA GAAP	460-10 815-10 840-10
01-13	Income Statement Display of Business Interruption Insurance Recoveries	Complete	Adopt	24	225-30 450-30
01-14	Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred	Complete	N/A	App D - NA GAAP	605-45
02-1	(Not Used)				
02-2	When Separate Contracts That Meet the Definition of Financial Instruments Should Be Combined for Accounting Purposes	No EITF Consensus Partially resolved by FAS 150			
02-3	Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities	Complete Modified by FAS 157	Reject	App D - NA GAAP	815-10 932-330 940-325
02-4	Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15	Complete	Adopt	36	470-60
02-5	Definition of "Common Control" in Relation to FASB Statement No. 141	No EITF Consensus			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
02-6	Classification in the Statement of Cash Flows of Payments Made to Settle an Asset Retirement Obligation within the Scope of FASB Statement No. 143	Complete	N/A	App D - NA GAAP	230-10 410-20
02-7	Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets	Complete	Reject	App D - NA GAAP	350-30
02-8	Accounting for Options Granted to Employees in Unrestricted, Publicly Traded Shares of an Unrelated Entity	Complete	N/A	App D - NA GAAP	815-10
02-9	Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold	Complete	Adopt/M	INT 04-21	860-20 860-50
02-10	Determining Whether a Debtor Is Legally Released as Primary Obligor When the Debtor Becomes Secondly Liable under the Original Obligation	No longer technically helpful			
02-11	Accounting for Reverse Spinoffs	Complete	Adopt	INT 08-05	505-60
02-12	Permitted Activities of a Qualifying Special-Purpose Entity in Issuing Beneficial Interests under FASB Statement No. 140	Nullified by FAS 166			
02-13	Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142	Complete	Reject	App D - NA GAAP	350-20
02-14	Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means (The name of EITF 02-14 has been changed to – “Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock”.)	Complete	Reject	App D - NA GAAP	323-10
02-15	Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84	Complete	Adopt	15	470-20
02-16	Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor	Complete	N/A	App D - NA GAAP	605-50 705-20
02-17	Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination	Nullified by FAS 141R Complete	Reject	App D - NA GAAP	
02-18	Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition	Complete	Adopt/M	48, 97	323-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
03-1	The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments	Nullified by FSP FAS 115-1/ FAS124-1			
03-2	Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities	Complete	N/A	App D - NA GAAP	715-20 715-30
03-3	Applicability of Topic No. D-79 to Claims-Made Insurance Policies	Codified in EITF 03-8			
03-4	Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan	Complete	Adopt/M	102	715-30
03-5	Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software	Complete	Adopt	16R	985-605
03-6	Participating Securities and the Two-Class Method under FASB Statement No. 128	Complete	Reject	App D - NA GAAP	260-10
03-7	Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)	Nullified by FSP APB 14-1 Complete	 Adopt	 15	Not Explicitly Included in Codification.
03-8	Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity	Pending			450-30 720-20 954-720
03-9	Determination of the Useful Life of Renewable Intangible Assets Under FASB Statement No. 142	Removed from EITF agenda			
03-10	Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers	Complete	N/A	App D - NA GAAP	605-50 705-20
03-11	Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as Defined in Issue No. 02-3	Complete	Reject	App D - NA GAAP	815-10
03-12	Impact of FASB Interpretation No. 45 on Issue No. 95-1	Complete	N/A	App D - NA GAAP	460-10
03-13	Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations	Complete	N/A	App D - NA GAAP	205-20
03-14	Participants' Accounting for Emissions Allowances under a "Cap and Trade" Program	Removed from EITF agenda			
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	No EITF Consensus			

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronounce-ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
03-16	Accounting for Investments in Limited Liability Companies	Complete	Reject	App D - NA GAAP	272-10 323-30
03-17	Subsequent Accounting for Executory Contracts That Have Been Recognized on an Entity's Balance Sheet	No EITF Consensus			
04-1	Accounting for Preexisting Relationships between the Parties to a Business Combination	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
04-2	Whether Mineral Rights Are Tangible or Intangible Assets	Nullified by FAS 141R Complete	N/A	App D - NA GAAP	
04-3	Mining Assets: Impairment and Business Combinations	Complete	N/A	App D - NA GAAP	930-360 930-805
04-4	Allocation of Goodwill to Reporting Units for a Mining Enterprise	Removed from the EITF Agenda Complete	N/A	App D - NA GAAP	
04-5	Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights	Complete	N/A	App D - NA GAAP	810-20
04-6	Accounting for Stripping Costs Incurred during Production in the Mining Industry	Complete	N/A	App D - NA GAAP	930-10 930-330
04-7	Determining Whether an Interest Is a Variable Interest in a Potential Variable Interest Entity	Removed From Agenda – Issue Addressed in FSP FIN 46R-6 Complete	N/A	App D - NA GAAP	

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
04-8	The Effect of Contingently Convertible Instruments on Diluted Earnings per Share	Complete	N/A	App D - NA GAAP	260-10
04-9	Accounting for Suspended Well Costs	Resolved by FSP FAS 19-1			
04-10	Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds	Complete	N/A	App D - NA GAAP	280-10
04-11	Accounting in a Business Combination for Deferred Postcontract Customer Support Revenue of a Software Vendor	No longer technically helpful			
04-12	Determining Whether Equity-Based Compensation Awards Are Participating Securities	Removed from EITF agenda			
04-13	Accounting for Purchases and Sales of Inventory with the Same Counterparty	Complete	N/A	App D - NA GAAP	845-10
05-1	Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option	Pending			470-20
05-2	The Meaning of "Conventional Convertible Debt Instrument" in Issue No. 00-19	Pending			815-40
05-3	Accounting for Rental Costs Incurred during the Construction Period	Removed from EITF agenda			
05-4	The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to Issue No. 00-19	Removed from EITF agenda			
05-5	Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)	Complete	N/A	App D - NA GAAP	715-30
05-6	Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination	Complete	N/A INT 06-10 nullified.	App D - NA GAAP	805-20 840-10
05-7	Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues	Superseded by EITF Issue No. 06-6			
05-8	Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature	Complete	N/A	App D - NA GAAP	740-10
06-1	Accounting for Consideration Given by a Service Provider to a Manufacturer or Reseller of Equipment Necessary for an End-Customer to Receive Service from the Service Provider	Complete	N/A	App D - NA GAAP	605-50
06-2	Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43	Complete	Adopt	11	710-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
06-3	How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)	Complete	Adopt/M	35R	605-45
06-4	Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements	Complete	Adopt	92	715-60
06-5	Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4	Complete	Adopt/M	21R	325-30
06-6	Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments	Pending			470-50
06-7	Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133	Complete	N/A	App D - NA GAAP	470-20 815-15
06-8	Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums	Complete	Adopt/M	40R	360-20
06-9	Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee	Complete	Adopt/M	48, 97	810-10
06-10	Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements	Complete	N/A	App D - NA GAAP	715-60
06-11	Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards	Pending			718-740
06-12	Accounting for Physical Commodity Inventories for Entities within the Scope of the AICPA Audit and Accounting Guide, Brokers and Dealers in Securities	No EITF Consensus			
07-1	Accounting for Collaborative Arrangements	Complete	N/A	App D - NA GAAP	808-10
07-2	Accounting for Convertible Debt Instruments That Are Not Subject to the Guidance in Paragraph 12 of APB Opinion No. 14	Removed from Agenda			
07-3	Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities	Complete	N/A	17, 29	730-10 730-20
07-4	Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships	Complete	N/A	App D - NA GAAP	260-10

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
07-5	Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock	Complete	N/A	App D - NA GAAP	718-10 815-40
07-6	Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, When the Agreement Includes a Buy-Sell Clause	Complete	Adopt	40R	360-20
08-1	Revenue Recognition for a Single Unit of Accounting (The name of EITF 08-1 has be changed to "Revenue Arrangements with Multiple Deliverables.")	Reflected in ASU 2009-13			Not Explicitly Included in Codification.
08-2	Lessor Revenue Recognition for Maintenance Services	Removed from Agenda			
08-3	Accounting by Lessees for Maintenance Deposits	Superseded by ASU 2016-02 Complete	Adopt/M N/A	19, 22 22R	840-10
08-4	Transition Guidance for Conforming Changes to Issue No. 98-5	Pending			Not Explicitly Included in Codification.
08-5	Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement	Pending			820-10 825-10
08-6	Equity Method Investment Accounting Considerations	Pending			323-10
08-7	Accounting for Defensive Intangible Assets	Complete	Adopt/M	20	350-30
08-8	Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary	Complete	N/A	App D - NA GAAP	810-10 815-10 815-40
08-9	Milestone Method of Revenue Recognition	Reflected in ASU 2010-17			Not Explicitly Included in Codification.
08-10	Selected Statement 160 Implementation Questions	No EITF Consensus			
09-1	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance	Reflected in ASU 2009-15			Not Explicitly Included in Codification.
09-2	Research and Development Assets Acquired in an Asset Acquisition	Removed from Agenda			
09-3	Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements	Reflected in ASU 2009-14			Not Explicitly Included in Codification.

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
CONSENSUS OPINIONS OF THE EMERGING ISSUES TASK FORCE**

GAAP Pronounce- ment	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
09-4	Seller Accounting for Contingent Consideration	No EITF Consensus			

Note: "EITF Abstracts, Appendix D - Other Technical Matters" have been included in the FASB Codification, but have not previously been reviewed for statutory accounting. As such, these items have not been included in this Appendix D. Before the FASB Codification, these items were not considered to be in the top three levels of the FASB hierarchy and, thus, not reviewed as part of the statutory maintenance process.

Not for Distribution

**PRE-CODIFICATION STANDARDS - CATEGORY C GAAP
AICPA PRACTICE BULLETINS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
PB 1	Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance	Complete			
	Exhibit A	Complete	Adopt	19	310-10
	Exhibit B through Exhibit H	Complete	N/A		360-10
	Exhibit I	Complete	Adopt	38	
PB 2	Elimination of Profits Resulting From Intercompany Transfers of LIFO Inventories	Complete	N/A	App D - NA GAAP	810-10
PB 3	Prepayments Into the Secondary Reserve of the FSLIC and Contingencies Related to Other Obligations of the FSLIC	Withdrawn 1990			
PB 4	Accounting for Foreign Debt/Equity Swaps	Complete	Adopt	26R	942-310
PB 5	Income Recognition on Loans to Financially Troubled Countries	Complete	N/A	App D - NA GAAP	942-310
PB 6	Amortization of Discounts on Certain Acquired Loans	Superseded by SOP 03-3			
		Complete	Reject	37	
PB 7	Criteria for Determining Whether Collateral for a Loan Has Been In-Substance Foreclosed	Withdrawn 1994			
PB 8	Application of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses From the Sale of Investments, to Insurance Enterprises	Complete	Reject	51R, 52	944-20 944-30 944-60 944-605 944-825
PB 9	Disclosures of Fronting Arrangements by Fronting Companies	Superseded by FAS 113			
PB 10	Amendment to Practice Bulletin 7, Criteria for Determining Whether Collateral for a Loan Has Been In-Substance Foreclosed	Withdrawn 1994			
PB 11	Accounting for Preconfirmation Contingencies in Fresh-Start Reporting	Complete	N/A	App D - NA GAAP	Not Explicitly Included in Codification.
PB12	Reporting Separate Investment Fund Option Information of Defined Contribution Pension Plans	Superseded by SOP 99-3			
		Complete	N/A	App D - NA GAAP	
PB 13	Direct-Response Advertising and Probable Future Benefits	Complete	Reject	29	340-20 944-30
PB 14	Accounting and Reporting by Limiting Liability Companies and Limited Liability Partnerships	Complete	N/A	App D - NA GAAP	272-10 850-10
PB 15	Accounting by the Issuer of Surplus Notes	Complete	Reject	41R	944-470

**PRE-CODIFICATION STANDARDS - CATEGORY D GAAP
AICPA ACCOUNTING INTERPRETATIONS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
AIN-ARB43 Chapter 13B	Compensation Involved in Stock Option and Stock Purchase Plans: Unofficial Accounting Interpretations of Accounting Research Bulletin No. 43, Chapter 13B	Superseded by APB 25			
AIN-Key Man Life	Deferred Compensation Contracts: Unofficial Accounting Interpretations	Superseded by FTB 85-4			
AIN-ARB51	Consolidated Financial Statements: Accounting Interpretations of ARB No. 51	Superseded by FAS 111			
AIN-APB4	Accounting for the Investment Credit: Accounting Interpretations of APB Opinion No. 4	Complete Items 1, 2, & 3 Items 4, 5, & 6 Superseded by FAS 96, 109 & 111	Reject	10, 10R, 101	Not Included in Codification As No Longer Applicable Or Relevant
AIN-APB7	Accounting for Leases in Financial Statements of Lessors: Accounting Interpretations of APB Opinion No. 7	Superseded by FAS 111			
AIN-APB8	Accounting for the Cost of Pension Plans: Accounting Interpretation of APB Opinion No. 8	Superseded by FAS 111			
AIN-APB9	Reporting the Results of Operations: Unofficial Accounting Interpretations of APB Opinion No. 9	Complete Item 1 Item 2 Superseded by FAS 111	Reject	3	225-20
AIN-APB11	Accounting for Income Taxes: Accounting Interpretations of APB Opinion No. 11	Deleted by FAS 96 & FAS 109			
AIN-APB15	Computing Earnings per Share: Accounting Interpretations of APB Opinion No. 15	Superseded by FAS 128 Complete	N/A	App D – NA GAAP	
AIN-APB16	Business Combinations: Accounting Interpretations of APB Opinion No. 16	Superseded by FAS 141 Complete	Reject Reject No. 39	68 25	

**PRE-CODIFICATION STANDARDS - CATEGORY D GAAP
AICPA ACCOUNTING INTERPRETATIONS**

GAAP Pronouncement	Name	Status	Disposition	Statutory Reference	Acctg. Stds. Codification Topic-Subt.
AIN-APB17	Intangible Assets: Unofficial Accounting Interpretations of APB Opinion No. 17	Superseded by FAS 142 Complete	 Reject	 68	
AIN-APB18	The Equity Method of Accounting for Investments in Common Stock: Accounting Interpretations of APB Opinion No. 18	Complete	Reject	46, 88, 97	323-10 323-30 810-10
AIN-APB19	Reporting Changes in Financial Position: Accounting Interpretations of APB Opinion No. 19	Superseded by FAS 95			
AIN-APB20	Accounting Changes: Accounting Interpretations of APB Opinion No. 20	Superseded by FAS 128 Complete	 Reject	 3	
AIN-APB21	Interest on Receivables and Payables: Accounting Interpretations of APB Opinion No. 21	Complete	Adopt	15	932-835
AIN-APB22	Disclosure of Accounting Policies: Accounting Interpretations of APB Opinion No. 22	Superseded by FAS 111			
AIN-APB23	Accounting for Income Taxes: Special Areas: Accounting Interpretations of APB Opinion No. 23	Superseded by FAS 96 & FAS 109			
AIN-APB25	Accounting for Stock Issued to Employees: Accounting Interpretations of APB Opinion No. 25	Superseded by FAS 123(R) Complete	 Adopt N/A	 13 104R	
AIN-APB26	Early Extinguishment of Debt: Accounting Interpretations of APB Opinion No. 26	Complete	Adopt	15	470-20 470-50
AIN-APB30	Reporting the Result of Operations: Accounting Interpretations of APB Opinion No. 30	Complete	Reject	24	225-20

Appendix D

Nonapplicable GAAP Pronouncements for Statutory Accounting as of December 2023

In 2015, Issue Paper No. 99—Nonapplicable GAAP Pronouncements was removed from Appendix E and incorporated into this section of Appendix D.

For items presented to the Statutory Accounting Principles (E) Working Group, this table addresses Generally Accepted Accounting Principles (GAAP) pronouncements that are nonapplicable due to one of the following reasons:

- a. The pronouncement does not relate to the insurance industry;
- b. The pronouncement is not within the objectives of statutory accounting;
- c. The pronouncement would not add a substantive amount of guidance to statutory accounting due to the narrow scope of the topic;
- d. The pronouncement relates to transition of a previously issued GAAP pronouncement.

For items previously presented to the Emerging Accounting Issues (E) Working Group, this table includes references to EITFs that have been rejected for the following reasons:

- a. Rejected as not applicable to statutory accounting;
- b. Rejected without providing additional statutory guidance;
- c. Rejected on the basis of issues rejected in a SSAP.

*NOTE: EITFs marked with an asterisk were rejected as not applicable to statutory accounting on the basis of issues rejected in a SSAP (paragraph c. above).

GAAP pronouncements¹ not considered applicable to NAIC statutory accounting principles are summarized as follows:

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
<i>FASB Accounting Standards Updates (ASU)</i>	
ASU 2009-02	Omnibus Update—Amendments to Various Topics for Technical Corrections
ASU 2009-13	Revenue Recognition: Multiple Deliverable Revenue Arrangements
ASU 2009-15	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing
ASU 2010-01	Equity: Accounting for Distributions to Shareholders with Components of Stock and Cash
ASU 2010-03	Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures
ASU 2010-16	Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities

¹ Non-EITF GAAP guidance that is rejected explicitly in an SSAP is not included within this listing.

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
ASU 2010-17	Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition
ASU 2010-24	Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries
ASU 2010-25	Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans
ASU 2010-27	Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers
ASU 2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income
ASU 2011-07	Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities
ASU 2011-12	Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05
ASU 2012-01	Health Care Entities (Topic 954): Continuing Care Retirement Communities—Refundable Advance Fees
ASU 2012-04	Technical Corrections and Improvements
ASU 2012-07	Entertainment—Films (Topic 926): Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs
ASU 2013-02	Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income
ASU 2013-07	Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting
ASU 2013-08	Financial Services – Investment Companies – Amendments to the Scope, Measurement and Disclosure Requirements
ASU 2013-12	Definition of a Public Business Entity—An Addition to the Master Glossary
ASU 2014-06	Technical Corrections and Improvements Related to Glossary Terms
ASU 2014-10	Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation
ASU 2014-13	Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity
ASU 2015-06	Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions
ASU 2015-08	Business Combinations—Pushdown Accounting, Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115
ASU 2015-10	Technical Corrections & Improvements
ASU 2015-11	Inventory (Topic 330)—Simplifying the Measurement of Inventory
ASU 2015-12	Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965)
ASU 2015-13	Derivatives and Hedging (Topic 815)—Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets
ASU 2016-04	Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products
ASU 2016-11	Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting
ASU 2016-14	Presentation of Financial Statements of Not-for-Profit Entities
ASU 2017-02	Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity
ASU 2017-03	Amendments to SEC Guidance

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
ASU 2017-06	Defined Benefit Pension Plans, Defined Contribution Pension Plans, and Health and Welfare Benefit Plan – Master Trust Reporting
ASU 2017-13	Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017, EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments
ASU 2017-14	Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606
ASU 2017-15	Codification Improvements to Topic 995, U.S. Steamship Entities, Elimination of Topic 995
ASU 2018-02	Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
ASU 2018-04	Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs
ASU 2018-05	Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118
ASU 2018-06	Codification Improvements to Topic 942, Financial Services—Depository and Lending
ASU 2018-08	Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made
ASU 2018-09	Codification Improvements
ASU 2019-02	Improvements to Accounting for Costs of Films and License Agreements for Program Materials, a consensus of the FASB Emerging Issues Task Force
ASU 2019-03	Updating the Definition of Collections
ASU 2019-07	Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates
ASU 2019-09	Financial Services – Insurance: Effective Date
ASU 2020-02	Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topics 842)
ASU 2020-05	Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities
ASU 2020-07	Presentation and Disclosures by Not-for-Profit Entities
ASU 2020-09	Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762—Debt (Topic 470)
ASU 2020-10	Codification Improvements
ASU 2020-11	Financial Services – Insurance: Effective Date and Early Application
ASU 2021-06	Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946), Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants
<i>Pre-Codification FASB Statements (FAS)</i>	
FAS 03	Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28
FAS 06	Classification of Short-Term Obligations Expected to Be Refinanced—An Amendment of ARB No. 43, Chapter 3A
FAS 11	Accounting for Contingencies: Transition Method—An Amendment of FASB Statement No. 5
FAS 14	Financial Reporting for Segments of a Business Enterprise
FAS 18	Financial Reporting for Segments of a Business Enterprise: Interim Financial Statements—An Amendment of FASB Statement No. 14
FAS 19	Financial Accounting and Reporting by Oil and Gas Producing Companies
FAS 21	Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises—An Amendment of APB Opinion No. 15 and FASB Statement No. 14

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
FAS 24	Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report—An Amendment of FASB Statement No. 14
FAS 25	Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies—An Amendment of FASB Statement No. 19
FAS 30	Disclosure of Information about Major Customers—An Amendment of FASB Statement No. 14
FAS 35	Accounting and Reporting by Defined Benefit Pension Plans
FAS 37	Balance Sheet Classification of Deferred Income Taxes—An Amendment of APB Opinion No. 11
FAS 44	Accounting for Intangible Assets of Motor Carriers—An Amendment of Chapter 5 of ARB No. 43 and an Interpretation of APB Opinions 17 and 30
FAS 45	Accounting for Franchise Fee Revenue
FAS 47	Disclosure of Long-Term Obligations
FAS 48	Revenue Recognition When Right of Return Exists
FAS 49	Accounting for Product Financing Arrangements
FAS 50	Financial Reporting in the Record and Music Industry
FAS 51	Financial Reporting by Cable Television Companies
FAS 53	Financial Reporting by Producers and Distributors of Motion Picture Films
FAS 63	Financial Reporting by Broadcasters
FAS 65	Accounting for Certain Mortgage Banking Activities
FAS 68	Research and Development Arrangements
FAS 69	Disclosures about Oil and Gas Producing Activities—An Amendment of FASB Statements 19, 25, 33, and 39
FAS 71	Accounting for the Effects of Certain Types of Regulation
FAS 72	Accounting for Certain Acquisitions of Banking or Thrift Institutions—An Amendment of APB Opinion No. 17, an Interpretation of APB Opinions 16 and 17, and An Amendment of FASB Interpretation No. 9
FAS 73	Reporting a Change in Accounting for Railroad Track Structures—An Amendment of APB Opinion No. 20
FAS 75	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—An Amendment of FASB Statement No. 35
FAS 78	Classification of Obligations That Are Callable by the Creditor—An Amendment of ARB No. 43, Chapter 3A
FAS 85	Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent—An Amendment of APB Opinion No. 15
FAS 89	Financial Reporting and Changing Prices
FAS 90	Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs—An Amendment of FASB Statement No. 71
FAS 92	Regulated Enterprises—Accounting for Phase-In Plans—An Amendment of FASB Statement No. 71
FAS 93	Recognition of Depreciation by Not-for-Profit Organizations
FAS 99	Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations—An Amendment of FASB Statement No. 93
FAS 101	Regulated Enterprises—Accounting for the Dis-continuation of Application of FASB Statement No. 71
FAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts—An Amendment of FASB Statement No. 35
FAS 111	Rescission of FASB Statement No. 32 and Technical Corrections
FAS 117	Financial Statements of Not-for-Profit Organizations
FAS 124	Accounting for Certain Investments Held by Not-For-Profit Organizations
FAS 128	Earnings per Share
FAS 130	Reporting Comprehensive Income

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
FAS 131	Segment Disclosures
FAS 134	Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise, An Amendment of FASB Statement No. 65
FAS 135	Rescission of FASB Statement No. 75 and Technical Corrections
FAS 136	Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others
FAS 139	Rescission of FASB Statement No. 53
FAS 143	Accounting for Asset Retirement Obligations
FAS 147	Acquisitions of Certain Financial Institutions, An Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9
FAS 151	Inventory Costs, and amendment of ARB No. 43 (FAS 151), Chapter 4
FAS 159	The Fair Value Option for Financial Assets and Financial Liabilities
FAS 160	Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51
<i>Pre-Codification FASB Interpretations</i>	
FIN 01 (APB 20)	Accounting Changes Related to the Cost of Inventory
FIN 08 (FASB 6)	Classification of a Short-Term Obligation Repaid Prior to Being Replaced by a Long-Term Security
FIN 09 (APB 16 & 17)	Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method
FIN 31 (APB 15 & FASB 28)	Treatment of Stock Compensation Plans in EPS Computations
FIN 33 (FASB 34)	Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method
FIN 36 (FASB 19)	Accounting for Exploratory Wells in Progress at the End of a Period
FIN 42 (FASB 116)	Accounting for Transfers of Assets in Which a Not-for-Profit Organization is Granted Variance Power
FIN 47 (FASB 143)	Accounting for Conditional Asset Retirement Obligations
<i>Pre-Codification Accounting Principles Board Opinions (APB)</i>	
APB 13	Amending Paragraph 6 of APB Opinion No. 9, Application to Commercial Banks
APB 15	Earnings Per Share
<i>Pre-Codification Accounting Research Bulletins (ARB)</i>	
ARB 43	Restatement and Revision of Accounting Research Bulletins, Chapter 4
ARB 45	Long-Term Construction-Type Contracts
<i>Pre-Codification FASB Technical Bulletins (TB)</i>	
TB 79-1	Purpose and Scope of FASB Technical Bulletins and Procedures for Issuance
TB 79-3	Subjective Acceleration Clauses in Long-Term Debt Agreements
TB 79-4	Segment Reporting of Puerto Rican Operations
TB 79-5	Meaning of the Term “Customer” as it Applies to Health Care Facilities under FASB Statement No. 14
TB 79-8	Applicability of FASB Statements 21 and 33 to Certain Brokers and Dealers in Securities

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
TB 82-2	Accounting for the Conversion of Stock Options into Incentive Stock Options as a Result of the Economic Recovery Tax Act of 1981
TB 84-1	Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement
TB 85-1	Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock
TB 87-2	Computation of a Loss on an Abandonment
TB 87-3	Accounting for Mortgage Servicing Fees and Rights
TB 90-1	Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts
<i>Pre-Codification FASB Staff Positions (FSP)</i>	
FSP FAS 19-1	Accounting for Suspended Well Costs
FSP FAS 117-1	Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds
FSP FAS 126-1	Disclosure and Interim Reporting for Obligor for Conduit Debt Securities
FSP FAS 143-1	Accounting for Electronic Equipment Waste Obligations
FSP FAS 150-3	Effective Date, Disclosures and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests Under FASB Statement No. 150
FSP FAS 150-5	Issuer's Accounting Under FASB Statement 150 for Freestanding Warrants and Other Similar Instruments on Shares That are Redeemable
FSP FIN 46(R)-7	Application of FASB Interpretation No. 46(R) to Investment Companies
FSP AAGINV-1 and SOP 94-4-1	Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans
FSP AUG AIR-1	Accounting for Planned Major Maintenance Activities
FSP SOP 78-9-1	Interaction of AICPA Statement of Position 78-9 and EITF Issue 04-5
FSP SOP 90-7-1	An Amendment of AICPA Statement of Position 90-7
FSP SOP 94-3-1 and AAG HCO-1	<i>Omnibus Changes to Consolidate and Equity Method Guidance for Not-For-Profit Organizations</i>
FSP SOP 07-1-1	Effective Date of AICPA Statement of Position 07-1
FSP EITF 85-24-1	Application of EITF Issue No. 85-24 When Cash for the Right to Future Distribution Fees for Shares Previously Sold is Received from Third Parties
<i>Pre-Codification AICPA Statement of Positions</i>	
SOP 14040	Confirmation of Insurance Policies in Force
SOP 14060	Auditing Property and Liability Reinsurance
SOP 14070	Auditing Life Reinsurance
SOP 74-8	Financial Accounting and Reporting by Colleges and Universities
SOP 75-2	Accounting Practices of Real Estate Investment Trusts
SOP 76-3	Accounting Practices for Certain Employee Stock Ownership Plans
SOP 78-9-1	Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5
SOP 78-10	Accounting Principles and Reporting Practices for Certain Nonprofit Organizations
SOP 81-1	Accounting for Performance of Construction-Type and Certain Production-Type Contracts
SOP 82-1	Accounting and Financial Reporting for Personal Financial Statements
SOP 83-1	Reporting by Banks of Investment Securities Gains or Losses
SOP 85-3	Accounting by Agricultural Producers and Agricultural Cooperatives
SOP 87-2	Accounting for Joint Costs of Informational Materials and Activities of Not-For-Profit Organizations That Include a Fund-Raising Appeal
SOP 88-1	Accounting for Developmental and Preoperating Costs, Purchases and Exchanges of Take-off and Landing Slots, and Airframe Modifications

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
SOP 89-2	Reports on Audited Financial Statements of Investment Companies
SOP 89-3	Questions Concerning Accountants' Services on Prospective Financial Statements
SOP 89-5	Financial Accounting and Reporting by Providers of Prepaid Health Care Services
SOP 89-7	Report on the Internal Control Structure in Audits of Investment Companies
SOP 90-1	Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations
SOP 90-2	Report on Internal Control Structure in Audits of Futures Commission Merchants
SOP 90-7	Financial reporting by entities in reorganization under the Bankruptcy Code
SOP 90-8	Financial Accounting and Reporting by Continuing Care Retirement Communities
SOP 91-1	Software Revenue Recognition
SOP 92-2	Questions and Answers on the Term <i>Reasonably Objective Basis</i> and Other Issues Affecting Prospective Financial Statements
SOP 92-6	Accounting and Reporting by Health and Welfare Benefit Plans
SOP 92-8	Auditing Property/Casualty Insurance Entities Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions
SOP 92-9	Audits of Not-for-Profit Organizations Receiving Federal Awards
SOP 93-1	Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies
SOP 93-2	Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies
SOP 93-3	Rescission of Accounting Principles Board Statements
SOP 93-4	Foreign Currency Accounting and Financial Statement Presentation for Investment Companies
SOP 93-5	Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations
SOP 93-8	The Auditor's Consideration of Regulatory Risk-Based Capital for Life Insurance Enterprises
SOP 94-1	Inquiries of State Insurance Regulators
SOP 94-2	The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations
SOP 94-3	Reporting of Related Entities by Not-for-Profit Organizations
SOP 94-4	Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans
SOP 95-2	Financial Reporting by Nonpublic Investment Partnerships
SOP 95-3	Accounting for Certain Distribution Costs of Investment Companies
SOP 95-4	Letters for State Insurance Regulators to Comply with the NAIC Model Audit Rule
SOP 95-5	Auditor's Reporting on Statutory Financial Statements of Insurance Enterprises
SOP 98-2	Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising
SOP 98-3	Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards
SOP 98-6	Reporting on Management's Assessment Pursuant to the Life Insurance Ethical Market Conduct Program of the Insurance Marketplace Standards Association
SOP 98-8	Engagements to Perform Year 2000 Agreed-Upon Procedures Attestation Engagements Pursuant to Rule 17a-5 of the Securities Exchange Act of 1934, Rule 17Ad-18 of the Securities Exchange Act of 1934, and Advisories No. 17-98 and No. 42-98 of the Commodity Futures Trading Commission
SOP 99-1	Guidance To Practitioners In Conducting And Reporting On An Agreed-Upon Procedures Engagement To Assist Management In Evaluating The Effectiveness Of Its Corporate Compliance Program
SOP 99-2	Accounting for and Reporting of 401(h) Features of Defined Benefit Pension Plans

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
SOP 99-3	Accounting and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters
SOP 00-1	Auditing Health Care Third-Party Revenues and Related Receivables
SOP 00-2	Accounting by Producers of Films
SOP 01-1	Amendment to Scope of Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships, to include Commodity Pools
SOP 01-2	Accounting and Reporting by Health and Welfare Benefit Plans
SOP 01-3	Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law
SOP 01-4	Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards
SOP 01-6	Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others
SOP 02-1	Performing Agreed Upon Procedures Engagements That Address Annual Claims Prompt Payment Reports as Required by the New Jersey Administrative Code
SOP 02-2	Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator
SOP 03-2	Attest Engagements on Greenhouse Gas Emissions Information
SOP 03-4	Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships
SOP 03-5	Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide "Audits of Investment Companies"
SOP 04-1	Auditing the Statement of Social Insurance
SOP 04-2	Accounting for Real Estate Time-Sharing Transactions
SOP 06-1	Reporting Pursuant to the Global Investment Performance Standards
SOP 07-1	Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies
SOP 07-2	Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers
SOP 09-1	Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy or Consistency of XBRL-Tagged Data
Pre-Codification FASB EITF	
EITF 84-9	Deposit Float of Banks
EITF 85-8	Amortization of Thrift Intangibles
EITF 85-12	Retention of Specialized Accounting for Investments in Consolidation
EITF 85-13	Sale of Mortgage Service Rights on Mortgages Owned by Others
EITF 85-18	Earnings-per-Share Effect of Equity Commitment Notes
EITF 85-23	Effect of a Redemption Agreement on Carrying Value of a Security
EITF 85-24	Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge
EITF 85-27	Recognition of Receipts from Made-Up Rental Shortfalls
EITF 85-31	Comptroller of the Currency's Rule on Deferred Tax Debits
EITF 85-41	Accounting for Savings and Loan Associations under FSLIC Management Consignment Program
EITF 85-42	Amortization of Goodwill Resulting from Recording Time Savings Deposits at Fair Values
EITF 85-44	Differences between Loan Loss Allowances for GAAP and RAP

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 86-2	Retroactive Wage Adjustments Affecting Medicare Payments
EITF 86-3	Retroactive Regulations regarding IRC Section 338 Purchase Price Allocations
EITF 86-5	Classifying Demand Notes with Repayment Terms
EITF 86-7	Recognition by Homebuilders of Profit from Sales of Land and Related Construction Contracts
EITF 86-12	Accounting by Insureds for Claims-Made Insurance Policies
EITF 86-13	Recognition of Inventory Market Declines at Interim Reporting Dates
EITF 86-24	Third-Party Establishment of Collateralized Mortgage Obligations
EITF 86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan
EITF 86-30	Classification of Obligations When a Violation is Waived by the Creditor
EITF 86-31	Reporting the Tax Implications of a Pooling of a Bank and a Savings and Loan Association
EITF 86-40	Investments in Open-End Mutual Funds That Invest in U.S. Government Securities
EITF 86-44	Effect of a Change in Tax Law on Investments in Safe Harbor Leases
EITF 86-46	Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986
EITF 87-4	Restructuring of Operations: Implications of SEC Staff Accounting Bulletin No. 67
EITF 87-10	Revenue Recognition by Television (Barter) Syndicators
EITF 87-20	Offsetting Certificates of Deposit against High-Coupon Debt
EITF 87-22	Prepayments to the Secondary Reserve of the FSLIC
EITF 87-24	Allocation of Interest to Discontinued Operations
EITF 87-30	Sale of a Short-Term Loan Made under a Long-Term Credit Commitment
EITF 88-4	Classification of Payment Made to IRS to Retain Fiscal Year
EITF 88-16	Basis in Leveraged Buyout Transactions
EITF 88-19	FSLIC-Assisted Acquisitions of Thrifts
EITF 88-20	Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio
EITF 88-25	Ongoing Accounting and Reporting for a Newly Created Liquidating Bank
EITF 89-3	Balance Sheet Presentation of Savings Accounts in Financial Statements of Credit Unions
EITF 89-19	Accounting for a Change in Goodwill Amortization for Business Combinations Initiated Prior to the Effective Date of FASB Statement No. 72
EITF 89-20	Accounting for Cross Border Tax Benefit Leases
EITF 90-4	Earnings-per-Share Treatment of Tax Benefits for Dividends on Stock Held by an Employee Stock Ownership Plan
EITF 90-16	Accounting for Discontinued Operations Subsequently Retained
EITF 90-18	Effect of a "Removal of Accounts" Provision on the Accounting for a Credit Card Securitization
EITF 91-6	Revenue Recognition of Long-Term Power Sales Contracts
EITF 91-9	Revenue and Expense Recognition for Freight Services in Process
EITF 91-10	Accounting for Special Assessments and Tax Increment Financing Entities (TIFEs)
EITF 92-3	Earnings-per-Share Treatment of Tax Benefits for Dividends on Unallocated Stock Held by an Employee Stock Ownership Plan
EITF 92-5	Amortization Period for Net Deferred Credit Card Origination Costs
EITF 92-7	Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs
EITF 92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises
EITF 92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992
EITF 93-1	Accounting for Individual Credit Card Acquisitions
EITF 93-9	Application of FASB Statement No. 109 in Foreign Financial Statements Restated for General Price-Level Changes

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 93-12	Recognition and Measurement of the Tax Benefit of Excess Tax-Deductible Goodwill Resulting from a Retroactive Change in Tax Law
EITF 94-2	Treatment of Minority Interests in Certain Real Estate Investment Trusts
EITF 95-1	Revenue Recognition on Sales with a Guaranteed Minimum Resale Value
EITF 95-4	Revenue Recognition on Equipment Sold and Subsequently Repurchased Subject to an Operating Lease
EITF 95-6	Accounting by a Real Estate Investment Trust for an Investment in a Service Corporation
EITF 95-7	Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts
EITF 95-22	Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement
EITF 96-7	Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination
EITF 96-16 *	Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights
EITF 96-17	Revenue Recognition under Long-Term Power Sales Contracts That Contain both Fixed and Variable Pricing Terms
EITF 97-1	Implementation Issues in Accounting for Lease Transactions, Including Those Involving Special-Purpose Entities
EITF 97-2	Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements
EITF 97-3 *	Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations after the Issuance of FASB Statement No. 25
EITF 97-4	Deregulation of the Pricing of Electricity
EITF 97-6	Application of Issue No. 96-20 to Qualifying Special-Purpose Entities Receiving Transferred Financial Assets Prior to the Effective Date of FASB Statement No. 125
EITF 97-7	Accounting for Hedges of the Foreign Currency Risk Inherent in an Available-for-Sale Marketable Equity Security
EITF 97-9	Effect on Pooling-of-Interests Accounting of Certain Contingently Exercisable Options or Other Equity Instruments
EITF 97-10 *	The Effect of Lessee Involvement in Asset Construction
EITF 97-15	Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combinations
EITF 98-1	Valuation of Debt Assumed in a Purchase Business Combination
EITF 98-10	Accounting for Contracts Involved in Energy Trading and Risk Management Activities
EITF 99-1	Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary
EITF 99-3	Application of Issue No. 96-13 to Derivative Instruments with Multiple Settlement Alternatives
EITF 99-5	Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements
EITF 99-6	Impact of Acceleration Provisions in Grants Made between Initiation and Consummation of a Pooling-of-Interests Business Combination
EITF 99-7	Accounting for an Accelerated Share Repurchase Program
EITF 99-11	Subsequent Events Caused by Year 2000
EITF 99-13	Application of Issue No. 97-10 and FASB Interpretation No. 23 to Entities that Enter into Leases with Governmental Entities
EITF 99-15	Accounting for Decreases in Deferred Tax Asset Valuation Allowances Established in a Purchase Business Combination as a Result of a Change in Tax Regulations
EITF 99-16	Accounting for Transactions with Elements of Research and Development Arrangements
EITF 99-18	Effect on Pooling-of-Interests Accounting on Contracts Indexed to a Company's Own Stock
EITF 99-19	Reporting Revenue Gross as a Principal versus Net as an Agent
EITF 00-4	Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 00-6	Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary
EITF 00-7	Application of Issue No. 96-13 to Equity Derivative Instruments That Contain Certain Provisions that Require Net Cash Settlement if Certain Events Outside the Control of the Issuer Occur
EITF 00-10	Accounting for Shipping and Handling Fees and Costs
EITF 00-14	Accounting for Certain Sales Incentives
EITF 00-15	Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option
EITF 00-17	Measuring the Fair Value of Energy-Related Contracts in Applying Issue No. 98-10
EITF 00-19	Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock
EITF 00-22	Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future
EITF 01-3	Accounting in a Business Combination for Deferred Revenue of an Acquiree
EITF 01-5 *	Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed Of
EITF 01-6	The Meaning of "Indexed to a Company's Own Stock"
EITF 01-9	Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)
EITF 01-12	The Impact of the Requirements of FASB Statement No. 133 on Residual Value Guarantees in Connection with a Lease
EITF 01-14	Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred
EITF 02-3 *	Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities
EITF 02-6	Classification in the Statement of Cash Flows of Payments Made to Settle an Asset Retirement Obligation within the Scope of FASB Statement No. 143
EITF 02-7 *	Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets
EITF 02-8	Accounting for Options Granted to Employees in Unrestricted, Publicly Traded Shares of an Unrelated Entity
EITF 02-13 *	Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142
EITF 02-14 *	Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means
EITF 02-16	Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor
EITF 02-17 *	Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination
EITF 03-2	Accounting for the Transfer to the Japanese Government of the Substantial Portion of Employee Pension Fund Liabilities
EITF 03-6 *	Participating Securities and the Two-class Method under FASB Statement No. 128
EITF 03-10	Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers
EITF 03-11 *	Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not "Held for Trading Purposes" as Defined in Issue No. 02-3
EITF 03-12	The Impact of FASB Interpretation No. 45 on Issue No. 95-1
EITF 03-13	Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations
EITF 03-16 *	Accounting for Investments in Limited Liability Companies
EITF 04-1	Accounting for Preexisting Relationships between the Parties to a Business Combination
EITF 04-2	Whether Mineral Rights are Tangible or Intangible Assets

NONAPPLICABLE GAAP PRONOUNCEMENTS FOR STATUTORY ACCOUNTING

GAAP Pronouncement	Title
EITF 04-3	Mining Assets: Impairment and Business Combinations
EITF 04-4	Allocation of Goodwill to Reporting Units for a Mining Enterprise
EITF 04-5	Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights
EITF 04-6	Accounting for Stripping Costs Incurred During Production in the Mining Industry
EITF 04-7	Determining Whether an Interest is a Variable Interest in a Potential Variable Interest Entity
EITF 04-8	The Effect of Contingently Convertible Instruments on Diluted Earnings per Share
EITF 04-10	Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds
EITF 04-13	Accounting for Purchases and Sales of Inventory with the Same Counterparty
EITF 05-5	Accounting for Early Retirement or Postemployment Programs with Specified Features (Such as Term Specified in Altersteilzeit Early Retirement Arrangements)
EITF 05-6	Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination
EITF 05-8	Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature
EITF 06-1	Accounting for Consideration Given by a Specific Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider
EITF 06-07	Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133
EITF 06-10	Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements
EITF 07-1	Accounting for Collaborative Arrangements
EITF 07-4	Application of the Two-Class Method under FAS 128 to Master Limited Partnerships
EITF 07-5	Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock
EITF 08-8	Accounting for an Instrument (or an embedded feature) with a Settlement Amount That is Based on the Stock of an Entity's Consolidated Subsidiary
<i>Pre-Codification AICPA Practice Bulletins (PB)</i>	
PB 2	Elimination of Profits Resulting From Intercompany Transfers of LIFO Inventories
PB 5	Income Recognition on Loans to Financially Troubled Countries
PB 11	Accounting for Preconfirmation Contingencies in Fresh-Start Reporting
PB 12	Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans
PB 14	Accounting and Reporting by Limiting Liability Companies and Limited Liability Partnerships
<i>Pre-Codification AICPA Accounting Interpretations (AIN)</i>	
AIN-APB15	Computing Earnings per Share: Accounting Interpretations of APB Opinion No. 15

Appendix D

FASB Codification Cross-Reference to GAAP Pronouncements as of December 2023

Information provided within this Appendix D supplement has been obtained from the FASB Cross-Reference Tool. This supplement serves as a reference tool in tracing the FASB Codification to pre-codification GAAP standards and post-codification GAAP accounting standard updates (ASU) that have been reviewed, or are pending review, as part of the current NAIC statutory accounting maintenance process. This supplement does not indicate which GAAP standards have been adopted, adopted with modification or rejected for statutory accounting, as this information is contained in previous sections of this appendix. The following information is not included within this supplement:

- Pre-codification GAAP guidance that has not been captured as part of the statutory accounting maintenance process, but that has been incorporated into the FASB codification, which includes FASB Derivative Implementation Group Issues; EITF Appendix D Topics; FASB Statement No. 138 Examples; FASB Staff Implementation Guides; AICPA Technical Inquiry Service and Audit and Accounting Guides
- SEC standards incorporated within the FASB Codification SEC Financial Reporting Releases; SEC Interpretive Releases; SEC Staff Accounting Bulletins; and SEC Regulation S-X.
- GAAP codification topics (and/or subtopics) that have been deemed not applicable to statutory accounting (e.g. Topic 920 – Entertainment-Films)
- GAAP codification topics (and/or subtopics) that had no reference to previous GAAP guidance reflected in the FASB Cross-Reference Tool.

The Audit and Accounting Guides (AAG) related to insurance have been reviewed for statutory accounting and are referenced in this supplement – HCO: Health Care Organizations, LHI: Life and Health Insurance and PLI: Property and Liability Insurance Companies.

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
105 – Generally Accepted Accounting Principles			
105-10	Overall	2015-10; 2018-09; 2020-10; 2023-06	FAS 168
205 – Presentation of Financial Statements			
205-10	Overall	2011-05; 2013-07; 2014-08; 2019-07; 2020-10; 2021-06; 2023-05	FAS 52; FAS 130; FAS 144; ARB 43
205-20	Discontinued Operations	2014-08; 2015-10; 2023-05	FAS 128; FAS 142; FAS 144; SOP 94-6; EITF 87-24; EITF 03-13
205-30	Liquidation Basis of Accounting	2013-07	
205-40	Going Concern	2014-15	
210 – Balance Sheet			
210-10	Overall	2010-21; 2019-07	FAS 6; APB 12; ARB 43; SOP 81-1; SOP 90-7; SOP 00-2
210-20	Offsetting	2011-11; 2012-04; 2013-01	FIN 39; FIN 41; APB 10
215 – Statement of Shareholder Equity			

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
220 – Comprehensive Income			
220-10	Overall	2011-05; 2011-12; 2013-02; 2016-01; 2016-13; 2017-07; 2017-12; 2018-02; 2018-09; 2018-12; 2019-07; 2020-10; 2023-03	FAS 130; FAS 133
225 – Income Statement			
225-10	Overall	2010-21	APB 09
225-20	Extraordinary and Unusual Items	2015-01	FAS 109; FAS 144; FIN 18; APB 09; APB 18; APB 28; APB 30; FTB 85-06; AIN-APB9; AIN-APB30
225-30	Business Interruption Insurance		EITF 01-13
230 – Statement of Cash Flows			
230-10	Overall	2010-08; 2012-04; 2012-05; 2013-08; 2014-08; 2015-07; 2016-01; 2016-02; 2016-09; 2016-13; 2016-14; 2016-15; 2016-18; 2018-07; 2018-08; 2023-06; 2023-08; 2023-09	FAS 95; FAS 102; FAS 132; EITF 95-13; EITF 02-06
235 – Notes to Financial Statements			
235-10	Overall	2014-09; 2019-07	APB 22
250 – Accounting Changes and Error Corrections			
250-10	Overall	2017-03; 2020-10; 2023-06	FAS 16; FAS 128; FAS 154; FAS 157; FIN 01; APB 9; APB 18; APB 28
255 – Changing Prices			
255-10	Overall	2016-02; 2021-05	FAS 52; FAS 89; SOP 93-3; EITF 04-03
260 – Earnings per Share			
260-10	Overall	2009-08; 2009-15; 2015-06; 2016-09; 2017-11; 2018-07; 2018-09; 2019-08; 2020-06; 2020-10; 2021-04; 2023-06	FAS 123(R); FAS 128; FAS 129; FAS 150; APB 18; FSP EITF 03-06-1; EITF 97-14; EITF 99-07; EITF 00-27; EITF 03-06; EITF 04-08; EITF 07-04
270 – Interim Reporting			
270-10	Overall	2010-20; 2011-11; 2013-02; 2014-04; 2014-08; 2014-09; 2015-09; 2015-11; 2016-01; 2016-02; 2016-13; 2018-12; 2019-07; 2020-09; 2020-10; 2022-02; 2022-04; 2023-02; 2023-06; 2023-07; 2023-08	FAS 16; FAS 157; APB 28
272 – Limited Liability Entities			
272-10	Overall	2010-08	FAS 109; EITF 03-16; PB 14
274 – Personal Financial Statements			
274-10	Overall	2015-10	SOP 82-1
275 – Risks and Uncertainties			
275-10	Overall	2014-09; 2014-10; 2015-11	FSP FAS 142-3; SOP 94-6
280 – Segment Reporting			
280-10	Overall	2014-08; 2023-07	FAS 131; FAS 142; FAS 146; TB 79-04; EITF 04-10
305 – Cash and Cash Equivalents			

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
310 – Receivables			
310-10	Overall	2010-20; 2010-25; 2011-01; 2011-04; 2012-04; 2014-04; 2014-09; 2014-14; 2016-02; 2016-13; 2016-20; 2019-04; 2020-10; 2021-05; 2022-01; 2022-02	FAS 5; FAS 65; FAS 95; FAS 102; FAS 107; FAS 114; FAS 118; FAS 133; FAS 140; APB 12; APB 21; ARB 43; FSP SOP 94-6-1; SOP 97-3; SOP 01-6; SOP 03-3; EITF 85-01; EITF 85-20; EITF 86-21; EITF 88-20; PB 01
310-20	Nonrefundable Fees and Other Costs	2016-13; 2017-08; 2020-08; 2022-02	FAS 91; EITF 84-19; EITF 92-05; EITF 93-01; EITF 97-03; EITF 99-20; EITF 01-07; SOP 01-6
310-30	Loans and Debt Securities Acquired with Deteriorated Credit Quality	2010-18; 2016-13	FAS 114; EITF 99-20; SOP 97-1; SOP 03-3
310-40	Troubled Debt Restructurings by Creditors	2010-18; 2010-20; 2011-02; 2014-04; 2014-14; 2016-13; 2016-19; 2022-02	FAS 15; FAS 114; FAS 118; TB 80-02; FSP FAS 144-1; EITF 87-18; EITF 87-19; EITF 89-14; EITF 94-08; EITF 96-22
320 – Investments–Debt and Equity Securities			
320-10	Overall	2015-10; 2016-01; 2016-13; 2018-04; 2018-09; 2019-04; 2019-11; 2022-01; 2022-02	FAS 115; FAS 140; TB 94-01; FSP FAS 115-1/124-1; SOP 78-9; EITF 86-40; EITF 96-10; EITF 96-11; EITF 96-12; EITF 96-15; EITF 98-13; EITF 98-15; EITF 99-20
321 – Investments–Equity Securities			
321-10	Overall	2018-03; 2019-04; 2020-01	
323 – Investments–Equity Method and Joint Ventures			
323-10	Overall	2010-02; 2013-08; 2014-02; 2016-01; 2016-07; 2016-13; 2017-05; 2018-07; 2019-06; 2020-01; 2021-03	FAS 128; FAS 130; FAS 142; FIN 35; FIN 46(R); APB 18; FSP APB 18-1; EITF 98-13; EITF 99-10; EITF 00-12; EITF 02-14; EITF 02-18; EITF 08-06; AIN-APB 18
323-30	Partnerships, Joint Ventures, and Limited Liability Entities		FSP APB 18-1; EITF 00-01; EITF 03-16; AIN-APB 18; SOP 78-9
323-740	Income Taxes	2014-01; 2016-01; 2017-03; 2023-02	EITF 94-01
325 – Investments–Other			
325-10	Overall	2016-01	FAS 60
325-20	Cost Method Investments	2016-01	APB 18; FSP FAS 115-1/124-1; EITF 91-05; EITF 94-01
325-30	Investments in Insurance Contracts		TB 85-04; FSP FTB 85-04-1; EITF 88-05; EITF 99-04; EITF 06-05
325-40	Beneficial Interests in Securitized Financial Assets	2016-13	EITF 99-20

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
326 – Financial Instruments – Credit Losses			
326-10	Overall	2016-13; 2017-03; 2018-19; 2019-04; 2019-05; 2019-10; 2019-11; 2020-03; 2022-01; 2022-02	
326-20	Measured at Amortized Cost	2016-13; 2018-19; 2019-04; 2019-11; 2020-02; 2020-03; 2022-01; 2022-02	
326-30	Available-for-Sale Debt Securities	2016-13; 2019-04; 2022-01	
330 – Inventory			
330-10	Overall	2012-04; 2014-09; 2015-11; 2017-07	FIN 01; ARB 43; EITF 86-13; EITF 86-46; EITF 96-09; EITF 01-09; SOP 94-6
340 – Other Assets and Deferred Costs			
340-10	Overall	2010-22; 2014-09	ARB 43 Chapter 3a; FSP AUG AIR-1; EITF 99-05
340-20	Capitalized Advertising Costs		SOP 93-7; PB 13
340-30	Insurance Contracts that Do Not Transfer Insurance Risk		SOP 98-7
340-40	Contracts with Customers	2014-09; 2016-20	
350 – Intangibles–Goodwill and Other			
350-10	Overall	2014-09; 2017-04; 2017-05; 2018-15; 2023-05; 2023-08	FAS 142; SOP 98-1; EITF 00-02
350-20	Goodwill	2010-28; 2011-08; 2012-04; 2014-02; 2016-03; 2017-04; 2019-06; 2019-10; 2021-03; 2023-05	FAS 131; FAS 142; EITF 02-13
350-30	General Intangibles Other than Goodwill	2012-02; 2017-04; 2018-01; 2018-12; 2023-05; 2023-08	FAS 142; FSP FAS 142-3; EITF 02-07; EITF 08-07
350-40	Internal Use Software	2014-09; 2015-05; 2016-19; 2017-04; 2018-15	SOP 98-1
350-50	Website Development Costs		SOP 98-1; EITF 00-02
350-60	Crypto Assets	2023-08	
360 – Property, Plant and Equipment			
360-10	Overall	2014-04; 2014-08; 2014-09; 2016-02; 2017-05; 2019-03; 2022-02	FAS 5; FAS 13; FAS 34; FAS 92; FAS 143; FAS 144; APB 12; ARB 43; TB 86-02; FSP AUG AIR-1; SOP 94-6; EITF 95-23; PB 1
360-20	Real Estate Sales	2011-10; 2014-09; 2016-19	FAS 66; FIN 43; EITF 84-17; EITF 86-06; EITF 87-09; EITF 88-12; EITF 88-24; EITF 95-23; EITF 98-08; EITF 00-13; EITF 06-08; EITF 07-06
405 – Liabilities			
405-10	Overall	2014-09; 2014-20; 2022-04; 2023-04	
405-20	Extinguishments of Liabilities	2016-04	FAS 140
405-30	Insurance-Related Assessments	2011-06	SOP 97-3
405-40	Obligations Resulting from Joint and Several Liabilities	2013-04; 2016-19	

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
405-50	Liabilities—Supplier Finance Programs	2022-04	
410 – Asset Retirement and Environmental Obligations			
410-20	Asset Retirement Obligations	2012-04; 2014-09	FAS 13; FAS 143; FIN 47; FSP FAS 143-1; EITF 89-13; EITF 90-08; EITF 02-06
410-30	Environmental Obligations	2012-04	SOP 94-6; SOP 96-1; EITF 89-13; EITF 90-08
420 – Exit or Disposal Cost Obligations			
420-10	Overall	2016-02	FAS 43; FAS 87; FAS 106; FAS 112; FAS 146; FSP FAS 146-1; EITF 96-05; EITF 96-09
430 – Deferred Revenue			
430-10	Overall	2014-09	SOP 00-2
440 – Commitments			
440-10	Overall	2014-09; 2018-07; 2023-06	FAS 5; FAS 13; FAS 47; FAS 52; FAS 65; FAS 66; FAS 68; FAS 91; FAS 116; FAS 133; ARB 43; ARB 45; AAG-HCO; SOP 96-1; EITF 91-06; EITF 96-18; EITF 01-08
450 – Contingencies			
450-10	Overall	2014-09; 2023-05	FAS 5; FAS 13; FAS 48; FAS 109; FAS 113; APB 28; FIN 30; SOP 97-2; SOP 98-7; EITF 93-14; EITF 96-05
450-20	Loss Contingencies	2010-20; 2016-13	FAS 5; FAS 15; FAS 16; FAS 132(R); FAS 143; FAS 146; FIN 14; FIN 47; ARB 43; AAG-HCO; SOP 93-1; SOP 94-6; SOP 96-1; SOP 97-3; EITF 92-13; EITF 97-01; EITF 98-09
450-30	Gain Contingencies	2016-02; 2021-05	FAS 5; FIN 39; EITF 98-09; EITF 01-13; EITF 03-08
460 – Guarantees			
460-10	Overall	2012-04; 2014-09; 2016-13; 2016-19; 2018-10; 2020-09; 2020-10	FAS 5; FAS 13; FAS 35; FAS 48; FAS 66; FAS 140; FAS 150; FIN 19; FIN 45; FIN 46(R); APB 18; TB 90-01; FSP FIN 45-1; FSP FIN 45-2; FSP FIN 45-3; SOP 81-1; SOP 93-6; SOP 94-6; SOP 00-2; SOP 01-6; EITF 84-05; EITF 85-20; EITF 86-17; EITF 86-33; EITF 90-14; EITF 90-20; EITF 90-21; EITF 91-10; EITF 92-01; EITF 95-01; EITF 96-21; EITF 97-01; EITF 97-10; EITF 99-02; EITF 99-05;

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
			EITF 00-04; EITF 01-12; EITF 03-12
470 – Debt			
470-10	Overall	2019-07; 2020-06; 2020-09; 2023-06	FAS 6; FAS 13; FAS 47; FAS 78; FAS 129; FIN 08; APB 21; ARB 43; TB 79-03; FSP FAS 129-1; EITF 86-05; EITF 86-15; EITF 86-28; EITF 86-30; EITF 88-15; EITF 88-18; EITF 95-22
470-20	Debt with Conversion and Other Options	2009-15; 2018-07; 2019-08; 2020-06	FAS 5; FAS 15; FAS 84; FAS 133; FAS 159; APB 14; FSP APB 14-1; FSP EITF 00-19-2; EITF 85-09; EITF 85-17; EITF 98-05; EITF 00-27; EITF 01-01; EITF 02-15; EITF 05-01; EITF 06-07; AIN APB 26
470-30	Participating Mortgage Loans	2015-10	SOP 97-1
470-40	Product Financing Arrangements	2014-09	FAS 49
470-50	Modifications and Extinguishments	2018-09; 2020-03; 2020-06; 2021-04	FAS 140; FAS 145; APB 26; TB 80-01; EITF 96-19; EITF 98-14; EITF 06-06; AIN-APB 26
470-60	Troubled Debt Restructurings by Debtors	2016-13; 2016-19; 2022-02	FAS 15; TB 80-02; TB 81-06; EITF 02-04
480 – Distinguishing Liabilities from Equity			
480-10	Overall	2017-11; 2018-07; 2018-09; 2023-03	FAS 150; FSP FAS 150-1; FSP FAS 150-2; FSP FAS 150-3; FSP FAS 150-4; FSP FAS 150-5; EITF 89-11; EITF 00-04; EITF 00-19
505 – Equity			
505-10	Overall	2010-21; 2015-10; 2017-11; 2018-07; 2019-07; 2020-06; 2020-09; 2021-04; 2023-06	FAS 5; FAS 129; FAS 130; APB 9; APB 12; APB 14; ARB 43; ARB 51; FSP FAS 129-1; EITF 85-01; EITF 86-32; EITF 98-05; EITF 00-12; EITF 00-19; EITF 00-27
505-20	Stock Dividends and Stock Splits	2010-01	ARB 43
505-30	Treasury Stock		ARB 43; TB 85-6; EITF 99-07
505-50	ASC Topic 505-50 was superseded by Topic 718 as detailed in ASU 2018-07 ASC Topic 505-50-S was superseded by ASU 2023-03		
505-60	Spinoffs and Reverse Spinoffs		FAS 123(R); EITF 02-11
605 – Revenue Recognition			
605	ASC Topic 605 was superseded by Topic 606 as detailed in ASU 2014-09		
606 – Revenue from Contracts with Customers			
606-10	Overall	2014-09; 2015-14; 2016-01; 2016-08; 2016-10; 2016-12; 2016-13; 2016-20; 2017-03; 2017-13; 2018-07; 2018-08;	

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
		2018-18; 2019-08; 2020-05; 2021-02	
610 – Other Income			
610-10	Overall	2014-09	
610-20	Gains and Losses from the Derecognition of Nonfinancial Assets	2014-09; 2017-05	
610-30	Gains and Losses on Involuntary Conversions	2014-09	FIN 30; APB 29
705 – Cost of Sales and Services			
705-10	Overall	2014-09; 2015-11	
705-20	Accounting for Consideration Received from a Vendor	2018-07	EITF 02-16; EITF 03-10
710 – Compensation-General			
710-10	Overall		FAS 43; FAS 88; FAS 106; APB 12; EITF 88-23; EITF 93-03; EITF 96-05; EITF 97-14; EITF 06-02
712 – Compensation-Nonretirement Postemployment Benefits			
712-10	Overall		FAS 88; FAS 106; FAS 112; FAS 146; FIN 46(R); EITF 96-05
715 – Compensation-Retirement Benefits			
715-10	Overall	2015-04; 2017-07	FAS 87; FAS 106
715-20	Defined Benefit Plans—General	2010-06; 2011-04; 2015-04; 2015-07; 2017-07; 2018-14; 2020-10	FAS 87; FAS 88; FAS 106; FAS 132(R); FAS 158; APB 12; EITF 88-01; EITF 03-02
715-30	Defined Benefit Plans—Pension	2011-09; 2012-04; 2015-04; 2017-07; 2020-10	FAS 87; FAS 88; FAS 106; FAS 130; FAS 146; FAS 158; FIN 46(R); FSP FAS 146-1; EITF 88-01; EITF 91-07; EITF 03-02; EITF 03-04; EITF 05-05
715-60	Defined Benefit Plans—Other Postretirement	2012-04; 2015-04; 2017-07	FAS 88; FAS 106; FAS 158; FIN 46(R); FSP FAS 106-2; EITF 92-12; EITF 92-13; EITF 93-03; EITF 96-05; EITF 06-04; EITF 06-10
715-70	Defined Contribution Plans		FAS 106; FAS 132(R); EITF 86-27
715-80	Multiemployer Plans	2011-09	FAS 87; FAS 106; FAS 132(R); EITF 90-03
718 – Compensation-Stock Compensation			
718-10	Overall	2010-13; 2014-12; 2018-07; 2019-08; 2020-06; 2021-04; 2021-07; 2023-03; 2023-05	FAS 5; FAS 123(R); FAS 128; FSP FAS 123(R)-1; FSP FAS 123(R)-2; FSP FAS 123(R)-4; EITF 96-05; EITF 97-02; EITF 00-12; EITF 00-16; EITF 07-05
718-20	Awards Classified as Equity	2017-09; 2018-07	FAS 123(R)
718-30	Awards Classified as Liabilities	2018-07; 2019-08	FAS 123(R)
718-40	Employee Stock Ownership Plans		SOP 93-6; EITF 90-04

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
718-50	Employee Share Purchase Plans	2018-07	FAS 123(R); TB 97-01
718-740	Income Taxes	2016-09; 2018-07; 2018-09; 2019-12	FAS 109; FAS 123(R); SOP 93-6; EITF 06-11
720 – Other Expenses			
720-15	Start-Up Costs	2014-09	SOP 98-5
720-20	Insurance Costs		FAS 5; AAG-HCO; EITF 93-14; EITF 03-08
720-25	Contributions Made	2018-08	FAS 116
720-30	Real and Personal Property Taxes		ARB 43
720-35	Advertising Costs	2016-20; 2018-09	SOP 93-7
720-40	Electronic Equipment Waste Obligations		FSP FAS 143-1
720-45	Business and Technology Reengineering		EITF 97-13
720-50	Fees Paid to the Federal Government by Pharmaceutical Manufacturers and Health Insurers	2010-27; 2011-06	
730 – Research and Development			
730-10	Overall	2023-05	FAS 2; FAS 86; FIN 06; SOP 97-2; SOP 98-1; EITF 99-05; EITF 07-03
730-20	Research and Development Arrangements	2014-09	FAS 2; FAS 5; FAS 68; SOP 97-2; EITF 07-03
740 – Income Taxes			
740-10	Overall	2009-06; 2010-12; 2013-11; 2014-09; 2015-17; 2016-01; 2016-16; 2017-15; 2018-02; 2018-05; 2018-09; 2019-12; 2020-06; 2020-10; 2023-02; 2023-05; 2023-09	FAS 37; FAS 109; FAS 116; FAS 164; FIN 30; FIN 48; APB 2; APB 4; APB 10; APB 18; APB 21; FSP FAS 106-2; FSP FAS 109-1; FSP FIN 48-1; SOP 94-6; EITF 87-08; EITF 88-04; EITF 91-08; EITF 93-13; EITF 94-10; EITF 95-09; EITF 95-10; EITF 95-20; EITF 98-11; EITF 05-08
740-20	Intraperiod Tax Allocation	2019-12	FAS 109; EITF 94-10
740-30	Other Considerations or Special Areas	2018-06; 2019-12; 2023-09	FAS 109; APB 23; EITF 93-16; EITF 93-17
740-270	Interim Reporting	2016-09; 2019-12	FAS 109; FAS 144; FIN 18; APB 28; TB 79-09
805 – Business Combinations			
805-10	Overall	2010-02; 2010-29; 2013-05; 2014-13; 2015-16; 2017-01; 2021-05; 2023-05	FAS 141(R); FAS 164; FSP FAS 141(R)-1; EITF 98-04
805-20	Identifiable Assets and Liabilities, and Any Noncontrolling Interest	2011-04; 2012-06; 2014-09; 2014-18; 2015-16; 2016-02; 2016-03; 2016-13; 2019-06; 2019-11; 2021-03; 2021-05; 2021-08; 2023-05	FAS 5; FAS 13; FAS 87; FAS 106; FAS 141(R); FSP FAS 141(R)-1; EITF 96-05; EITF 05-06

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
805-30	Goodwill or Gain from Bargain Purchase, Including Consideration Transferred	2016-09; 2018-07; 2021-03; 2023-05	FAS 141(R); FAS 142; FSP FAS 141(R)-1
805-40	Reverse Acquisitions	2023-05	FAS 141(R)
805-50	Related Issues	2010-08; 2014-17; 2015-08; 2017-05; 2023-05	FAS 141(R); FAS 164; EITF 85-21; EITF 86-09; EITF 87-21
805-740	Income Taxes	2016-09; 2018-07; 2018-09; 2023-05	FAS 109; FAS 141(R); FIN 48; EITF 86-09
808 – Collaborative Arrangements			
808-10	Overall	2018-18; 2021-05; 2023-05	
810 – Consolidation			
810-10	Overall	2010-02; 2010-10; 2010-22; 2011-10; 2013-05; 2013-08; 2014-07; 2014-09; 2014-10; 2014-13; 2015-02; 2016-03; 2016-13; 2016-14; 2016-17; 2018-04; 2018-17; 2019-07; 2023-02; 2023-05	FAS 94; FAS 167; FIN 46(R); APB 18; ARB 51; FSP FAS 140-4/FIN 46(R)-8; FSP FIN 46(R)-1; FSP FIN 46(R)-2; FSP FIN 46(R)-3; FSP FIN 46(R)-5; FSP FIN 46(R)-6; EITF 84-04; EITF 85-12; EITF 86-32; EITF 88-14; EITF 88-15; EITF 96-16; EITF 97-02; EITF 97-14; EITF 00-01; EITF 01-02; EITF 04-05; EITF 06-09; EITF 08-08; PB 01; PB 02; AIN APB 18
810-20	Control of Partnerships and Similar Entities		EITF 04-05
810-30	Research and Development Arrangements	2015-02	EITF 99-16
815 – Derivatives and Hedging			
815-10	Overall	2010-11; 2013-01; 2014-03; 2014-09; 2015-12 (Part I); 2015-13; 2016-01; 2016-03; 2016-11; 2016-13; 2016-14; 2016-20; 2017-11; 2017-12; 2018-03; 2018-07; 2018-09; 2018-12; 2018-16; 2019-04; 2020-01; 2020-06; 2022-01; 2023-05; 2023-06	FAS 95; FAS 123(R); FAS 133; FAS 138; FAS 149; FAS 157; FAS 161; FIN 39; FSP FAS 129-1; FSP EITF 00-19-2; EITF 84-20; EITF 86-25; EITF 96-11; EITF 99-08; EITF 00-06; EITF 00-19; EITF 01-08; EITF 01-12; EITF 02-03; EITF 02-08; EITF 03-11; EITF 08-08
815-15	Embedded Derivatives	2010-11; 2014-16; 2016-01; 2016-06; 2016-13; 2018-03; 2018-09; 2018-12; 2020-06	FAS 107; FAS 133; FAS 155; FSP APB 14-1; EITF 84-04; EITF 86-21; EITF 00-19; EITF 06-07; PB 01
815-20	Hedging—General	2013-10; 2014-03; 2016-03; 2016-05; 2017-12; 2018-16; 2019-04; 2019-10; 2022-01	FAS 52; FAS 95; FAS 133; FAS 138; FAS 140
815-25	Fair Value Hedges	2016-05; 2016-13; 2017-12; 2018-16; 2019-04; 2022-01	FAS 133; FAS 138; EITF 99-09

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
815-30	Cash Flow Hedges	2010-08; 2016-05; 2016-13; 2017-12; 2018-16	FAS 133; FAS 138; EITF 99-09; EITF 00-09
815-35	Net Investment Hedges	2017-12	FAS 133
815-40	Contracts in Entity’s Own Equity	2017-11; 2018-07; 2020-06; 2021-04	FSP EITF 00-19-2; EITF 00-19; EITF 05-02; EITF 07-05; EITF 08-08
815-45	Weather Derivatives		EITF 99-02
820 – Fair Value Measurements and Disclosures			
820-10	Overall	2009-05; 2009-12; 2010-06; 2011-04; 2013-08; 2013-09; 2014-09; 2014-13; 2015-07; 2015-10; 2016-13; 2016-19; 2018-07; 2018-09; 2018-13; 2020-03; 2020-07; 2022-03	FAS 157; EITF 08-05
825 – Financial Instruments			
825-10	Overall	2009-05; 2011-04; 2013-03; 2014-03; 2015-12 (Part I); 2016-01; 2016-04; 2016-13; 2016-14; 2018-03; 2018-09; 2019-04; 2020-01; 2020-03; 2020-06	FAS 107; FAS 126; FAS 159; FSP APB 14-1; FSP SOP 94-6-1; SOP 01-6; EITF 08-05
825-20	Registration Payment Arrangements	2020-06	FSP EITF 00-19-2
830 – Foreign Currency Matters			
830-10	Overall	2015-11; 2019-04	FAS 52; APB 30; EITF 92-04
830-20	Foreign Currency Transactions	2018-03; 2020-10	FAS 52; FAS 109; EITF 87-12; EITF 96-15
830-30	Translation of Financial Statements	2010-19; 2013-05; 2016-13	FAS 52; FIN 37; EITF 01-05
830-230	Statement of Cash Flows	2016-18	FAS 95
830-740	Income Taxes	2020-10	FAS 109; EITF 92-08; EITF 93-09; EITF 93-16
832 – Government Assistance			
832-10	Overall	2021-10	
835 – Interest			
835-10	Overall	2016-01; 2016-13	FAS 116; FAS 150; FIN 48; SOP 03-3; SOP 98-7; EITF 85-17; EITF 86-15; EITF 96-12; EITF 99-20
835-20	Capitalization of Interest		FAS 34; FAS 42; FAS 58; FAS 62; FAS 87; FAS 143; FAS 154; SOP 97-1
835-30	Imputation of Interest	2014-09; 2015-03; 2015-15; 2020-06; 2020-10	APB 12; APB 21; SOP 01-6
840 – Leases			
840	ASC Topic 840 was superseded by Topic 842, as detailed in ASU 2016-02		
842 – Leases			
842-10	Overall	2016-02; 2017-03; 2017-13; 2018-01; 2018-10; 2018-11; 2018-20; 2019-01; 2019-10; 2020-02; 2020-03; 2020-05; 2021-05; 2021-09; 2023-01; 2023-05	
842-20	Lessee	2016-02; 2018-10; 2021-05; 2021-09; 2023-01; 2023-05	

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
842-30	Lessor	2016-02; 2016-13; 2018-10; 2018-11; 2018-20; 2019-01; 2021-05	
842-40	Sale and Leaseback Transactions	2016-02; 2018-10; 2021-05; 2021-09	
842-50	Leveraged Lease Arrangements	2016-02; 2016-13; 2022-02; 2023-05	
842-974	Real Estate Investment Trust	2016-02	
845 – Nonmonetary Transactions			
845-10	Overall	2010-02; 2014-09; 2017-05; 2018-07; 2019-08; 2023-05	APB 29; EITF 93-11; EITF 98-04; EITF 00-08; EITF 01-02; EITF 04-13
848 – Reference Rate Reform			
848-10	Overall	2020-04; 2021-01; 2022-06	
848-20	Contract Modifications	2020-04; 2020-06; 2021-01	
848-30	Hedging—General	2020-04; 2021-01	
848-40	Fair Value Hedges	2020-04; 2021-01; 2022-06	
848-50	Cash Flow Hedges	2020-04; 2021-01	
850 – Related Party Disclosures			
850-10	Overall		FAS 45; FAS 57; FIN 45; APB 18; APB 26; ARB 43; ARB 51; EITF 85-01; PB 14
852 – Reorganizations			
852-10	Overall	2012-04; 2020-10	SOP 90-7; EITF 88-25
852-20	Quasi-Reorganizations		ARB 43; SOP 90-7
852-740	Income Taxes		FAS 109; SOP 90-7
853 – Service Concession Arrangements			
853-10	Overall	2014-05; 2017-10	
855 – Subsequent Events			
855-10	Overall	2010-09; 2016-13	FAS 144; FAS 165; SOP 00-2
860 – Transfers and Servicing			
860-10	Overall	2011-03; 2014-11; 2015-10; 2016-02; 2017-05; 2021-05	FAS 5; FAS 57; FAS 91; FAS 140; FAS 159; FAS 166; FIN 46(R); ARB 51; TB 01-01; FSP FAS 140-3; SOP 90-3; SOP 04-2; EITF 84-20; EITF 86-08; EITF 87-30; EITF 88-22; EITF 90-21; EITF 97-03; EITF 99-08
860-20	Sales of Financial Assets	2014-11; 2016-13; 2016-19; 2020-03; 2022-01	FAS 95; FAS 115; FAS 140; FSP FAS 140-1; SOP 01-6; EITF 84-05; EITF 85-25; EITF 88-22; EITF 02-09
860-30	Secured Borrowing and Collateral	2013-01; 2014-11; 2023-06	FAS 140; FIN 41
860-50	Servicing Assets and Liabilities		FAS 65; FAS 140; FAS 156; TB 87-03; SOP 01-6; EITF 85-13; EITF 87-34; EITF 90-21; EITF 95-05; EITF 02-09
912 – Contractors—Federal Government			
912-10	Overall		ARB 43
912-20	Contract Costs		ARB 43; SOP 81-1

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
912-210	Balance Sheet		ARB 43
912-225	Income Statement		ARB 43
912-275	Risks and Uncertainties		FAS 146; ARB 43
912-310	Receivables	2014-09	ARB 43
912-330	Inventory		ARB 43
912-405	Liabilities		ARB 43
912-605	Revenue Recognition		ARB 43
912-835	Interest	2014-09	
915 – Development Stage Entities			
915-10	Overall	2014-10	FAS 07; FIN 07
915-205	Presentation of Financial Statements		FAS 07
915-210	Balance Sheet		FAS 07
915-215	Statement of Shareholder Equity		FAS 07
915-225	Income Statement		FAS 07
915-230	Statement of Cash Flows		FAS 07
915-235	Notes to Financial Statements		FAS 07
915-340	Other Assets and Deferred Costs		FAS 07
915-605	Revenue Recognition		FAS 07
915-810	Consolidation		FAS 07; FIN 07
920 – Entertainment–Broadcasters			
920-10	Overall		FAS 63
920-230	Statement of Cash Flows	2019-02	
920-350	Intangibles—Goodwill and Other	2019-02	FAS 63
920-405	Liabilities		FAS 63
920-440	Commitments		FAS 63
920-845	Nonmonetary Transactions		FAS 63
924 – Entertainment–Casinos			
924-10	Overall	2016-20	
924-815	Derivatives and Hedging	2016-20	
932 – Extractive Activities–Oil and Gas			
932-10	Overall	2009-11; 2010-03; 2010-14; 2010-22; 2016-11; 2019-07	FAS 19; EITF 90-22
932-235	Notes to Financial Statements	2010-03; 2014-09; 2023-06	FAS 19; FAS 69
932-270	Interim Reporting		FAS 19
932-330	Inventory		EITF 02-03
932-350	Intangibles—Goodwill and Other		FSP FAS 142-2
932-360	Property, Plant, and Equipment	2012-04	FAS 19; FIN 36; FSP FAS 19-1
932-470	Debt		FAS 19
932-720	Other Expenses		FAS 19
932-740	Income Taxes		FAS 19
932-810	Consolidation		EITF 00-01
932-815	Derivatives and Hedging		EITF 90-22
932-835	Interest	2014-09	FIN 33; AIN-APB21
940 – Financial Services–Broker and Dealers			
940-10	Overall	2014-09	
940-20	Broker-Dealer Activities	2012-04, 2014-09	
940-210	Balance Sheet	2018-09	
940-310	Receivables	2012-04, 2014-09; 2016-19	

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
940-325	Investments—Other		EITF 02-03
940-400	Other Assets and Deferred Costs	2016-01; 2016-19	
940-405	Liabilities	2018-09	
940-605	Revenue Recognition	2014-09	
940-720	Other Expenses	2014-09	
940-820	Fair Value Measurement	2011-04; 2012-04; 2022-03	
942 – Financial Services—Depository and Lending			
942-10	Overall	2019-07; 2021-06	SOP 01-6; EITF 88-19
942-210	Balance Sheet	2010-21; 2018-09; 2019-07; 2021-06	SOP 01-6
942-220	Income Statement—Reporting Comprehensive Income	2019-07	
942-225	Income Statement	2010-21	
942-230	Statement of Cash Flows	2016-13; 2019-01	FAS 95
942-235	Notes to the Financial Statements	2019-07	
942-305	Cash and Cash Equivalents		SOP 01-6
942-310	Receivables	2016-13; 2022-02	SOP 01-6; PB 4; PB 5
942-320	Investments—Debt and Equity Securities	2016-01; 2019-04; 2020-03	FAS 115; SOP 01-6
942-325	Investments—Other	2016-01	SOP 01-6
942-360	Property, Plant, and Equipment	2020-10	SOP 01-6
942-405	Liabilities		SOP 01-6; EITF 89-03
942-470	Debt	2016-01	FAS 107; SOP 01-6
942-505	Equity	2018-09	SOP 01-6
942-740	Income Taxes	2018-06	FAS 109; APB 23; EITF 85-31
942-810	Consolidation		EITF 88-25
942-825	Financial Instruments	2016-01; 2016-20	SOP 01-6; EITF 85-20
944 – Financial Services—Insurance			
944-10	Overall	2010-21; 2016-01; 2019-07	FAS 60; SOP 94-5
944-20	Insurance Activities	2016-13; 2016-19; 2018-12	FAS 5; FAS 60; FAS 97; FAS 113; FAS 120; FAS 163; SOP 94-5; SOP 95-1; SOP 03-1; EITF 92-09; EITF 93-06; EITF 93-14; PB 8
944-30	Acquisition Costs	2010-26; 2014-09; 2015-10; 2018-09; 2018-12	FAS 60; FAS 97; FAS 113; SOP 93-7; SOP 95-1; SOP 03-1; SOP 05-1; PB 8
944-40	Claim Costs and Liabilities for Future Policy Benefits	2012-04; 2015-09; 2018-12; 2019-09; 2020-11; 2022-05	FAS 5; FAS 60; FAS 97; FAS 113; FAS 163; SOP 94-5; SOP 95-1; SOP 03-1
944-50	Policyholder Dividends	2018-12	FAS 60; SOP 95-1; AAG LHI
944-60	Premium Deficiency and Loss Recognition	2018-12	FAS 5; FAS 60; FAS 97; PB 8
944-80	Separate Accounts	2010-15; 2016-01; 2016-13; 2018-12	FAS 60; SOP 03-1
944-210	Balance Sheet	2010-21; 2019-07	FAS 113
944-220	Income Statement—Reporting Comprehensive Income	2019-07	
944-225	Income Statement	2010-21	
944-235	Notes to the Financial Statements	2019-07	
944-310	Receivables	2016-13; 2016-19; 2018-09	FAS 60; FAS 113; FAS 163; AAG PLI

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
944-320	Investments—Debt and Equity Securities	2012-04; 2016-01	SOP 01-06; SOP 03-01
944-325	Investments—Other	2015-10; 2016-01	FAS 60
944-340	Other Assets and Deferred Costs		FAS 113
944-360	Property, Plant, and Equipment	2016-01; 2018-09	FAS 60
944-405	Liabilities		FAS 113
944-470	Debt	2015-10	PB 15
944-505	Equity		FAS 60; SOP 94-5
944-605	Revenue Recognition	2016-01; 2018-12	FAS 60; FAS 97; FAS 113; FAS 163; FSP FAS 97-1; SOP 92-5; SOP 95-1; SOP 03-1; PB 8
944-720	Other Expenses	2010-26	AAG LHI
944-740	Income Taxes		FAS 60; FAS 109; AAG LHI
944-805	Business Combinations	2018-12	FAS 60; SOP 00-3
944-815	Derivatives and Hedging	2018-12	
944-825	Financial Instruments	2016-01; 2018-12	FAS 97; FAS 113; PB 8
946 – Financial Services—Investment Companies			
946-10	Overall	2013-08; 2019-07; 2021-06	SOP 07-1
946-20	Investment Company Activities	2013-08; 2023-06	SOP 95-2; SOP 95-3
946-205	Presentation of Financial Statements	2019-07	FSP AAG INV-1 and SOP 94-1-1
946-210	Balance Sheet	2016-19; 2019-07	FSP AAG INV-1 and SOP 94-4-1; SOP 95-2
946-220	Income Statement—Reporting Comprehensive Income	2019-07; 2020-10	
946-225	Income Statement		SOP 95-2
946-235	Notes to the Financial Statements	2019-07	
946-310	Receivables	2019-07	
946-320	Investments—Debt and Equity Securities	2013-08; 2017-08; 2019-07	SOP 93-1
946-323	Investments—Equity Method and Joint Ventures	2013-08	SOP 07-1
946-325	Investments—Other	2013-08	
946-605	Revenue Recognition		FSP EITF85-24-1; EITF 85-24
946-720	Other Expenses	2014-09; 2016-20	EITF 85-24
946-740	Income Taxes		FAS 109
946-810	Consolidation	2013-08	SOP 07-1
946-830	Foreign Currency Matters		SOP 93-4
948 – Financial Services—Mortgage Banking			
948-310	Receivables	2019-04; 2019-07; 2022-01	
950 – Financial Services—Title Plant			
950-350	Intangibles—Goodwill and Other	2014-09	FAS 61
952 – Franchisors			
952-606	Revenue from Contracts with Customers	2021-02	
954 – Health Care Entities			
954-10	Overall	2013-06; 2016-01; 2018-08	AAG HCO
954-205	Presentation of Financial Statements	2016-14; 2018-08	AAG HCO
954-210	Balance Sheet	2016-14	AAG HCO

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
954-220	Income Statement—Reporting Comprehensive Income	2016-19; 2017-12; 2018-08	
954-225	Income Statement	2013-06; 2016-01; 2016-13	FAS 117; AAG HCO
954-280	Segment Reporting		TB 79-05
954-305	Cash and Cash Equivalents	2016-14	AAG HCO
954-310	Receivables	2011-07; 2014-09; 2016-13	AAG HCO
954-320	Investments—Debt and Equity Securities	2012-04; 2016-01; 2016-14	FAS 124; AAG HCO
954-325	Investments—Other		AAG HCO
954-340	Other Assets and Deferred Costs		AAG HCO
954-360	Property, Plant, and Equipment		AAG HCO
954-405	Liabilities		AAG HCO
954-430	Deferred Revenue	2012-01	AAG HCO
954-440	Commitments	2018-08	AAG HCO
954-450	Contingencies	2010-24	AAG HCO
954-460	Guarantees		FSP FIN 45-3
954-470	Debt	2018-08	AAG HCO
954-605	Revenue Recognition	2010-23; 2011-07; 2012-04; 2014-09; 2018-08	AAG HCO
954-720	Other Expenses	2010-24	AAG HCO; EITF 03-08
954-740	Income Taxes		AAG HCO
954-805	Business Combinations	2012-04; 2016-01; 2016-14	FAS 164; AAG HCO
954-810	Consolidation	2015-02; 2016-19; 2017-02	FAS 164; FIN 46(R); SOP 94-3; EITF 97-02; AAG HCO
954-815	Derivatives and Hedging	2012-04; 2017-12	SOP 02-2
954-825	Financial Instruments		FAS 159
958 – Not-For-Profit Entities			
958-10	Overall	2015-10; 2016-01; 2016-14; 2018-08; 2019-03; 2020-07	FAS 88; FAS 116
958-20	Financially Interrelated Entities	2016-14; 2018-08	FAS 57; FAS 136; APB 18
958-30	Split-Interest Agreements	2016-01; 2016-14; 2018-08; 2018-13	FAS 116; FAS 117; FAS 136
958-205	Presentation of Financial Statements	2015-01; 2015-10; 2016-14; 2016-18; 2018-08; 2020-07	FAS 116; FAS 117; FAS 124; FAS 136; FSP FAS 117-1; SOP 94-6
958-210	Balance Sheet	2014-06; 2016-01; 2016-14	FAS 117; ARB 43
958-220	Income Statement—Reporting Comprehensive Income	2017-07; 2018-08; 2020-07; 2020-10	
958-225	Income Statement	2016-01; 2016-14	FAS 116; FAS 117; FAS 136; FAS 144; FAS 146
958-230	Statement of Cash Flows	2012-05; 2015-10; 2016-18; 2018-08; 2023-08	FAS 117
958-310	Receivables	2016-14; 2018-08; 2018-13	FAS 116
958-320	Investments—Debt and Equity Securities	2012-04; 2015-10; 2016-01; 2016-13; 2018-08; 2022-02	FAS 65; FAS 107; FAS 116; FAS 117; FAS 124
958-325	Investments—Other	2012-04; 2015-10; 2016-01; 2016-13; 2018-08	FAS 116; FAS 124; FSP FAS 115-1/124-1
958-360	Property, Plant, and Equipment	2016-14; 2018-08; 2019-03	FAS 93; FAS 116; FAS 144
958-405	Liabilities	2018-08	
958-450	Contingencies	2018-08	FAS 5; FAS 116
958-605	Revenue Recognition	2013-06; 2014-09; 2015-10; 2016-01; 2016-14; 2016-19; 2018-08; 2020-07	FAS 57; FAS 116; FAS 136; SOP 94-6

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
958-715	Compensation—Retirement Benefits	2016-14; 2017-07; 2018-08; 2018-14	FAS 87; FAS 88; FAS 106; FAS 132(R); FAS 158
958-720	Other Expenses	2012-04; 2013-06; 2016-14; 2018-08; 2018-09; 2020-10	FAS 93; FAS 109; FAS 117; SOP 93-7; SOP 98-2
958-805	Business Combinations	2010-29; 2015-10; 2016-14; 2016-15; 2018-08; 2019-06; 2021-03; 2023-05	FAS 116; FAS 141R; FAS 164; FIN 21
958-810	Consolidation	2012-04; 2015-10; 2016-01; 2016-14; 2016-19; 2017-02; 2018-08	FAS 13; FAS 57; FAS 164; FIN 46(R); APB 18; ARB 51; FSP SOP 94-3-1 and AAG HCO-1; SOP 94-3; EITF 90-15; EITF 96-21
958-840	Leases		SOP 94-3; EITF 90-15; EITF 96-21; EITF 97-01
960 – Plan Accounting—Defined Benefit Pension Plans			
960-10	Overall		FAS 35; FAS 87
960-20	Accumulated Plan Benefits		FAS 35; SOP 99-2
960-30	Net Assets Available for Plan Benefits	2015-12 (Part II)	FAS 35; SOP 99-2
960-40	Terminating Plans	2013-07	
960-205	Presentation of Financial Statements	2015-12 (Part II); 2017-06	FAS 35 FAS 102 SOP 99-2
960-310	Receivables		FAS 35
960-325	Investments—Other	2015-12 (Part II & III); 2017-06	FAS 35; FAS 110; FAS 133
960-360	Property, Plant, and Equipment		FAS 35
962 – Plan Accounting—Defined Contribution Pension Plans			
962-10	Overall	2015-12 (Part I-III); 2017-06	FAS 35; FAS 87; SOP 94-4; SOP 99-3
962-40	Terminating Plans	2013-07	
962-205	Presentation of Financial Statements	2015-12 (Part I-II); 2017-06; 2018-09; 2019-07	FAS 102; SOP 94-4
962-310	Receivables	2010-25	
962-325	Investments—Other	2010-25; 2012-04; 2015-12 (Part I-III); 2017-06, 2018-09	SOP 92-6; SOP 94-4; SOP 99-3
962-360	Property, Plant, and Equipment	2018-09	
965 – Plan Accounting—Health and Welfare Benefit Plans			
965-10	Overall		FAS 35; FAS 87; SOP 92-6; SOP 99-2
965-20	Net Assets Available for Plan Benefits	2015-12 (Part I-II)	SOP 92-6
965-30	Plan Benefit Obligations	2016-19	SOP 92-6
965-40	Terminating Plans	2013-07	SOP 92-6
965-205	Presentation of Financial Statements	2012-04; 2015-12 (Part II); 2017-06; 2020-10	FAS 130; SOP 92-6; SOP 99-2
965-310	Receivables		SOP 92-6
965-320	Investments—Debt and Equity Securities		SOP 92-6
965-325	Investments—Other	2012-04; 2015-12 (Part I-II); 2017-06	SOP 92-6; SOP 94-4; SOP 99-3
965-360	Property, Plant, and Equipment		SOP 92-6

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
970 – Real Estate—General			
970-10	Overall		FAS 67
970-230	Statement of Cash Flows		FAS 102
970-323	Investments—Equity Method and Joint Ventures	2014-09; 2015-02; 2016-01; 2017-05	SOP 78-9; SOP 92-1
970-340	Other Assets and Deferred Costs	2014-09; 2016-02; 2021-05	FAS 67; EITF 97-11
970-360	Property, Plant, and Equipment	2014-09; 2019-07; 2020-10	FAS 67; EITF 85-27; EITF 86-07
970-470	Debt		EITF 91-10
970-605	Revenue Recognition		FAS 67; SOP 78-9; SOP 92-1
970-720	Other Expenses		FAS 67; EITF 97-11
970-810	Consolidation	2015-02	APB 18; ARB 51; FSP SOP 78-9-1; SOP 78-9
970-835	Interest		SOP 78-9
974 – Real Estate—Real Estate Investment Trusts			
974-10	Overall	2019-07; 2023-06	
976 – Real Estate—Retail Land			
976-10	Overall		FAS 66
976-310	Receivables		FAS 66
976-330	Inventory		FAS 66
976-605	Revenue Recognition		FAS 66
976-705	Cost of Sales and Services	2014-09	FAS 66
978 – Real Estate — Time-Sharing Activities			
978-10	Overall	2014-06; 2014-09; 2016-02	
978-230	Statements of Cash Flows	2014-06	
978-250	Accounting Changes and Error Corrections		
978-310	Receivables	2014-06; 2014-09; 2016-02; 2016-13; 2022-02	
978-330	Inventory	2014-06; 2014-09; 2016-02	
978-340	Other Assets and Deferred Costs	2014-06; 2014-09	
978-605	Revenue Recognition	2014-06; 2014-09	
978-720	Other Expenses	2014-06; 2014-09	
978-810	Consolidation	2014-06; 2016-01	
978-840	Leases	2014-06; 2014-09; 2016-02	
980 – Regulated Operations			
980-10	Overall	2018-04	FAS 7; FAS 71
980-20	Discontinuation of Rate-Regulated Accounting	2015-01	FAS 101; EITF 97-04
980-250	Accounting Changes and Error Corrections		FAS 71
980-340	Other Assets and Deferred Costs	2016-02	FAS 71; FAS 92; EITF 93-04
980-350	Intangibles—Goodwill and Other		FAS 71; EITF 96-17
980-360	Property, Plant, and Equipment		FAS 90; TB 87-02
980-405	Liabilities		FAS 71
980-410	Asset Retirement and Environmental Obligations		FAS 71; FAS 143
980-450	Contingencies		FAS 71
980-470	Debt		FAS 71
980-605	Revenue Recognition	2014-09; 2015-01	FAS 71; EITF 91-06; EITF 92-07; EITF 96-17
980-710	Compensation—General		FAS 71

GAAP Codification Topic and Subtopic	Codification Section	ASU GAAP Reference	Pre-Codification GAAP Reference
980-715	Compensation—Retirement Benefits		FAS 87; FAS 106; EITF 92-12; EITF 93-04
980-740	Income Taxes		FAS 109; TB 87-02
980-810	Consolidation	2018-04	FAS 71
980-815	Derivatives and Hedging	2014-09	EITF 91-06
980-835	Interest		FAS 71; FAS 90
980-840	Leases	2016-02	FAS 13; FAS 71; FAS 98
980-842	Leases	2016-02	
985 –Software			
985-10	Overall	2014-09	
985-20	Costs of Software to Be Sold, Leased, or Marketed	2014-09; 2018-15; 2023-05	FAS 2; FAS 86; FIN 6; SOP 94-6; SOP 97-2; SOP 98-1; EITF 00-03
985-330	Inventory		FAS 86
985-605	Revenue Recognition	2009-14; 2014-09; 2018-15	FAS 86; SOP 97-2; EITF 00-03; EITF 03-05
985-705	Cost of Sales and Services		FAS 86; EITF 96-06
985-845	Nonmonetary Transactions	2014-09	

Appendix E Statutory Issue Papers

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 statutory 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/cmt_e_app_sapwg.htm.

Issue Papers Associated with SSAPs Adopted in 2023

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
167	Derivatives and Hedging	86	86
168	Updates to the Definition of a Liability	5R	5R

Issue Papers Associated with SSAPs Adopted Prior to 2023

(Posted for public reference on the SAPWG web page)

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
1	Consolidation of Majority-Owned Subsidiaries	3	3 and 97
2	Definition of Cash	2	2R
3	Accounting Changes	3	3
4	Definition of Assets and Nonadmitted Assets	4	4
5	Definition of Liabilities, Loss Contingencies and Impairments of Assets	5	5R
6	Amounts Due From Agents and Brokers	6	6
7	Asset Valuation Reserve and Interest Maintenance Reserve	7	7
8	Accounting for Pensions	8	102
9	Subsequent Events	9	9
10	Uncollected Premium Balances	6	6
11	Compensated Absences	11	11
12	Accounting for Drafts Issued and Outstanding	2	2R
13	Employers' Accounting for Postemployment Benefits	11	11
14	Employers' Accounting for Postretirement Benefits Other Than Pensions	14	92
16	Electronic Data Processing Equipment and Software	16	16R
17	Preoperating and Research and Development Costs	17	17
19	Furniture, Fixtures and Equipment	19	19
20	Gain Contingencies	5	5R

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
21	Bills Receivable For Premiums	6	6
22	Leases	22	22R
23	Property Occupied by the Company	40	40R
24	Discontinued Operations and Extraordinary Items	24	24
25	Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties	25	25
26	Bonds, Excluding Loan-Backed and Structured Securities	26	26R
27	Disclosure of Information about Financial Instruments with Concentration of Credit Risk	27	27
28	Short-Term Investments	2	2R
29	Prepaid Expenses (excluding deferred policy acquisition costs and other underwriting expenses, income taxes and guaranty fund assessments)	29	29
30	Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)	30	30R
31	Leasehold Improvements Paid by the Reporting Entity as Lessee	19	19
32	Investments in Preferred Stock (excluding investments in preferred stock of subsidiary, controlled, or affiliated entities)	32	32R
33	Disclosures about Fair Value of Financial Instruments	27	27
34	Investment Income Due and Accrued	34	34
35	Accounting for Guaranty Fund and Other Assessments	35	35R
36	Troubled Debt Restructurings	36	36
37	Mortgage Loans	37	37
38	Acquisition, Development and Construction Arrangements	38	38
39	Reverse Mortgages	39	39
40	Real Estate Investments	40	40R
41	Surplus Notes	41	41R
42	Sale of Premium Receivables	42	42
43	Loan-Backed and Structured Securities	43	43R
44	Capitalization of Interest	44	44
45	Repurchase Agreements, Reverse Repurchase Agreements and Dollar Repurchase Agreements	45	103R
46	Accounting for Investments in Subsidiary, Controlled and Affiliated Entities	46	97
47	Uninsured Plans	47	47
48	Investments in Joint Ventures, Partnerships and Limited Liability Companies	48	48
49	Policy Loans	49	49
50	Classifications and Definitions of Insurance or Managed Care Contracts in Force	50	50
51	Life Contracts	51	51R
52	Deposit-Type Contracts	52	52
53	Property Casualty Contracts—Premiums	53	53
54	Individual and Group Accident and Health Contracts	54	54R

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
55	Unpaid Claims, Losses and Loss Adjustment Expenses	55	55
56	Universal Life-Type Contracts, Policyholder Dividends, and Coupons	51	51R
57	Title Insurance	57	57
59	Credit Life and Accident and Health Insurance Contracts	59	59
65	Property and Casualty Contracts	65	65
66	Accounting for Retrospectively Rated Contracts	66	66
67	Depreciation of Property and Amortization of Leasehold Improvements	19	19
68	Business Combinations and Goodwill	68	68
69	Financial Guaranty Insurance	60	60
71	Policy Acquisition Costs and Commissions	71	71
72	Statutory Surplus	72	72
73	Nonmonetary Transactions	28	95
74	Life, Deposit-Type and Accident and Health Reinsurance	61	61R
75	Property and Casualty Reinsurance	62	62R
76	Offsetting and Netting of Assets and Liabilities	64	64
77	Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures	1	1
78	Employee Stock Ownership Plans	12	12
80	Debt	15	15
81	Foreign Currency Transactions and Translations	23	23
82	Stock Options and Stock Purchase Plans	13	104R
83	Accounting for Income Taxes	10	101
84	Quasi-Reorganizations	72	72
85	Derivative Instruments	27 and 86	27 and 86
86	Securitization	33	103R
87	Other Admitted Assets	21	21R
88	Mortgage Guaranty Insurance	58	58
89	Separate Accounts	56	56
90	Nonadmitted Assets	20	20
92	Statement of Cash Flow	69	69
94	Allocation of Expenses	70	70
95	Holding Company Obligations	15	15
96	Other Liabilities	67	67
97	Underwriting Pools and Associations Including Intercompany Pools	63	63
99	Nonapplicable GAAP Pronouncements	Refer to Appendix D – Nonapplicable GAAP Pronouncements	
100	Health Care Delivery Assets—Supplies, Pharmaceuticals and Surgical Supplies, and Durable Medical Equipment	73	73
101	Health Care Delivery Assets—Furniture, Medical Equipment and Fixtures, and Leasehold Improvements in Health Care Facilities	73	73

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
103	Accounting for the Issuance of Insurance-Linked Securities Issued by a Property and Casualty Insurer through a Protected Cell	74	74
104	Reinsurance Deposit Accounting—An Amendment to SSAP No. 62—Property and Casualty Reinsurance	62R	62R
105	Reporting on the Costs of Start-Up Activities	76	76
106	Real Estate Sales—An Amendment to SSAP No. 40—Real Estate Investments	77	40R
107	Certain Health Care Receivables and Receivables Under Government Insured Plans	84	84
108	Multiple Peril Crop Insurance	78	78
109	Depreciation of Nonoperating System Software—An Amendment to SSAP No. 16—Electronic Data Processing Equipment and Software	79	16R
110	Life Contracts, Deposit-Type Contracts and Separate Accounts, Amendments to SSAP No. 51—Life Contracts, SSAP No. 52—Deposit-Type Contracts, and SSAP No. 56—Separate Accounts	51, 52 and 56	51R, 52 and 56
111	Software Revenue Recognition	81	16R
112	Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs	82	16R
113	Mezzanine Real Estate Loans	83	83
114	Accounting for Derivative Instruments and Hedging Activities	86	86
116	Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses	85	55
118	Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46	68 and 97	68 and 97
119	Capitalization Policy, An Amendment to SSAP Nos. 4, 19, 29, 73, 79 and 82	87	4, 19, 29 and 73
121	Accounting for the Impairment or Disposal of Real Estate Investments	90	90
122	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	91	103R
123	Accounting for Pensions, A Replacement of SSAP No. 8	89	102
124	Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43	43R	43R
125	Accounting for Low-Income Housing Tax Credit Property Investments	48 and 93	48 and 93
126	Accounting for Transferable State Tax Credits	94	94R
127	Exchanges of Nonmonetary Assets, A Replacement of SSAP No. 28—Nonmonetary Transactions	90 and 95	90 and 95

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
128	Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No.25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties	96	25
129	Share-Based Payment, A Replacement of SSAP No. 13—Stock Options and Stock Purchase Plans	104	104R
131	Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment	99	26R, 32R and 34
132	Accounting for Pensions, A Replacement of SSAP No. 89	102	102
133	Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14	92	92
134	Servicing Assets/Liabilities, An Amendment of SSAP No. 91	91R	103R
135	Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others	5R	5R
137	Transfer of Property and Casualty Reinsurance Agreements in Run-Off	62R	62R
138	Fair Value Measurements	100	100R
140	Substantive Revisions to SSAP No. 43—Loan-Backed and Structured Securities	43R	43R
141	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	103	103R
143R	Guaranty Fund Assessments	35R	35R
144	Substantive Revisions to SSAP No. 91R: Securities Lending	91R	103R
145	Accounting for Transferable and Non-Transferable State Tax Credits	94R	94R
146	Share-Based Payments With Non-Employees	104R	104R
147	Working Capital Finance Investments	105	105R
148	Affordable Care Act Section 9010 Assessment	35R	106
149	Wholly-Owned Single Real Estate Property in an LLC	40R	40R
150	Accounting for the Risk-Sharing Provisions of the Affordable Care Act	107	107
151	Valuation for Holders of Surplus Notes	41	41R
152	Short Sales	103	103R
153	Counterparty Reporting Exception for Asbestos and Pollution Contracts	62R	62R
154	Implementation of Principle-Based Reserving	51; 54	51R; 54R
155	Classification of Money Market Mutual Funds as Cash Equivalents	2	2R
156	Bonds	26	26R
157	Use of Net Asset Value	100	100R
158	Unaffiliated Common Stock	30	30R
159	Special Accounting Treatment for Limited Derivatives	108	108

IP No.	Title	SSAP Reference	
		Original Authoritative Literature	Current Authoritative Literature
160	Structured Settlements Acquired as Investments	21R	21R
161	Leases	22	22R
162	Property and Casualty Reinsurance Credit	62R	62R
163	Working Capital Finance Investment Updates	105	105R
164	Preferred Stock	32	32R
165	Levelized Commission	71	71
166	Updates to the Definition of an Asset	4	4

Not for Distribution

Statutory Issue Paper No. 167

Derivatives and Hedging

STATUS

Finalized March 22, 2023

Original SSAP and Current Authoritative Guidance: SSAP No. 86

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. Statutory accounting guidance for derivatives is in *SSAP No. 86—Derivatives*. Although SSAP No. 86 indicates “adoption of the framework” of specific U.S. GAAP guidance, the accounting and reporting guidance for derivatives, particularly with regards to the four U.S. GAAP derivative cornerstones, is distinctly different between SSAP No. 86 and FAS 133/ASC 815. For example, under U.S. GAAP, assessment effectiveness under U.S. GAAP is largely an income statement management tool (to offset variations consistently through net income or other comprehensive income – OCI), but as SAP uses an amortized cost measurement method for a number of hedged items, the criteria for hedge effectiveness and the measurement approach for derivatives must be adjusted accordingly.

2. In August 2017, the FASB issued *ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the amendments incorporated certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP. ASU 2017-12 included a new concept for a ‘last of layer’ approach to make portfolio fair value hedge accounting more accessible for specific assets. With the issuance of the last-of-layer guidance, a number of questions were received. After considering those questions, *ASU 2022-01 Fair Value Hedging – Portfolio Layer Method* was issued. This ASU expanded the original guidance and provided additional specifications and guidance.

3. The Statutory Accounting Principles (E) Working Group has considered several revisions to SSAP No. 86 in response to the review of ASU 2017-12 and ASU 2022-01. This issue paper has been drafted to detail the revisions incorporated into statutory accounting. These revisions, except for those initially adopted in 2018, are considered new SAP concepts.

DISCUSSION

Topic 1: Hedge Documentation and Initial Assessment Efficiencies (Agenda Item 2018-30)

4. The overall intent of ASU 2017-12 was to reduce cost and complexity of applying hedge accounting by simplifying the way assessments of hedge effectiveness may be performed. It was noted that the efficiencies gained from the revisions in the ASU for U.S. GAAP filers would be lost if corresponding provisions were not considered for statutory accounting. Pursuant to a July 9, 2018, interested parties’ comment letter, three elements were requested to be considered by the Statutory Accounting Principles (E) Working Group in a nonsubstantive (SAP clarification) proposal. Interested parties noted that these elements will reduce the costs associated with hedge accounting, while neither changing the underlying accounting, nor creating any additional regulatory risks or concerns:

- a. Allow companies to perform subsequent assessments of hedge effectiveness qualitatively if certain conditions are met.

- b. Allow companies more time to perform the quantitative hedge effectiveness assessment.
- c. Clarify that companies may apply the “critical terms match” method for a group of forecaster transactions if the transactions occur and the derivatives mature within the same 31-day period or fiscal month, and the other requirements for applying the critical match method are satisfied.

5. On August 4, 2018, the Working Group exposed revisions to incorporate hedge documentation and assessment efficiencies from ASU 2017-12. This item was exposed with a shortened comment period to allow for potential revisions and re-exposure if needed, to permit adoption and application prior to year-end 2018. On November 15, 2018, the Working Group adopted the exposed revisions as final. The revisions were adopted with an effective date of January 1, 2019, with early adoption permitted for year-end 2018. U.S. GAAP filers could only early adopt if they had also early adopted ASU 2017-12.

6. Additionally, in ASU 2017-12, in response to comments requesting a more flexible approach to hedging interest rate risk, the FASB decided to amend the guidance for hedging interest rate risk of financial instruments for both fair value and cash flow hedges. With the revisions, the FASB decided to redefine the term interest rate risk and eliminate the benchmark interest rate concept for variable-rate financial instruments. With the changes, the FASB incorporated the SIFMA rate in the list of eligible rates for fixed income instruments and noted that the FASB will add to the list of eligible benchmark rates as necessary. The revisions adopted to SSAP No. 86 are detailed in Exhibit A.

7. With the inclusion of revisions, certain elements from the U.S. GAAP guidance were not duplicated within statutory accounting. The elements were considered part of the prior adoption of the “FAS 133 / technical guidance” originally reflected in SSAP No. 86:

- a. Exceptions from the initial prospective quantitative assessment were not captured in the statutory guidance as they were not necessarily new under ASU 2017-12. The following overview details when an initial prospective quantitative assessment would not be required:
 - i. In a cash flow or fair value hedge, the entity applies the short-cut method.
 - ii. In a cash flow or fair value hedge, the entity determines that the critical terms of the hedging instrument and the hedged item match.
 - iii. In a cash flow hedge, the hedging instrument is an option and it meets specific criteria detailed in the U.S. GAAP guidance
 - iv. In a cash flow hedge, a private company that is not a financial institution applies the simplified hedge accounting approach.
 - v. In a cash flow hedge, the entity assesses hedge effectiveness under the change in variable cash flows method permitted under U.S. GAAP, with all noted conditions being met.
 - vi. In a cash flow hedge, the entity assesses hedge effectiveness under the hypothetical derivative method permitted under U.S. GAAP and all the critical terms of the hypothetical derivative and the hedging instrument are the same.
 - vii. In a net investment hedge, the entity assesses hedge effectiveness using a method based on changes in spot exchange rates, and the conditions noted under U.S. GAAP are met.

viii. In a net investment hedge, the entity assesses hedge effectiveness using a method based on changes in forward exchange rates and the noted condition under U.S. GAAP are met.

b. The short-cut method and critical terms match method are current method permitted under U.S. GAAP retained under ASU 2017-12. Under these methods, an entity may qualitatively assume, in very limited circumstances, that

8. Ultimately, the revisions incorporated in 2018, effective January 1, 2019, with early application permitted, from ASU 2017-12 were limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness: 1) provisions allowing more time to perform the initial qualitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut method for assessing hedge effectiveness. With the adoption of the limited provisions, it was identified that the remaining provisions of ASU 2017-12 would be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is completed, with a conclusion to adopt the U.S. GAAP guidance.

9. The revisions adopted in November 2018 included revisions to both SSAP No. 86 as well as Exhibit B – Assessment of Hedging Effectiveness. The subsequent revisions adopted in 2022 eliminated Exhibit B as well as incorporated new guidance through the SSAP. Ultimately, the final adopted guidance, as reflected in the AP&P Manual, is the authoritative guidance.

Topic 2: Hedge Effectiveness and Measurement Methods for Excluded Components (Ref #2021-20)

10. In December 2011, consideration began on revisions to facilitate effective hedge assessments consistently between statutory accounting and U.S. GAAP. The Working Group exposed a concept agenda item to solicit comments and directed NAIC staff to work with regulators and industry in developing revisions for consistent hedge effectiveness assessments and with the treatment of excluded components.

11. After working with industry, on April 4, 2022, the Working Group exposed two documents for public comment. The first document proposed revisions in the form of a new exhibit A to SSAP No. 86, which would replace both Exhibit A and Exhibit B. This new exhibit A would adopt with modification U.S. Guidance in determining hedge effectiveness. The second document proposed revised guidance to SSAP No. 86 to update the permitted excluded components to mirror U.S. GAAP but establish statutory-specific measurement methods for the excluded components.

12. The new Exhibit A intends to reflect the position that the assessment of hedge effectiveness for derivatives should be consistent between U.S. GAAP and SAP. In order words, transactions identified to be highly effective hedges under U.S. would be identified as highly effective hedged under statutory accounting. If a hedging instrument results with offsetting changes (or other permitted aspects) to a hedged item pursuant to the guidelines under U.S. GAAP to qualify as a highly effective hedge, the same assessment as a highly effective hedge should occur under SAP.

13. The Exhibit A would adopt, with modification U.S. GAAP guidance pertaining to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12. Although the U.S. GAAP guidance for the assessment and determination of hedge effectiveness is proposed to be adopted, statutory modifications are captured to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in SSAP No. 86. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adopt from U.S. GAAP only extends to

revisions incorporated through ASU 2017-12, as such, any subsequent U.S. GAAP edits would require statutory accounting consideration before they were considered adopted.

14. In addition to new Exhibit A to SSAP No. 86, the Working Group also exposed proposed revisions to SSAP No. 86, paragraphs 23, 40-41 and Exhibit C, to expand the list of permitted excluded components in assessing derivative effectiveness to match U.S. GAAP and to establish statutory specific measurement requirements for each type of excluded component.

15. The prior SSAP No. 86 guidance reflected the list of permitted excluded components originally adopted from U.S. GAAP. Since the original inclusion in SSAP No. 86, and within ASU 2017-12, U.S. GAAP had expanded the list, and it was noted that the statutory accounting treatment of excluded components related to foreign currency transactions were hindering the ability to engage in those transactions. It was also identified that current measurement guidance within the SSAP was conflicting between the guidance and specific hedge procedures detailed in Exhibit C. Through the discussions with industry, it was identified that different measurement or recognition provisions should be considered to properly reflect the type of excluded component with the financial statements, with specific guidance included in SSAP No. 86 accordingly:

- a. If the excluded component pertains to the difference between a foreign currency spot price and the forward or future price (e.g., a forward spot rate), then this premium/discount shall be amortized into income over the life of the contract or hedged program. (This guidance addresses the excluded component in Exhibit A, paragraph 8.d.)
- b. If the excluded component pertains to a foreign currency swap cross-currency basis spread, the impact of fair value changes shall be reflected as a component of the foreign currency swap's periodic interest accrual. (This guidance addresses the excluded component in Exhibit A, paragraph 8.e.)
- c. For all other excluded components, the excluded component shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses. (This guidance shall be applied to excluded components detailed in Exhibit A, paragraphs 8.a. through 8.c.)

16. On August 10, 2022, after the exposure timeframe, in which interested party comments were received supporting the proposed revisions, the Working Group adopted the exposed revisions. This adoption resulted with both the new Exhibit A that adopts with modification U.S. GAAP guidance in determining hedge effectiveness and the revisions to SSAP No. 86 to incorporate measurement method guidance for excluded components. These revisions were adopted with a January 1, 2023, effective date, with early adoption permitted. With the action to adopt, the Working Group directed a blanks proposal to incorporate Schedule DB reporting fields and templates to capture the new disclosures for excluded components. These disclosure and investment schedule changes will be in effect for year-end 2023. Companies that early adopt the revisions are directly to complete the required disclosures in a narrative format for year-end 2022.

Topic 3: Portfolio Layer Method and Partial Term Hedging (Ref #2022-09)

17. In August 2022, considerations began to expand statutory accounting guidance to incorporate the portfolio layer method detailed in *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*. The guidance in ASU 2022-01 reflects an expansion of the last-of-layer method detailed in ASU 2017-12.

18. Under the last-of-layer approach captured in ASU 2017-12, for a closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments, entities were allowed to hedge a stated amount of the asset or assets in the closed portfolio that is anticipated to be outstanding for the designated hedged period. If the requirements for the last-of-layer

method were met, prepayment risk is not incorporated into the measurement of the hedged item. With the application of this guidance, a number of questions were received. After considering those questions, FASB issued *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method*, which expanded the guidance and provided additional specifications for application. Ultimately, for a closed portfolio of financial assets or one of more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers if the following criteria is met:

- a. As part of the initial hedge documentation, an analysis is completed and documented to support the entity's expectation that the hedged item or items (that is, the hedged layer or layers in aggregate) is anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity's current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio.
- b. For purposes of its analysis, the entity assumes that as prepayments, defaults, and other factors affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio that is not hedged.
- c. The entity applies the partial-term hedging guidance to the assets or beneficial interests used to support the entity's expectation. An asset that matures on a hedged layer's assumed maturity date meets this requirement.

19. Similar to concepts supporting the adoption of prior U.S. GAAP revisions, there is a general assessment that determination of effective hedges shall be consistent between statutory accounting and U.S. GAAP. As such, new SAP concepts revisions to reflect the portfolio layer method in establishing effective hedge dynamics was proposed to be consistent with U.S. GAAP. With the U.S. GAAP guidance limiting the application of this guidance to hedges of recognized financial assets, a consistent scope threshold was established for statutory accounting.

20. The review of the portfolio layer method identified that U.S. GAAP prevents basis adjustments directly to assets hedged in a portfolio and it was considered on whether statutory revisions would be necessary to address similar basis adjustment revisions under statutory accounting. However, after further assessments, it was identified that the fair value measurement method under U.S. GAAP, which results in ongoing basis adjustments from changes in fair value over the derivative term, would not be a prominent issue under statutory accounting, which predominantly uses an amortized cost approach for effective hedges. With the use of amortized cost, basis adjustments do not occur until hedge termination or at designation of the hedge, therefore this was identified as not a key statutory accounting impact.

21. In addition to considering guidance for the portfolio layer method, representatives from interested parties proposed to also capture concepts for partial term hedges from ASU 2017-12. (As detailed in the FASB criteria above in paragraph 18 for portfolio layer method hedges, application of a the partial-term hedging guidance is used to support the entity's expectation.) Prior review of partial term hedge concepts noted concern as how interim adjustments to hedged items, particularly for hedged liabilities, would be reflected in the financial statements. With the statutory accounting guidance to reflect derivative gains or losses as basis adjustments on the hedge item, if a hedge to a recognized liability resulted in a reduction to the presentation of the liability, this could misrepresent the financial statements as the liability itself had not been reduced. In considering these concerns and recognizing that a broader project would likely be needed to address these basis adjustments, representatives from industry recommended incorporated the U.S. GAAP guidance for partial term hedges, with a statutory modification to limit the application to hedges of recognized assets.

22. Although the proposal to limit partial term hedges to recognized assets is a modification from the overarching concept to mirror hedge effectiveness assessments between U.S. GAAP and SAP, it was

identified as an approach that would be consistent with the U.S. GAAP scope application for the portfolio layer method and would reflect how industry currently uses partial term hedge transactions. As such, although the modification created a U.S. GAAP and SAP difference, the modification satisfies the current need for statutory guidance and prevents significant concerns on how the guidance could impact the presentation of liabilities. With this discussion, it was identified that subsequent consideration of the limitation to recognized assets could occur, with potential expansion to hedges of recognized liabilities as part of a broader discussion on how derivative gains and losses are recognized as basis adjustments.

23. The proposed revisions exposed to incorporate the portfolio layer method and the partial-term hedging method are summarized as follows:

- a. Revisions to SSAP No. 86, predominantly in paragraph 26.d., 26.f., and 26.g., to detail the ability to hedge recognized assets under the portfolio layer method and partial-term hedge. Also, revisions to paragraph 62 for a new disclosure for portfolio layer derivatives that no longer qualify for hedge accounting and the circumstances that led to the breach, as well as guidance in paragraphs 65.c. and 74.f. to detail relevant U.S. GAAP literature and the effective date.
- b. Revisions to SSAP No. 86 – Exhibit, Exhibit A – Assessment of Hedge Effectiveness, to add a new section on the assessment of portfolio layer method for hedge effectiveness. (Note – This exhibit was the new exhibit adopted in agenda item 2021-20 which replaced the prior Exhibit A and Exhibit B within SSAP No. 86.)
- c. Revisions to SSAP No. 86 – Exhibit C, paragraph 2.d., for which a portfolio layer method is discontinued to detail how the basis adjustment shall be allocated to the remaining individual assets in the closed portfolio. (Note – With the adoption of agenda item 2021-20, this Exhibit was renamed as Exhibit B.)

24. The proposed revisions reflect adoption of U.S. GAAP for the criteria for the portfolio layer method detailed in ASU 2022-01, criteria to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity date in ASC 815-20-25-6B, adding option in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate based on the benchmark rate components of the contractual cash flows detailed in FASB ASC 815-25-35-13, and the partial-term hedging method detailed in FASB ASC 815-25-35-13B. The adoption of the partial term hedging method reflects statutory modifications that limits its use only when the hedged item is a recognized asset. This is different than U.S. GAAP, which permits the partial term method for hedged liabilities. The statutory limitation is established to prevent interim basis adjustments to hedged liabilities that could present a reduction of reported liabilities on the financial statements when the actual liability has not been reduced. Reconsideration of this statutory limitation may occur after a broader project to consider how derivative basis adjustments to hedged liabilities shall be reflected in the financial statements.

25. On December 13, 2022, the Working Group adopted the exposed revisions. This adoption resulted with the revisions identified in paragraph 23 above. These revisions were adopted with a January 1, 2023, effective date, with early adoption permitted. The revisions shall be applied prospectively to qualifying new hedges.

26. An updated version of this issue paper was exposed on December 12, 2022, and adopted on March 22, 2023. The purpose of this issue paper is to document the historical actions resulting in new SAP concepts within *SSAP No. 86—Derivatives*. As issue papers are not represented in the statutory hierarchy, the adoption of this issue paper does not change the effective date of the previously adopted authoritative literature.

Exhibit 1 – Revisions adopted to SSAP No. 86 on November 15, 2018 (Agenda Item 2018-30)

38. At inception of the hedge, documentation must include:

- a. A formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or variability in cash flows attributable to the hedged risk will be assessed, including whether an entity will perform subsequent effectiveness assessments on a qualitative basis (per paragraph 42) and how it intends to carry out that qualitative assessment. There must be a reasonable basis for how the entity plans to assess the hedging instrument's effectiveness;
- b. An entity's defined risk management strategy for a particular hedging relationship may exclude certain components of a specific hedging derivative's change in fair value, such as time value, from the assessment of hedge effectiveness, as discussed in paragraph 37 and Exhibit B;
- c. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions; and
- d. A description of the reporting entity's methodology used to verify that opening transactions do not exceed limitations promulgated by the state of domicile.

39. At inception, if an entity is required to perform an initial prospective assessment of hedge effectiveness on a quantitative basis (using information applicable as of the date of hedge inception^{FN}), the assessment is considered to be performed concurrently at hedge inception if it completed by the earliest of the following: (815-20-25-3)

- a. The first quarterly hedge effectiveness assessment date.
- b. The date that financial statements that include the hedged transaction are available to be issued.
- c. The date that the hedging instrument and hedged item no longer qualify for hedge accounting.
- d. The date of expiration, sale, termination or exercise of the hedging instrument.
- e. The date of dedesignation of the hedging relationship.
- f. For a cash flow hedge of a forecasted transaction, the date that the forecasted transaction occurs.

New Footnote – Entities are required to perform an initial prospective assessment unless qualifying for an exception in accordance with ASU 2017-12, paragraph 815-20-25-3.

40. For all derivatives terminated, expired, or exercised during the year:

- a. Signature of approval, for each instrument, by person(s) authorized, either by the entity's board of directors or a committee authorized by the board, to approve such transactions;
- b. A description, for each instrument, of the nature of the transaction, including:
 - i. The date of the transaction;

- ii. A complete and accurate description of the specific derivative, including description of the underlying securities, currencies, rates, indices, commodities, derivatives, or other financial market instruments;
 - iii. Number of contracts or notional amount;
 - iv. Date of maturity, expiry or settlement;
 - v. Strike price, rate or index (termination price for futures contracts);
 - vi. Counterparty, or exchange on which the transaction was traded; and
 - vii. Consideration paid or received, if any, on termination.
- c. Description of the reporting entity's methodology to verify that derivatives were effective hedges; and
 - d. Identification of any derivatives that ceased to be effective as hedges.
41. For derivatives open at quarter-end:
- a. A description of the methodology used to verify the continued effectiveness of hedges, and whether the entity is using qualitative assessments pursuant to paragraph 42^{FN};
 - b. An identification of any derivatives that have ceased to be effective as hedges;
 - c. A description of the reporting entity's methodology to determine fair values of derivatives;
 - d. Copy of Master Agreements, if any, where indicated on Schedule DB Part D.

New Footnote: For purposes of this requirement, this statement adopts the guidance for effectiveness assessment after initial designation reflected in ASU 2017-12, including the concepts and restrictions for use of the short-cut method and the critical terms match method.

42. An entity may subsequently qualitatively assess hedge effectiveness, on a hedge-by-hedge basis, if both the conditions in paragraphs 42.a. and 42.b. were initially met. When an entity performs subsequent qualitative assessments of hedge effectiveness, it shall verify and document whenever financial statements or earnings are reported and at least every three months that the facts and circumstances related to the hedging relationship have not changed such that it can assert qualitatively that the hedging relationship was and continues to be highly effective. An entity may perform a quantitative assessment in any reporting period to validate whether qualitative assessments remain appropriate. When facts and circumstances change such that an entity no longer can assert qualitatively that the hedging relationship continue to be highly effective, then the entity shall begin performing quantitative assessments. (815-20-35-2A, 2C and 2D abbreviated)

- a. An entity performs an initial quantitative test of hedge effectiveness on a prospective basis (that is, it is not assuming that the hedging relationship is perfectly effective at hedge inception) and the results of that quantitative test demonstrate highly effective offset.
- b. At hedge inception, an entity can reasonably support an expectation of high effectiveness on a qualitative basis in subsequent periods.

RELEVANT LITERATURE

6059. This statement adopts the framework established by FAS 133, FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133 (FAS 137) and FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB

Statement No. 133 (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45 and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects FSP FIN 39-1, Amendments of FASB Interpretation No. 39, and ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach.

61. This statement adopts certain revisions to ASC 815-20 included in ASU 2017-12. This adoption is limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut methods for assessing hedge effectiveness. The remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

6260. This statement adopts with modification revisions to ASC 815 as reflected within ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This guidance is modified to require prospective application, as such it is only applicable to future counterparty changes in derivative instruments, and this guidance cannot be used to adjust derivative transactions previously terminated. This statement adopts revisions to ASC 815-20-25-15 as reflected within ASU 2010-08, Technical Corrections to Various Topics. This statement adopts revisions to ASC 815-10-50-4K as reflected within ASU 2010-11, Derivatives and Hedging (Topic 815), Scope Exception Related to Embedded Credit Derivatives, but rejects all other GAAP revisions from ASU 2010-11 and ASU 2014-16, Derivatives and Hedging, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity and ASU 2016-06, Derivatives and Hedging, Contingent Put and Call Options in Debt Instruments. These GAAP revisions are rejected as embedded derivatives are not separated from the host contract and recognized as derivatives under SSAP No. 86. Revisions are also incorporated to SSAP No. 86 to require disclosures on embedded credit derivatives that expose the holder of a financial instrument to the possibility of being required to make future payments. This disclosure is a modification to the GAAP disclosures specific to statutory accounting as embedded credit derivatives are not separately recognized under statutory accounting. It should be noted that the conclusions reached in this statement are not intended to usurp the rules and regulations put forth by states in their respective investment laws. The contents of this statement are intended to provide accounting guidance on the use of derivatives as allowed by an insurer's state of domicile. It is not intended to imply that insurers may use derivatives or cash instruments that the insurer's state of domicile does not allow under the state's insurance regulatory requirements, e.g., in replication transactions.

6364. This statement adopts revisions to ASC 815-20 as reflected within ASU 2013-10, Derivatives and Hedging, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a benchmark interest rate for Hedge Accounting Purposes. These revisions define a benchmark interest rate, clarify what can be used in the U.S. for a benchmark interest rate, and eliminate the prior restriction on using different benchmark rates for similar hedges.

Effective Date and Transition

6765. This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used. Revisions adopted to paragraph 59 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.) Revisions adopted in paragraph 15 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.) Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 61) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.

SSAP NO. 86 - EXHIBIT B – ASSESSMENT OF HEDGING EFFECTIVENESS

The following is based on paragraphs 62-70 of FAS 133 to offer additional guidance on assessing hedging effectiveness. The intent of such is to remain consistent with FAS 133 U.S. GAAP with respect to assessing hedge effectiveness, including guidance in ASU 2017-12 that outlines when an entity may perform subsequent assessments of hedge effectiveness qualitatively.

1. This statement requires that an entity define at the time it designates a hedging relationship the method it will use to assess the hedge's effectiveness in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. It also requires that an entity use that defined method consistently throughout the hedge period to assess at inception of the hedge and on an ongoing basis whether it expects the hedging relationship to be highly effective in achieving offset. If the entity identifies an improved method and wants to apply that method prospectively, it must discontinue the existing hedging relationship and designate the relationship anew using the improved method. Although this statement suggests a method for assessing whether a hedge is expected to be highly effective or measuring hedge ineffectiveness, the appropriateness of a given method of assessing hedge effectiveness can depend on the nature of the risk being hedged and the type of hedging instrument used. Ordinarily, however, an entity should assess effectiveness for similar hedges in a similar manner; use of different methods for similar hedges should be justified.

2. In defining how hedge effectiveness will be assessed, an entity must specify whether it will include in that assessment all of the gain or loss on a hedging instrument. As discussed in paragraph 33, this statement permits (but does not require) an entity to exclude all or a part of the hedging instrument's time value from the assessment of hedge effectiveness, as follows:

- a. If the effectiveness of a hedge with an option contract is assessed based on changes in the option's intrinsic value, the change in the time value of the contract would be excluded from the assessment of hedge effectiveness.
- b. If the effectiveness of a hedge with an option contract is assessed based on changes in the option's minimum value, that is, its intrinsic value plus the effect of discounting, the change in the volatility value of the contract would be excluded from the assessment of hedge effectiveness.
- c. If the effectiveness of a hedge with a forward or futures contract is assessed based on changes in fair value attributable to changes in spot prices, the change in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price would be excluded from the assessment of hedge effectiveness.

In each circumstance above, changes in the excluded component would be included in unrealized gains or losses. As noted in paragraph 1 of this Exhibit, the effectiveness of similar hedges generally should be assessed similarly; that includes whether a component of the gain or loss on a derivative is excluded in assessing effectiveness. No other components of a gain or loss on the designated hedging instrument may be excluded from the assessment of hedge effectiveness.

3. In assessing the effectiveness of a cash flow hedge, an entity generally will need to consider the time value of money if significant in the circumstances. Considering the effect of the time value of money is especially important if the hedging instrument involves periodic cash settlements. An example of a situation in which an entity likely would reflect the time value of money is a tailing strategy with futures contracts. When using a tailing strategy, an entity adjusts the size or contract amount of futures contracts used in a hedge so that earnings (or expense) from reinvestment (or funding) of daily settlement gains (or losses) on the futures do not distort the results of the hedge. To assess offset of expected cash flows when a tailing strategy has been used, an entity could reflect the time value of money, perhaps by comparing the present value of the hedged forecasted cash flow with the results of the hedging instrument.

4. ~~Whether a hedging relationship qualifies as highly effective sometimes will be easy to assess.~~ If the critical terms of the hedging instrument and of the ~~entire~~ hedged ~~item~~ asset or liability ~~(as opposed to selected cash flows)~~ or hedged forecasted transaction are the same, the entity could conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. For example, an entity may assume that a hedge of a forecasted purchase of a commodity with a forward contract will be ~~highly~~ perfectly effective if:

- a. The forward contract is for purchase of the same quantity of the same commodity at the same time and location as the hedged forecasted purchase.
- b. The fair value of the forward contract at inception is zero.
- c. Either the change in the discount or premium on the forward contract is excluded from the assessment of effectiveness and included directly in unrealized gains and losses pursuant to paragraph 22.B. or the change in expected cash flows on the forecasted transaction is based on the forward price for the commodity.

5. In a cash flow hedge of a group of forecasted transactions, an entity may assume that the timing in which the hedged transactions are expected to occur and the maturity date of the hedging instrument match in accordance with paragraph if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month. (815-20-25-84A)

~~56.~~ However, assessing hedge effectiveness can be more complex. For example, hedge effectiveness would be reduced by the following circumstances, among others:

- a. A difference between the basis of the hedging instrument and the hedged item or hedged transaction (such as a Deutsche mark-based hedging instrument and Dutch guilder-based hedged item), to the extent that those bases do not move in tandem
- b. Differences in critical terms of the hedging instrument and hedged item or hedged transaction, such as differences in notional amounts, maturities, quantity, location, or delivery dates.

Hedge effectiveness also would be reduced if part of the change in the fair value of a derivative is attributable to a change in the counterparty's creditworthiness.

~~67.~~ A hedge that meets the effectiveness test specified in paragraphs 19.b. and 20.b. (that is, both at inception and on an ongoing basis, the entity expects the hedge to be highly effective at achieving offsetting changes in fair values or cash flows) also must meet the other hedge accounting criteria to qualify for hedge accounting. If the hedge initially qualifies for hedge accounting, the entity would continue to assess whether the hedge meets the effectiveness test. If the hedge fails the effectiveness test at any time (that is, if the entity does not expect the hedge to be highly effective at achieving offsetting changes in fair values or cash

flows), the hedge ceases to qualify for hedge accounting. The discussions of measuring hedge effectiveness in the examples in the remainder of this Exhibit assume that the hedge satisfied all of the criteria for hedge accounting at inception.

Exhibit 2 – Revisions adopted to SSAP No. 86 on August 10, 2021 (Agenda Item 2021-20)

Derivatives Used in Hedging Transactions

22. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be considered an effective hedge and are permitted to be valued and reported in a manner that is consistent with the hedged asset or liability (referred to as hedge accounting). For instance, assume an entity has a financial instrument on which it is currently receiving income at a variable rate but wishes to receive income at a fixed rate and thus enters into a swap agreement to exchange the cash flows. If the transaction qualifies as an effective hedge and a financial instrument on a statutory basis is valued and reported at amortized cost, then the swap would also be valued and reported at amortized cost. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge, or that meet the required criteria but the entity has chosen not to apply hedge accounting, shall be accounted for at fair value and the changes in the fair value shall be recorded as unrealized gains or unrealized losses (referred to as fair value accounting)¹.

23. Entities shall not bifurcate the effectiveness of derivatives. A derivative instrument is either classified as an effective hedge or an ineffective hedge. Entities must account for the derivative using fair value accounting if it is deemed to be ineffective or becomes ineffective. Derivative instruments classified as effective with excluded components in determining hedge effectiveness pursuant to Exhibit A, paragraph 8, shall account for the derivative and excluded components pursuant to the guidance in paragraph 40. Entities may redesignate a derivative in a hedging relationship even though the derivative was used in a previous hedging relationship that proved to be ineffective. A change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument. An entity shall prospectively discontinue hedge accounting for an existing hedge if any one of the following occurs:

- a. Any criterion in paragraphs 26-38 is no longer met;
- b. The derivative expires or is sold, terminated, or exercised (the effect is recorded as realized gains or losses or, for effective hedges of firm commitments or forecasted transactions, in a manner that is consistent with the hedged transaction – see paragraph 24);
- c. The entity removes the designation of the hedge; or
- d. The derivative is deemed to be impaired in accordance with paragraph 18. A permanent decline in a counterparty's credit quality/rating is one example of impairment required by paragraph 18, for derivatives used in hedging transactions.

Hedge Effectiveness

39. The measurement of hedge effectiveness for a particular hedging relationship shall be consistent with the entity's risk management strategy and the method of assessing hedge effectiveness that was documented at the inception of the hedging relationship, as discussed in paragraph 41.

40. The gain or loss on a derivative designated as a hedge and assessed to be effective is reported consistently with the hedged item. (Therefore, if the hedged item is reported at amortized cost, and the hedging instrument is consistent with that measurement method, fluctuations in fair value would not be recognized as unrealized gains or losses for either the hedging item or hedging instrument.) If an entity's defined risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness (as discussed in Exhibit B, paragraph 8), specific accounting treatment shall be followed for

¹ Pursuant to paragraph 19, the gross reported value of a derivative and the determination of unrealized gains or losses shall exclude the impact of financing premiums. Premiums payable or receivable from the acquisition or writing of a derivative shall not be reflected in the gross reporting of derivatives or in determining the fair value change in a derivative.

~~the that excluded component: of the gain or loss shall be recognized as an unrealized gain or loss. For example, if the effectiveness of a hedge with an option contract is assessed based on changes in the option's intrinsic value, the changes in the option's time value would be recognized in unrealized gains or losses. Time value is equal to the fair value of the option less its intrinsic value.~~

- a. If the excluded component pertains to the difference between a foreign currency spot price and the forward or future price (e.g., a forward spot rate), then this premium/discount shall be amortized into income over the life of the contract or hedged program. (This guidance addresses the excluded component in Exhibit A, paragraph 8.d.)
- b. If the excluded component pertains to a foreign currency swap cross-currency basis spread, the impact of fair value changes shall be reflected as a component of the foreign currency swap's periodic interest accrual. (This guidance addresses the excluded component in Exhibit A, paragraph 8.e.)
- c. For all other excluded components, the excluded component shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses. (This guidance shall be applied to excluded components detailed in Exhibit A, paragraphs 8.a.-8.c.)

41. Hedging instruments with excluded components shall be identified in the financial statement investment schedule (Schedule DB) and shall be disclosed pursuant to paragraph 41.g.

Proposed New Disclosure Paragraph (This is proposed as a new paragraph 41.g. with reordering of subsequent paragraphs.)

- g. For hedging instruments with excluded components for determining hedge effectiveness:
 - i. In the investment schedule, identify hedging instruments with excluded components, and report the current fair value of the excluded component, the fair value of the excluded component that is reflected in the reported BACV for the hedging instrument (this item would not be applicable for foreign-currency forwards and currency swaps where the forward points or cross-currency basis, respectively, are the excluded component), and the change in fair value reported as an unrealized gains/loss. (Note – These items will be proposed in electronic columns to Schedule DB.)
 - ii. In the notes to the financial statements, provide information on the aggregate excluded components by category: Time Value, Intrinsic Value, Forward Points and Cross Currency Basis Spread. The aggregate amounts reported should include the following (as applicable): current fair value, recognized unrealized gain/loss, the fair value reflected in BACV, and for the excluded forward points (e.g., forward spot rates), the aggregate amount owed at maturity, along with current year and remaining amortization. (Note – These items will be captured in a blanks proposal/template.)

Relevant Literature

64. This statement adopts the framework established by FAS 133, *FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, An amendment of FASB Statement No. 133* (FAS 137) and *FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133* (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of *FASB Statement No. 149*:

Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. (The adoption from FAS 149 on the assessment of hedge effectiveness is impacted by the adoption with modification of guidance from ASU 2017-12 as detailed in paragraph 65.b., with the guidance from ASU 2017-12 superseding the prior adoption to the extent applicable.) All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: *Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45 and Clarification of the Effective Date of FASB Statement No. 161* (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects *FSP FIN 39-1, Amendments of FASB Interpretation No. 39, and ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach*.

65. This statement adopts, with modification, certain revisions to ASC 815-20 included in ASU 2017-12. Remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.

- a. Revisions effective January 1, 2019, with early adoption permitted, ~~This adoption is~~ limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut methods for assessing hedge effectiveness.
- b. Revisions effective January 1, 2023, with early adoption permitted, are limited to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12. This adoption reflects statutory modifications to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in the statement. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adoption of the referenced ASC paragraphs only extends to revisions incorporated through ASU 2017-12; therefore, any subsequent U.S. GAAP edits would require statutory accounting consideration before considered adopted.
~~The remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.~~

Effective Date and Transition

74.73 This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used.

- a. Revisions adopted to paragraph 64 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.)
- b. Revisions adopted in paragraph 16 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.)

- c. Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 65) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.
- d. Revisions adopted April 2019 to explicitly include structured notes in scope of this statement are effective December 31, 2019. Revisions adopted July 2020 to define “derivative premium,” require gross reporting of derivatives without the impact of financing premiums and require separate recognition of premiums payable and premiums receivable, are effective January 1, 2021.
- e. Revisions adopted August 2022 that adopt with modification the criteria for initial and subsequent hedge effectiveness detailed in the FASB ASC paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12 and that incorporate statutory accounting revisions for the accounting and reporting of excluded components are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively for all new and existing hedges. Entities shall detail the adoption of this guidance as a change in accounting principle pursuant to SSAP No. 3—Accounting Changes and Corrections of Errors.

With the adoption of the new Exhibit A as detailed in the subsequent section, Exhibit C will be renamed Exhibit B. Due to the details of Exhibit A (including the FASB ASC paragraphs not duplicated in the SSAP), the following Exhibit B section is included before the new Exhibit A in this issue paper for ease of readability.

EXHIBIT ~~C~~B – SPECIFIC HEDGE ACCOUNTING PROCEDURES FOR DERIVATIVES

Specific hedge accounting procedures for derivative instruments are outlined below.

1. Call and Put Options, Warrants, Caps, and Floors:
 - a. Accounting at Date of Acquisition (purchase) or Issuance (written): The premium paid or received for purchasing or writing a call option, put option, warrant, cap or floor shall either be (i) recorded as an asset (purchase) or liability (written) on the Derivative line on the Assets (or) Liabilities pages or (ii) combined with the hedged item(s) individually or in the aggregate;
 - b. Statement Value:
 - i. Open derivatives hedging items recorded at amortized cost:
 - (a) Options, warrants, caps, and floors purchased or written shall be valued at amortized cost in a manner consistent with the hedged item. (Components of a hedging instrument excluded from the determination of hedge effectiveness shall be recognized at fair value, with changes in fair value recognized as unrealized gains/losses throughout the duration of the hedging instrument. These components are not captured within the guidance for effective hedges detailed within this section.)
 - (b) The amortization period and methods used shall result in a constant effective yield over the life of the hedged item or program. (For floating rate hedged items, the estimated effective yield shall be based on the current rate so the changes in yields attributable to changes in interest rates will be recognized in the period of change). Specific treatment includes:

- (1) Holdings in derivatives purchased or written within a year of maturity or expiry need not be amortized;
 - (2) For hedges of forecasted transactions or firm commitments, the derivative may be recorded at cost until the hedged transaction occurs or it is determined that the hedge was not effective (see (d) in this section 1.b.i.);
 - (3) For other derivatives, the amortization period is usually from date of acquisition (issuance) of the derivative to maturity of the hedged item or program.
 - (c) For hedges where the cost of the derivative is combined with the hedged item, the statement value is zero. The fair value of the derivative and hedged item shall be determined and reported separately, either individually or in the aggregate;
 - (d) For hedges of forecasted transactions or firm commitments, the derivative shall be recorded at cost until (1) the hedged transaction occurs or (2) it is determined that the hedge was not effective (when the derivative is valued in accordance with (e) in this section);
 - (e) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, valuation at amortized cost ceases and the derivative or the designated portion of the derivative shall be valued at its current fair value with gains and losses recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.
- d. Gain/Loss on Termination of an option, warrant, cap or floor accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):
- i. Exercise of an Option: The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;
 - ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. For hedging instruments with excluded components in determining hedge effectiveness, the unrealized gain/loss from the change in fair value of the excluded component shall be realized upon the closing transaction. This gain/loss shall not be used to adjust the basis or proceeds of the hedged item.
 - iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.
 - iv. Upon the redesignation of a derivative from a currently effective hedging relationship:
 - (a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.

- (b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.
- (c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii) above.

2. Swaps, Collars, and Forwards (see also discussion in Introduction above):

a. Accounting at Date of Opening Position:

- i. Any premium paid or received at date of opening shall either be (a) recorded on the Derivative line on the Assets (or) Liabilities pages or (b) combined with the hedged item(s), individually or in the aggregate;

b. Statement Value:

- i. Open derivatives hedging items recorded at amortized cost:

- (a) Swaps, collars, and forwards shall be valued at amortized cost in a manner consistent with hedged item. (Components of a hedging instrument excluded from the determination of hedge effectiveness not addressed in 2.b.iii. shall be recognized at fair value, with changes in fair value of the excluded component recognized as unrealized gains/losses throughout the duration of the hedging instrument. These components are not captured within the guidance for effective hedges detailed within this section.);
- (b) The amortization period and methods used shall result in a constant effective yield over the life of the hedged item or program. (For floating rate hedged items the estimated effective yield shall be based on the current rate so the changes in yields attributable to changes in interest rates will be recognized in the period of change.) Specific treatment includes:
 - (1) Holdings in derivatives purchased or written within a year of maturity or expiry need not be amortized;
 - (2) For hedges of forecasted transactions or firm commitments, the derivative shall be recorded at cost until (a) the hedged transaction occurs or (b) it is determined that the hedge was not effective (see (5) in this section 2.b.i.);
 - (3) For other derivatives the amortization period is usually from date of acquisition (issuance) of the derivative to maturity of the hedged item or program;
 - (4) For hedges where the cost of the derivative is combined with the hedged item, the statement value is zero. The fair value of the derivative and hedged item shall be determined and reported separately, either individually or in the aggregate;
 - (5) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, valuation at amortized cost ceases and the derivative or a designated portion of the derivative shall be valued at its current fair value with gains and losses recorded in unrealized gains or unrealized losses to the

extent that it ceased to be an effective hedge. Upon redesignation into an effective hedging relationship, the derivative's mark to fair value through unrealized gain or loss shall be reversed.

- ii. Open derivatives hedging items recorded at fair value (where gains and losses on the hedged item are recognized as adjustments to unassigned funds (surplus):
 - (a) Swaps, collars, or forwards shall be valued at current fair value with changes in fair value recognized currently consistent with the hedged item; this will result in unrealized gain/loss treatment with adjustment to unassigned funds (surplus);
 - (b) For hedges where the derivative is combined with the hedged item, the fair value of the derivative and hedge item shall be determined and reported separately, either individually or in the aggregate. The cost (book value) basis used to figure gain/loss on the derivative is zero.
- iii. Open foreign currency swap and forward contracts hedging foreign currency exposure on items denominated in a foreign currency and translated into U.S. dollars where fair value accounting is not being used:
 - (a) ~~The foreign exchange premium (discount) on the currency contract shall be amortized into income over the life of the contract or hedge program.~~ The foreign exchange premium (discount) is defined as the foreign currency (notional) amount to be received (paid) times the net of the forward rate minus the spot rate at the time the contract was opened. For forward contracts, an excluded component representing a foreign exchange premium (discount) (forward points) on the currency contract shall be amortized into income over the life of the contract or hedge program. Amortization is not required if the contract was entered into within a year of maturity. For foreign currency swaps, an excluded component representing a cross-currency basis spread, is recognized into income through the foreign currency swap's periodic interest accruals.
~~Amortization is not required if the contract was entered into within a year of maturity;~~
 - (b) A foreign currency translation adjustment shall be reflected as an unrealized gain/loss (unassigned funds (surplus) adjustment) using the same procedures as done to translate the hedged item;
 - (c) The unrealized gain/loss for the period equals the foreign currency (notional) amount to be received (paid) times the net of the current spot rate minus the prior period end spot rate;
 - (d) The statement value of the derivative equals the amortized cost plus:
 - 1. For forward contracts, the amortized (premium) discount plus the cumulative unrealized gain/(loss) on the contract.
 - 2. For foreign currency swaps, ~~the~~ the cumulative unrealized gain/(loss) on the contract. The cross-currency basis spread is recorded through the Investment Income Due and Accrued or Other Liabilities, as a component of the foreign currency swap's periodic interest accrual.
 - The cumulative unrealized gain/loss equals the foreign currency (notional) amount to be received (paid) times the net of the current spot rate minus the spot rate at the time the contract was opened;

- (e) Recognition of unrealized gains/losses and amortization of foreign exchange premium/discount on derivatives hedging forecasted transactions or firm commitments shall be deferred until the hedged transaction occurs. These deferred gains/losses will adjust the basis or proceeds of the hedged transaction when it occurs;
- (f) For hedges where the cost of the foreign currency contract is combined with the hedged item, the statement value on Schedule DB is zero. The fair value of the derivative and hedged item shall be determined and reported separately, either individually or in the aggregate;
- (g) ~~If during the life of the currency contract it or a designated portion of the currency contract is not effective as a hedge, The derivative shall be recorded at fair value and valuation at amortized cost shall cease. To the extent it ceased to be an effective hedge,~~ a cumulative unrealized gain/loss (surplus adjustment) ~~will~~ shall be recognized equal to the difference between the carrying value of the derivative on the balance sheet and the fair value of the derivative if either of the following occur:
 - 1. During the life of the currency contract it or a designated portion of the currency contract is not effective as a hedge.
 - 2. The entity decides to terminate the derivative in advance of scheduled maturity.~~notional amount or designated notional amount times the difference between the forward rate available for the remaining maturity of the contract (i.e., the forward rate as of the balance sheet date) and the forward rate at the time it ceased to be an effective hedge.~~

- iv. Open derivatives hedging items recorded at fair value, where gains and losses on the hedged item are recognized currently in earnings: swaps, collars and forwards shall be valued at current fair value with changes in fair value recognized currently in earnings together with the gains and losses on the hedged item.

- (a) If during the life of the derivative it or a designated portion of the derivative is no longer effective as a hedge, recognition of changes in fair value through earnings ceases. The derivative shall continue to be valued at its current fair value, but thereafter gains or losses shall be recognized in unrealized gains or unrealized losses to the extent it ceased to be an effective hedge.

c. Cash Flows and Income:

- i. Where the cost of the derivative is not combined with the hedged item:
 - (a) Amortization of premium paid or received on derivatives is an adjustment to net investment income or another appropriate caption within operating income consistent with the reporting of the hedged item;
 - (b) Periodic cash flows and accruals of income/expense are to be reported in a manner consistent with the hedged item, usually as net investment income or another appropriate caption within operating income.
- ii. Where the cost of the derivative is combined with the hedged item, the cash flows and income of the derivative on Schedule DB is zero. All related amortization and cash flow accounting shall be reported with the hedged item instead of with the derivative.

- d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):
 - i. Exercise—The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;
 - ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination.
 - iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.
 - iv. Upon the redesignation of a derivative from a currently effective hedging relationship-
 - (a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.
 - (b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.
 - (c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii) above.

The following new Exhibit A replaces both Exhibit A and Exhibit B within the existing SSAP No. 86. This is new guidance within SSAP No. 86, and the tracked changes shown in the section below reflect the modifications from U.S. GAAP. References to the FASB ASC are included in this issue paper for historical reference and will not be duplicated within the SSAP.

EXHIBIT A – DISCUSSION OF HEDGE EFFECTIVENESS

The guidance within this exhibit reflects the adoption, with modification, of *FASB Accounting Standards Codification (ASC) 815-20-25-72 through 815-20-35-20*, as revised through the issuance of *ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12) (issued on August 28, 2017). This adoption captures the U.S. GAAP guidance for the assessment and determination of hedge effectiveness, with modification to require the accounting and reporting of hedging instruments, including excluded components of hedging instruments to follow specific statutory accounting guidance in SSAP No. 86. The intent of this guidance is to clarify that the determination of whether a hedging instrument and derivative transaction qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement and reporting of effective hedge transactions shall follow statutory specific provisions. The adoption only extends to revisions incorporated to the FASB ASC through ASU 2017-12, therefore any subsequent U.S. GAAP edits to the ASC would require statutory accounting adoption before application. The guidance within this Exhibit reflects excerpts from the U.S. GAAP ASC, but do not reflect the full U.S. GAAP guidance referenced in the adopted language. The exclusion of cited guidance is to manage the extent of detail included within SSAP No. 86. Excerpts not duplicated within from the cited U.S. GAAP guidance are considered adopted unless subject to the specific accounting and reporting statutory exclusion. This Exhibit intends to supplement the guidance in SSAP No. 86 on hedge

effectiveness. In any event in which this Exhibit could be interpreted as conflicting with the SSAP No. 86 guidance, the guidance in the body of SSAP No. 86 shall be followed.

Hedge Effectiveness Criteria Applicable to Both Fair Value Hedges and Cash Flow Hedges

1. This guidance addresses hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges. (815-20-25-74)
2. To qualify for hedge accounting, the hedging relationship, both at inception of the hedge and on an ongoing basis, shall be expected to be highly effective in achieving either of the following: (815-20-25-75)
 - a. Offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated (if a fair value hedge)
 - b. Offsetting cash flows attributable to the hedged risk during the term of the hedge (if a cash flow hedge), unless the hedging instrument is used to modify the contractually specified interest receipts or payments associated with a recognized financial asset liability from one variable rate to another variable rate. ~~except as indicated in paragraph 815-20-25-50~~
3. If the hedging instrument (such as an at-the-money option contract) provides only one-sided offset of the hedged risk, either of the following conditions shall be met: (815-20-25-76)
 - a. The increases (or decreases) in the fair value of the hedging instrument are expected to be highly effective in offsetting the decreases (or increases) in the fair value of the hedged item (if a fair value hedge).
 - b. The cash inflows (outflows) from the hedging instrument are expected to be highly effective in offsetting the corresponding change in the cash outflows or inflows of the hedged transaction (if a cash flow hedge).
4. There would be a mismatch between the change in fair value or cash flows of the hedging instrument and the change in fair value or cash flows of the hedged item or hedged transaction in any of the following circumstances, among others: (815-20-25-77)
 - a. A difference between the basis of the hedging instrument and the hedged item or hedged transaction, to the extent that those bases do not move in tandem
 - b. Differences in critical terms of the hedging instrument and hedged item or hedged transaction, such as differences in any of the following:
 - i. Notional amounts
 - ii. Maturities
 - iii. Quantity
 - iv. Location (not applicable for hedging relationships in which the variability in cash flows attributable to changes in a contractually specified component is designated as the hedged risk)
 - v. Delivery Dates

5. An entity shall consider hedge effectiveness in two different ways—in prospective considerations and in retrospective evaluations: (815-20-25-79)

- a. Prospective considerations. The entity's expectation that the relationship will be highly effective over future periods in achieving offsetting changes in fair value or cash flows, which is forward looking, must be assessed on a quantitative basis at hedge inception unless one of the exceptions [detailed in ASU 2017-12](#), paragraph 815-20-25-3(b)(2)(iv)(01)² is met. Prospective assessments shall be subsequently performed whenever financial statements or earnings are reported and at least every three months. The entity shall elect at hedge inception ~~in accordance with paragraph 815-20-25-3(b)(2)(iv)(03)~~ whether to perform subsequent [retrospective and prospective hedge effectiveness](#) assessments on a quantitative or qualitative basis. ~~See paragraphs 815-20-35-2A through 35-2F for additional guidance on qualitative assessments of hedge effectiveness.~~ A quantitative assessment can be based on regression or other statistical analysis of past changes in fair values or cash flows as well as on other relevant information. The quantitative prospective assessment of hedge effectiveness shall consider all reasonably possible changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument and the hedged items for the period used to assess whether the requirement for expectation of highly effective offset is satisfied. The quantitative prospective assessment may not be limited only to the likely or expected changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument or the hedged items. Generally, the process of formulating an expectation regarding the effectiveness of a proposed hedging relationship involves a probability-weighted analysis of the possible changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument and the hedged items for the hedge period. Therefore, a probable future change in fair value will be more heavily weighted than a reasonably possible future change. ~~That calculation technique is consistent with the definition of the term expected cash flow in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements.~~
- b. Retrospective evaluations. An assessment of effectiveness may be performed on a quantitative or qualitative basis on the basis of the entity's election at hedge inception ~~in accordance with paragraph 815-20-25-3(b)(2)(iv)(03)~~. That assessment shall be performed whenever financial statements or earnings are reported, and at least every three months. ~~See paragraphs 815-20-35-2 through 35-4 for further guidance.~~ At inception of the hedge, an entity electing a dollar-offset approach to perform retrospective evaluations on a quantitative basis may choose either a period-by-period approach or a cumulative approach in designating how effectiveness of a fair value hedge or of a cash flow hedge will be assessed retrospectively under that approach, depending on the nature of the hedge [initially documented in accordance with paragraph 815-20-25-3](#). ~~For example, an entity may decide that the cumulative approach is generally preferred, yet may wish to use the period-by-period approach in certain circumstances. See paragraphs 815-20-35-5 through 35-6 for further guidance.~~

(ASC paragraph 815-20-25-79A not included in Exhibit A.)

6. All assessments of effectiveness shall be consistent with the originally documented risk management strategy for that particular hedging relationship. An entity shall use the quantitative effectiveness assessment method defined at hedge inception consistently for the periods that the entity either elects or is required to assess hedge effectiveness on a quantitative basis. (815-20-25-80)

² Reference to this ASU 2017-12 guidance is consistent with the guidance in SSAP No. 86, paragraph 42, footnote 5.

7. This ~~Subtopic~~ guidance does not specify a single method for assessing whether a hedge is expected to be highly effective. The method of assessing effectiveness shall be reasonable. The appropriateness of a given method of assessing hedge effectiveness depends on the nature of the risk being hedged and the type of hedging instrument used. Ordinarily, an entity shall assess effectiveness for similar hedges in a similar manner, including whether a component of the gain or loss on a derivative instrument is excluded in assessing effectiveness for similar hedges. Use of different methods for similar hedges shall be justified. The mechanics of isolating the change in time value of an option discussed beginning in paragraph ~~13 815-20-25-98~~ also shall be applied consistently. (815-20-25-81)

8. In defining how hedge effectiveness will be assessed, an entity shall specify whether it will include in that assessment all of the gain or loss on a hedging instrument. An entity may exclude all or a part of the hedging instrument's time value from the assessment of hedge effectiveness, as follows: (815-20-25-82)

- a. If the effectiveness of a hedge with an option is assessed based on changes in the option's intrinsic value, the change in the time value of the option would be excluded from the assessment of hedge effectiveness.
- b. If the effectiveness of a hedge with an option is assessed based on changes in the option's minimum value, that is, its intrinsic value plus the effect of discounting, the change in the volatility value of the contract shall be excluded from the assessment of hedge effectiveness.
- c. An entity may exclude any of the following components of the change in an option's time value from the assessment of hedge effectiveness:
 - i. The portion of the change in time value attributable to the passage of time (theta)
 - ii. The portion of the change in time value attributable to changes due to volatility (vega)
 - iii. The portion of the change in time value attributable to changes due to interest rates (rho).
- d. If the effectiveness of a hedge with a forward contract or futures contract is assessed based on changes in fair value attributable to changes in spot prices, the change in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price shall be excluded from the assessment of hedge effectiveness.
- e. An entity may exclude the portion of the change in fair value of a currency swap attributable to a cross-currency basis spread.

9. No other components of a gain or loss on the designated hedging instrument shall be excluded from the assessment of hedge effectiveness nor shall an entity exclude any aspect of a change in an option's value from the assessment of hedge effectiveness that is not one of the permissible components of the change in an option's time value. For example, an entity shall not exclude from the assessment of hedge effectiveness the portion of the change in time value attributable to changes in other market variables (that is, other than rho and vega). (815-20-25-83)

Note – The following ASC Paragraphs 815-20-25-83A and 83B are not adopted within SSAP No. 86 as they address measurement and recognition. Measurement and recognition guidance shall follow the provisions detailed in SSAP No. 86.

For fair value and cash flow hedges, the initial value of the component excluded from the assessment of effectiveness shall be recognized in earnings using a systematic and rational method over the life of the hedging instrument. Any difference between the change in fair value of the excluded component and amounts recognized in earnings under that systematic and rational method shall be recognized in other comprehensive income. Example 31 beginning in paragraph 815-20-55-235 illustrates this approach for a cash flow hedge in which the hedging instrument is an option and the entire time value is excluded from the assessment of effectiveness. (815-20-25-83A)

For fair value and cash flow hedges, an entity alternatively may elect to record changes in the fair value of the excluded component currently in earnings. This election shall be applied consistently to similar hedges in accordance with paragraph 815-20-25-81 and shall be disclosed in accordance with paragraph 815-10-50-4EEEE. (815-20-25-83B)

10. If the critical terms of the hedging instrument and of the hedged item or hedged forecasted transaction are the same, the entity could conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. For example, an entity may assume that a hedge of a forecasted purchase of a commodity with a forward contract will be perfectly effective if all of the following criteria are met:

- a. The forward contract is for purchase of the same quantity of the same commodity at the same time and location as the hedged forecasted purchase. Location differences do not need to be considered if an entity designates the variability in cash flows attributable to changes in a contractually specified component as the hedged risk and the requirements in paragraphs 815-20-25-22A through 25-22B of the FASB Codification are met. (815-20-25-84)
- b. The fair value of the forward contract at inception is zero.
- c. Either of the following criteria is met:
 - i. The change in the discount or premium on the forward contract is excluded from the assessment of effectiveness pursuant to paragraphs 7-9815-20-25-81 through 25-83.
 - ii. The change in expected cash flows on the forecasted transaction is based on the forward price for the commodity.

11. In a cash flow hedge of a group of forecasted transactions in accordance with paragraph 28.a. of the SSAP guidance 815-20-25-15(a)(2), an entity may assume that the timing in which the hedged transactions are expected to occur and the maturity date of the hedging instrument match in accordance with paragraph 10.a. 815-20-25-84(a) if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month. (815-20-25-84A)

12. If all of the criteria in paragraphs 10-11 815-20-25-84 through 25-84A are met, an entity shall still perform and document an assessment of hedge effectiveness at the inception of the hedging relationship and, ~~as discussed beginning in paragraph 815-20-35-9~~, on an ongoing basis throughout the hedge period. No quantitative effectiveness assessment is required at hedge inception if the criteria in paragraphs 10-11 815-20-25-84 through 25-84A are met ~~(see paragraph 815-20-25-3(b)(2)(iv)(01))~~. (815-20-25-85)

(ASC paragraphs 815-20-25-86 to 815-20-25-97 not included in Exhibit A.)

Computing Changes in an Option's Time Value

13. In computing the changes in an option's time value that would be excluded from the assessment of hedge effectiveness, an entity shall use a technique that appropriately isolates those aspects of the change in time value. Generally, to allocate the total change in an option's time value to its different aspects—the passage of time and the market variables—the change in time value attributable to the first aspect to be isolated is determined by holding all other aspects constant as of the beginning of the period. Each remaining aspect of the change in time value is then determined in turn in a specified order based on the ending values of the previously isolated aspects. (815-20-25-98)

14. Based on that general methodology, if only one aspect of the change in time value is excluded from the assessment of hedge effectiveness (for example, theta), that aspect shall be the first aspect for which the change in time value is computed and would be determined by holding all other parameters constant for the period used for assessing hedge effectiveness. However, if more than one aspect of the change in time value is excluded from the assessment of hedge effectiveness (for example, theta and vega), an entity shall determine the amount of that change in time value by isolating each of those two aspects in turn in a prespecified order (one first, the other second). The second aspect to be isolated would be based on the ending value of the first isolated aspect and the beginning values of the remaining aspects. The portion of the change in time value that is included in the assessment of effectiveness shall be determined by deducting from the total change in time value the portion of the change in time value attributable to excluded components. (815-20-25-99)

(ASC paragraphs 815-20-25-100 and 815-20-25-101 not included in Exhibit A.)

Assuming Perfect Hedge Effectiveness in a Hedge with an Interest Rate Swap

15. The conditions for the shortcut method do not determine which hedging relationships qualify for hedge accounting; rather, those conditions determine which hedging relationships qualify for a shortcut version of hedge accounting that assumes perfect hedge effectiveness. If all of the applicable conditions in the list in paragraph ~~17 815-20-25-104~~ are met, an entity may assume perfect effectiveness in a hedging relationship of interest rate risk involving a recognized interest-bearing asset or liability (or a firm commitment arising on the trade [pricing] date to purchase or issue an interest-bearing asset or liability) and an interest rate swap (or a compound hedging instrument composed of an interest rate swap and a mirror-image call or put option as discussed in paragraph ~~17.c. 815-20-25-104[e]~~) provided that, in the case of a firm commitment, the trade date of the asset or liability differs from its settlement date due to generally established conventions in the marketplace in which the transaction is executed. The shortcut method's application shall be limited to hedging relationships that meet each and every applicable condition. That is, all the conditions applicable to fair value hedges shall be met to apply the shortcut method to a fair value hedge, and all the conditions applicable to cash flow hedges shall be met to apply the shortcut method to a cash flow hedge. A hedging relationship cannot qualify for application of the shortcut method based on an assumption of perfect effectiveness justified by applying other criteria. The verb *match* is used in the specified conditions in the list to mean *exactly the same* or *correspond exactly*. (815-20-25-102)

16. Implicit in the conditions for the shortcut method is the requirement that a basis exist for concluding on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair values or cash flows. In applying the shortcut method, an entity shall consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity. (815-20-25-103)

17. All of the following conditions apply to both fair value hedges and cash flow hedges: (815-20-25-104)

- a. The notional amount of the interest rate swap matches the principal amount of the interest-bearing asset or liability being hedged.
- b. If the hedging instrument is solely an interest rate swap, the fair value of that interest rate swap at the inception of the hedging relationship must be zero, with one exception. The fair value of the swap may be other than zero at the inception of the hedging relationship only if the swap was entered into at the relationship's inception, the transaction price of the swap was zero in the entity's principal market (or most advantageous market), and the difference between transaction price and fair value is attributable solely to differing prices within the bid-ask spread between the entry transaction and a hypothetical exit transaction. The guidance in the preceding sentence is applicable only to transactions considered *at market* (that is, transaction price is zero exclusive of commissions and other transaction costs, ~~as discussed in paragraph 820-10-35-9B~~). If the hedging instrument is solely an interest rate swap that at the inception of the hedging relationship has a positive or negative fair value, but does not meet the one exception specified in this paragraph, the shortcut method shall not be used even if all the other conditions are met.
- c. If the hedging instrument is a compound derivative composed of an interest rate swap and mirror-image call or put option as discussed in (e), the premium for the mirror-image call or put option shall be paid or received in the same manner as the premium on the call or put option embedded in the hedged item based on the following:
 - i. If the implicit premium for the call or put option embedded in the hedged item is being paid principally over the life of the hedged item (through an adjustment of the interest rate), the fair value of the hedging instrument at the inception of the hedging relationship shall be zero (except as discussed previously in (b) regarding differing prices due to the existence of a bid-ask spread).
 - ii. If the implicit premium for the call or put option embedded in the hedged item was principally paid at inception-acquisition (through an original issue discount or premium), the fair value of the hedging instrument at the inception of the hedging relationship shall be equal to the fair value of the mirror-image call or put option.
- d. The formula for computing net settlements under the interest rate swap is the same for each net settlement. That is, both of the following conditions are met:
 - i. The fixed rate is the same throughout the term.
 - ii. The variable rate is based on the same index and includes the same constant adjustment or no adjustment. The existence of a stub period and stub rate is not a violation of the criterion in (d) that would preclude application of the shortcut method if the stub rate is the variable rate that corresponds to the length of the stub period.
- e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items occur on the date in which the last hedged cash flow is due and payable, ~~in accordance with paragraph 815-25-35-13B~~, with the following qualifications:

- i. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).
 - ii. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:
 - (a) The terms of the two call options match exactly, including all of the following:
 - (1) Maturities
 - (2) Strike price (that is, the actual amount for which the debt instrument could be called) and there is no termination payment equal to the deferred debt issuance costs that remain unamortized on the date the debt is called
 - (3) Related notional amounts
 - (4) Timing and frequency of payments
 - (5) Dates on which the instruments may be called.
 - (b) The entity is the writer of one call option and the holder (purchaser) of the other call option.
 - f. Any other terms in the interest-bearing financial instruments or interest rate swaps meet both of the following conditions:
 - i. The terms are typical of those instruments.
 - ii. The terms do not invalidate the assumption of perfect effectiveness.
18. All of the following incremental conditions apply to fair value hedges only: (815-20-25-105)
- a. The expiration date of the interest rate swap matches the maturity date of the interest-bearing asset or liability or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items occur on the date in which the last hedged cash flow is due and payable~~in accordance with paragraph 815-25-35-13B.~~
 - b. There is no floor or cap on the variable interest rate of the interest rate swap.
 - c. The interval between repricings of the variable interest rate in the interest rate swap is frequent enough to justify an assumption that the variable payment or receipt is at a market rate (generally three to six months or less).
 - d. For fair value hedges of a proportion of the principal amount of the interest-bearing asset or liability, the notional amount of the interest rate swap designated as the hedging

instrument ~~(see (a) in paragraph 815-20-25-104)~~ matches the portion of the asset or liability being hedged.

- e. For fair value hedges of portfolios (or proportions thereof) of similar interest-bearing assets or liabilities, both of the following criteria are met:
 - i. The notional amount of the interest rate swap designated as the hedging instrument matches the aggregate notional amount of the hedged item (whether it is all or a proportion of the total portfolio).
 - ii. The remaining criteria for the shortcut method are met with respect to the interest rate swap and the individual assets or liabilities in the portfolio.
 - f. The index on which the variable leg of the interest rate swap is based matches the benchmark interest rate designated as the interest rate risk being hedged for that hedging relationship.
19. All of the following incremental conditions apply to cash flow hedges only: (815-20-25-106)
- a. All interest receipts or payments on the variable-rate asset or liability during the term of the interest rate swap are designated as hedged.
 - b. No interest payments beyond the term of the interest rate swap are designated as hedged.
 - c. Either of the following conditions is met:
 - i. There is no floor or cap on the variable interest rate of the interest rate swap.
 - ii. The variable-rate asset or liability has a floor or cap and the interest rate swap has a floor or cap on the variable interest rate that is comparable to the floor or cap on the variable-rate asset or liability. For purposes of this paragraph, comparable does not necessarily mean equal. For example, if an interest rate swap's variable rate is based on LIBOR and an asset's variable rate is LIBOR plus 2 percent, a 10 percent cap on the interest rate swap would be comparable to a 12 percent cap on the asset.
 - d. The repricing dates of the variable-rate asset or liability and the hedging instrument must occur on the same dates and be calculated the same way (that is, both shall be either prospective or retrospective). If the repricing dates of the hedged item occur on the same dates as the repricing dates of the hedging instrument but the repricing calculation for the hedged item is prospective whereas the repricing calculation for the hedging instrument is retrospective, those repricing dates do not match.
 - e. For cash flow hedges of the interest payments on only a portion of the principal amount of the interest-bearing asset or liability, the notional amount of the interest rate swap designated as the hedging instrument ~~(see paragraph 815-20-25-104(a))~~ matches the principal amount of the portion of the asset or liability on which the hedged interest payments are based.
 - f. For a cash flow hedge in which the hedged forecasted transaction is a group of individual transactions (as permitted by [paragraph 28.a. of the SSAP guidance](#) ~~paragraph 815-20-25-15(a)~~), if both of the following criteria are met:

- i. The notional amount of the interest rate swap designated as the hedging instrument ~~(see paragraph (a))~~ matches the notional amount of the aggregate group of hedged transactions.
 - ii. The remaining criteria for the shortcut method are met with respect to the interest rate swap and the individual transactions that make up the group. For example, the interest rate repricing dates for the variable-rate assets or liabilities whose interest payments are included in the group of forecasted transactions shall match (that is, be exactly the same as) the reset dates for the interest rate swap.
 - g. The index on which the variable leg of the interest rate swap is based matches the contractually specified interest rate designated as the interest rate being hedged for that hedging relationship.
20. The shortcut method may be applied to a hedging relationship that involves the use of an interest rate swap-in-arrears provided all of the applicable conditions are met. (815-20-25-107)
21. Any discount or premium in the hedged debt's carrying amount (including any related deferred issuance costs) is irrelevant to and has no direct impact on the determination of whether an interest rate swap contains a mirror-image call option under paragraph 17.e.i.(e). Typically, the call price is greater than the par or face amount of the debt instrument. The carrying amount of the debt is economically unrelated to the amount the issuer would be required to pay to exercise the call embedded in the debt. (815-20-25-108)
22. The fixed interest rate on a hedged item need not exactly match the fixed interest rate on an interest rate swap designated as a fair value hedge. Nor does the variable interest rate on an interest-bearing asset or liability need to be the same as the variable interest rate on an interest rate swap designated as a cash flow hedge. An interest rate swap's fair value comes from its net settlements. The fixed and variable interest rates on an interest rate swap can be changed without affecting the net settlement if both are changed by the same amount. That is, an interest rate swap with a payment based on LIBOR and a receipt based on a fixed rate of 5 percent has the same net settlements and fair value as an interest rate swap with a payment based on LIBOR plus 1 percent and a receipt based on a fixed rate of 6 percent. (815-20-25-109)
23. Comparable credit risk at inception is not a condition for assuming perfect effectiveness even though actually achieving perfect offset would require that the same discount rate be used to determine the fair value of the swap and of the hedged item or hedged transaction. To justify using the same discount rate, the credit risk related to both parties to the swap as well as to the debtor on the hedged interest-bearing asset (in a fair value hedge) or the variable-rate asset on which the interest payments are hedged (in a cash flow hedge) would have to be the same. However, because that complication is caused by the interaction of interest rate risk and credit risk, which are not easily separable, comparable creditworthiness is not considered a necessary condition for assuming perfect effectiveness in a hedge of interest rate risk. (815-20-25-111)

(ASC paragraphs 815-20-25-112 through 815-20-25-143 not included in Exhibit A.)

Hedge Effectiveness – After Designation

24. If a fair value hedge or cash flow hedge initially qualifies for hedge accounting, the entity would continue to assess whether the hedge meets the effectiveness test on either a quantitative basis (using either a dollar-offset test or a statistical method such as regression analysis) or a qualitative basis. ~~See paragraphs 815-20-35-2A through 35-2F for additional guidance on qualitative assessments of effectiveness.~~ If the hedge fails the effectiveness test at any time (that is, if the entity does not expect the

hedge to be highly effective at achieving offsetting changes in fair values or cash flows), the hedge ceases to qualify for hedge accounting. At least quarterly, the hedging entity shall determine whether the hedging relationship has been highly effective in having achieved offsetting changes in fair value or cash flows through the date of the periodic assessment.) (815-20-35-2)

Effectiveness Assessment on a Qualitative Basis

25. An entity may qualitatively assess hedge effectiveness if both of the following criteria are met: (815-20-35-2A)

- a. An entity performs an initial quantitative test of hedge effectiveness on a prospective basis (that is, it is not assuming that the hedging relationship is perfectly effective at hedge inception ~~as described in paragraph 815-20-25-3(b)(2)(iv)(01)(A) through (H)~~), and the results of that quantitative test demonstrate highly effective offset.
- b. At hedge inception, an entity can reasonably support an expectation of high effectiveness on a qualitative basis in subsequent periods.

26. An entity may elect to qualitatively assess hedge effectiveness in accordance with paragraph ~~25 815-20-35-2A~~ on a hedge-by-hedge basis. If an entity makes this qualitative assessment election, only the quantitative method specified in an entity's initial hedge documentation must comply with paragraph ~~7815-20-25-81~~. (815-20-35-2B)

27. When an entity performs qualitative assessments of hedge effectiveness, it shall verify and document whenever financial statements or earnings are reported and at least every three months that the facts and circumstances related to the hedging relationship have not changed such that it can assert qualitatively that the hedging relationship was and continues to be highly effective. While not all-inclusive, the following is a list of indicators that may, individually or in the aggregate, allow an entity to continue to assert qualitatively that the hedging relationship is highly effective: (815-20-35-2C)

- a. An assessment of the factors that enabled the entity to reasonably support an expectation of high effectiveness on a qualitative basis has not changed such that the entity can continue to assert qualitatively that the hedging relationship was and continues to be highly effective. ~~This shall include an assessment of the guidance in paragraph 815-20-25-100 when applicable.~~
- b. There have been no adverse developments regarding the risk of counterparty default.

28. If an entity elects to assess hedge effectiveness on a qualitative basis and then facts and circumstances change such that the entity no longer can assert qualitatively that the hedging relationship was and continues to be highly effective in achieving offsetting changes in fair values or cash flows, the entity shall assess effectiveness of that hedging relationship on a quantitative basis in subsequent periods. In addition, an entity may perform a quantitative assessment of hedge effectiveness in any reporting period to validate whether qualitative assessments of hedge effectiveness remain appropriate. In both cases, the entity shall apply the quantitative method that it identified in its initial hedge documentation ~~in accordance with paragraph (b)(2)(iv)(03)~~. (815-20-35-2D)

29. When an entity determines that facts and circumstances have changed and it no longer can assert qualitatively that the hedging relationship was and continues to be highly effective, the entity shall begin performing subsequent quantitative assessments of hedge effectiveness as of the period that the facts and circumstances changed. If there is no identifiable event that led to the change in the facts and circumstances of the hedging relationship, the entity may begin performing quantitative assessments of effectiveness in the current period. (815-20-35-2E)

30. After performing a quantitative assessment of hedge effectiveness for one or more reporting periods as discussed in paragraphs ~~28-29~~~~815-20-35-2D through 35-2E~~, an entity may revert to qualitative assessments of hedge effectiveness if it can reasonably support an expectation of high effectiveness on a qualitative basis for subsequent periods. ~~See paragraphs 815-20-55-79G through 55-79N for implementation guidance on factors to consider when determining whether qualitative assessments of effectiveness can be performed after hedge inception.~~ (815-20-35-2F)

Quantitative Hedge Effectiveness Assessments After Hedge Designation

31. Quantitative assessments can be based on regression or other statistical analysis of past changes in fair values or cash flows as well as on other relevant information. (815-20-35-2G)

32. If an entity elects at the inception of a hedging relationship to use the same regression analysis approach for both prospective considerations and retrospective evaluations of assessing effectiveness, then during the term of that hedging relationship both of the following conditions shall be met: (815-20-35-3)

- a. Those regression analysis calculations shall generally incorporate the same number of data points.
- b. That entity must periodically update its regression analysis (or other statistical analysis).

33. Electing to use a regression or other statistical analysis approach instead of a dollar-offset approach to perform retrospective evaluations of assessing hedge effectiveness may affect whether an entity can apply hedge accounting for the current assessment period. (815-20-35-4)

34. In periodically (that is, at least quarterly) assessing retrospectively the effectiveness of a fair value hedge (or a cash flow hedge) in having achieved offsetting changes in fair values (or cash flows) under a dollar-offset approach, an entity shall use either a period-by-period approach or a cumulative approach on individual fair value hedges (or cash flow hedges): (815-20-35-5)

- a. Period-by-period approach. The period-by-period approach involves comparing the changes in the hedging instrument's fair values (or cash flows) that have occurred during the period being assessed to the changes in the hedged item's fair value (or hedged transaction's cash flows) attributable to the risk hedged that have occurred during the same period. If an entity elects to base its comparison of changes in fair value (or cash flows) on a period-by-period approach, the period cannot exceed three months. Fair value (or cash flow) patterns of the hedging instrument or the hedged item (or hedged transaction) in periods before the period being assessed are not relevant.
- b. Cumulative approach. The cumulative approach involves comparing the cumulative changes (to date from inception of the hedge) in the hedging instrument's fair values (or cash flows) to the cumulative changes in the hedged item's fair value (or hedged transaction's cash flows) attributable to the risk hedged.

35. If an entity elects at inception of a hedging relationship to base its comparison of changes in fair value (or cash flows) on a cumulative approach, then that entity must abide by the results of that methodology as long as that hedging relationship remains designated. Electing to utilize a period-by-period approach instead of a cumulative approach (or vice versa) to perform retrospective evaluations of assessing hedge effectiveness under the dollar-offset method may affect whether an entity can apply hedge accounting for the current assessment period. (815-20-35-6)

Assessing Effectiveness Based on Whether the Critical Terms of the Hedging Instrument and the Hedged Items Match

36. If, at inception, the critical terms of the hedging instrument and the hedged forecasted transaction are the same (see paragraphs ~~10-11~~~~815-20-25-84 through 25-84A~~), the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. Therefore, subsequent assessments can be performed by verifying and documenting whether the critical terms of the hedging instrument and the forecasted transaction have changed during the period in review. (815-20-35-9)

37. Because the assessment of hedge effectiveness in a cash flow hedge involves assessing the likelihood of the counterparty's compliance with the contractual terms of the derivative instrument designated as the hedging instrument, the entity must also assess whether there have been adverse developments regarding the risk of counterparty default, particularly if the entity planned to obtain its cash flows by liquidating the derivative instrument at its fair value. (815-20-35-10)

38. If there are no such changes in the critical terms or adverse developments regarding counterparty default, the entity may conclude that the hedging relationship is perfectly effective. In that case, the change in fair value of the derivative instrument can be viewed as a proxy for the present value of the change in cash flows attributable to the risk being hedged. (815-20-35-11)

39. However, the entity must assess whether the hedging relationship is expected to continue to be highly effective using a quantitative assessment method (either a dollar-offset test or a statistical method such as regression analysis) if any of the following conditions exist: (815-20-35-12)

- a. The critical terms of the hedging instrument or the hedged forecasted transaction have changed.
- b. There have been adverse developments regarding the risk of counterparty default.

Possibility of Default by the Counterparty to Hedging Derivative

40. For an entity to conclude on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in cash flows, the entity shall not ignore whether it will collect the payments it would be owed under the contractual provisions of the derivative instrument. In complying with the requirements of paragraph ~~2.b.815-20-25-75(b)~~, the entity shall assess the possibility of whether the counterparty to the derivative instrument will default by failing to make any contractually required payments to the entity as scheduled in the derivative instrument. In making that assessment, the entity shall also consider the effect of any related collateralization or financial guarantees. The entity shall be aware of the counterparty's creditworthiness (and changes therein) in determining the fair value of the derivative instrument. Although a change in the counterparty's creditworthiness would not necessarily indicate that the counterparty would default on its obligations, such a change shall warrant further evaluation. (815-20-35-14)

41. If the likelihood that the counterparty will not default ceases to be probable, an entity would be unable to conclude that the hedging relationship in a cash flow hedge is expected to be highly effective in achieving offsetting cash flows. (815-20-35-15)

42. In contrast, a change in the creditworthiness of the derivative instrument's counterparty in a fair value hedge would have an immediate effect because that change in creditworthiness would affect the change in the derivative instrument's fair value, which would immediately affect both of the following: (815-20-35-16)

- a. The assessment of whether the relationship qualifies for hedge accounting
- b. The amount of mismatch between the change in the fair value of the hedging instrument and the hedged item attributable to the hedged risk recognized in earnings under fair value hedge accounting.

43. Paragraph ~~16815-20-25-103~~ states that, in applying the shortcut method, an entity shall consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity. That paragraph explains that implicit in the criteria for the shortcut method is the requirement that a basis exist for concluding on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair values or cash flows. (815-20-35-18)

Change in Hedge Effectiveness Method When Hedge Effectiveness is Assessed on a Quantitative Basis

44. If the entity identifies an improved method of assessing hedge effectiveness in accordance with the guidance in paragraph ~~6815-20-25-80~~ and wants to apply that method prospectively, it shall do both of the following: (815-20-35-19)

- a. Discontinue the existing hedging relationship
- b. Designate the relationship anew using the improved method.

45. The new method of assessing hedge effectiveness shall be applied prospectively and shall also be applied to similar hedges unless the use of a different method for similar hedges is justified. A change in the method of assessing hedge effectiveness by an entity shall not be considered a change in accounting principle as defined in ~~Topic 250~~ SSAP No. 3—Accounting Changes and Corrections of Errors. (815-20-35-20)

U.S. GAAP ASC Excerpts Excluded from Exhibit A

This information is included to illustrate the guidance within the adopted ASC references that are not captured in Exhibit A. The guidance within these paragraphs is considered part of the statutory adoption unless they include specific accounting and reporting guidance.

815-20-25-79A See paragraphs 815-20-25-139 through 25-142 about the timing of hedge effectiveness assessments required by paragraph 815-20-25-79 for a private company that is not a financial institution or a not-for-profit entity (except for a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market).

815-20-25-86 The remainder of this guidance on hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges is organized as follows:

- a. Hedge effectiveness when the hedging instrument is an option or combination of options
- b. Hedge effectiveness when hedged exposure is more limited than hedging instrument
- c. Hedge effectiveness during designated hedge period
- d. Assuming perfect effectiveness in a hedge with an interest rate swap (the shortcut method).

Hedge Effectiveness When the Hedging Instrument Is an Option or Combination of Options

815-20-25-87 The hedge effectiveness criteria applicable to options and combinations of options are organized as follows:

- a. Determining whether a combination of options is net written
- b. Hedge effectiveness of written options
- c. Hedge effectiveness of options in general.

Determining Whether a Combination of Options Is Net Written

815-20-25-88 This guidance addresses how an entity shall determine whether a combination of options is considered a net written option subject to the requirements of paragraph 815-20-25-94. A combination of options (for example, an interest rate collar) entered into contemporaneously shall be considered a written option if either at inception or over the life of the contracts a net premium is received in cash or as a favorable rate or other term. Furthermore, a derivative instrument that results from combining a written option and any other non-option derivative instrument shall be considered a written option. The determination of whether a combination of options is considered a net written option depends in part on whether strike prices and notional amounts of the options remain constant.

Strike Prices and Notional Amounts Remain Constant

815-20-25-89 For a combination of options in which the strike price and the notional amount in both the written option component and the purchased option component remain constant over the life of the respective component, that combination of options would be considered a net purchased option or a zero cost collar (that is, the combination shall not be considered a net written option subject to the requirements of paragraph 815-20-25-94) provided all of the following conditions are met:

- a. No net premium is received.

- b. The components of the combination of options are based on the same underlying.
- c. The components of the combination of options have the same maturity date.
- d. The notional amount of the written option component is not greater than the notional amount of the purchased option component.

815-20-25-90 If the combination of options does not meet all of those conditions, it shall be subject to the test in paragraph 815-20-25-94. For example, a combination of options having different underlying indexes, such as a collar containing a written floor based on three-month U.S. Treasury rates and a purchased cap based on three-month London Interbank Offered Rate (LIBOR), shall not be considered a net purchased option or a zero cost collar even though those rates may be highly correlated.

Strike Prices and Notional Amounts Do Not Remain Constant

815-20-25-91 If either the written option component or the purchased option component for a combination of options has either strike prices or notional amounts that do not remain constant over the life of the respective component, the assessment to determine whether that combination of options can be considered not to be a written option under paragraph 815-20-25-88 shall be evaluated with respect to each date that either the strike prices or the notional amounts change within the contractual term from inception to maturity.

815-20-25-92 Even though that assessment is made on the date that a combination of options is designated as a hedging instrument (to determine the applicability of paragraph 815-20-25-94), it shall consider the receipt of a net premium (in cash or as a favorable rate or other term) from that combination of options at each point in time that either the strike prices or the notional amounts change, such as either of the following circumstances:

- a. If strike prices fluctuate over the life of a combination of options and no net premium is received at inception, a net premium will typically be received as a favorable term in one or more reporting periods within the contractual term from inception to maturity.
- b. If notional amounts fluctuate over the life of a combination of options and no net premium is received at inception, a net premium or a favorable term will typically be received in one or more periods within the contractual term from inception to maturity.

815-20-25-93 In addition, a combination of options in which either the written option component or the purchased option component has either strike prices or notional amounts that do not remain constant over the life of the respective component shall satisfy all of the conditions in paragraph 815-20-25-89 to be considered not to be a written option (that is, to be considered to be a net purchased option or zero cost collar) under paragraph 815-20-25-88. For example, if the notional amount of the written option component is greater than the notional amount of the purchased option component at any date that the notional amount changes within the contractual term from inception to maturity, the combination of options shall be considered to be a written option under paragraph 815-20-25-88 and, thus, subject to the criteria in the following paragraph.

Hedge Effectiveness of Written Options

815-20-25-94 If a written option is designated as hedging a recognized asset or liability or an unrecognized firm commitment (if a fair value hedge) or the variability in cash flows for a recognized asset or liability or an unrecognized firm commitment (if a cash flow hedge), the combination of the hedged item and the written option provides either of the following:

- a. At least as much potential for gains as a result of a favorable change in the fair value of the combined instruments (that is, the written option and the hedged item, such as an embedded purchased option) as exposure to losses from an unfavorable change in their combined fair value (if a fair value hedge)
- b. At least as much potential for favorable cash flows as exposure to unfavorable cash flows (if a cash flow hedge).

815-20-25-95 The written-option test in the preceding paragraph shall be applied only at inception of the hedging relationship and is met if all possible percentage favorable changes in the underlying (from zero percent to 100 percent) would provide either of the following:

- a. At least as much gain as the loss that would be incurred from an unfavorable change in the underlying of the same percentage (if a fair value hedge)
- b. At least as much favorable cash flows as the unfavorable cash flows that would be incurred from an unfavorable change in the underlying of the same percentage (if a cash flow hedge).

815-20-25-96 The time value of a written option (or net written option) may be excluded from the written-option test if, in defining how hedge effectiveness will be assessed, the entity specifies that it will base that assessment on only changes in the option's intrinsic value. In that circumstance, the change in the time value of the options would be excluded from the assessment of hedge effectiveness in accordance with paragraph 815-20-25-82(a).

815-20-25-97 When applying the written-option test to determine whether there is symmetry of the gain and loss potential of the combined hedged position for all possible percentage changes in the underlying, an entity is permitted to measure the change in the intrinsic value of the written option (or net written option) combined with the change in fair value of the hedged item.

Hedge Effectiveness When Hedged Exposure Is More Limited Than Hedging Instrument

815-20-25-100 An entity may designate as the hedging instrument in a fair value hedge or cash flow hedge a derivative instrument that does not have a limited exposure comparable to the limited exposure of the hedged item to the risk being hedged. However, to make that designation, in accordance with paragraph 815-20-25-75, the entity shall establish that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated. See paragraph 815-20-25-79(a) for additional guidance on prospective considerations of hedge effectiveness in this circumstance.

Hedge Effectiveness during Designated Hedge Period

815-20-25-101 It is inappropriate under this Subtopic for an entity to designate a derivative instrument as the hedging instrument if the entity expects that the derivative instrument will not be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated, unless the entity has documented undertaking a dynamic hedging strategy in which it has committed itself to an ongoing repositioning strategy for its hedging relationship.

Application of Prepayable Criterion

815-20-25-112 An interest-bearing asset or liability shall be considered prepayable under the provisions of paragraph 815-20-25-104(e) if one party to the contract has the right to cause the payment of principal before the scheduled payment dates unless either of the following conditions is met:

- a. The debtor has the right to cause settlement of the entire contract before its stated maturity at an amount that is always greater than the then fair value of the contract absent that right.
- b. The creditor has the right to cause settlement of the entire contract before its stated maturity at an amount that is always less than the then fair value of the contract absent that right.

815-20-25-113 However, none of the following shall be considered a prepayment provision:

- a. Any term, clause, or other provision in a debt instrument that gives the debtor or creditor the right to cause prepayment of the debt contingent upon the occurrence of a specific event related to the debtor's credit deterioration or other change in the debtor's credit risk, such as any of the following:
 - 1. The debtor's failure to make timely payment, thus making it delinquent
 - 2. The debtor's failure to meet specific covenant ratios
 - 3. The debtor's disposition of specific significant assets (such as a factory)
 - 4. A declaration of cross-default
 - 5. A restructuring by the debtor.
- b. Any term, clause, or other provision in a debt instrument that gives the debtor or creditor the right to cause prepayment of the debt contingent upon the occurrence of a specific event that meets all of the following conditions:
 - 1. It is not probable at the time of debt issuance.
 - 2. It is unrelated to changes in benchmark interest rates, contractually specified interest rates, or any other market variable.
 - 3. It is related either to the debtor's or creditor's death or to regulatory actions, legislative actions, or other similar events that are beyond the control of the debtor or creditor.
- c. Contingent acceleration clauses that permit the debtor to accelerate the maturity of an outstanding note only upon the occurrence of a specified event that meets all of the following conditions:
 - 1. It is not probable at the time of debt issuance.
 - 2. It is unrelated to changes in benchmark interest rates, contractually specified interest rates, or any other market variable.
 - 3. It is related to regulatory actions, legislative actions, or other similar events that are beyond the control of the debtor or creditor.

815-20-25-114 Furthermore, a right to cause a contract to be prepaid at its then fair value would not cause the interest-bearing asset or liability to be considered prepayable because that right would have a fair value of zero at all times and essentially would provide only liquidity to the holder.

815-20-25-115 Application of this guidance to specific debt instruments is illustrated in paragraph 815-20-55-75.

Application of the Shortcut Method to a Portfolio of Hedged Items

815-20-25-116 Portfolio hedging cannot be used to circumvent the application of the shortcut method criteria beginning in paragraph 815-20-25-102 to a fair value hedge of an individual interest-bearing asset or liability. A portfolio of interest-bearing assets or interest-bearing liabilities cannot qualify for the shortcut method if it contains an interest-bearing asset or liability that individually cannot qualify for the shortcut method.

815-20-25-117 The fair value hedge requirements of paragraph 815-20-25-12(b)(1) ensure that the individual items in a portfolio share the same risk exposure and have fair value changes attributable to the hedged risk that are expected to respond in a generally proportionate manner to the overall fair value changes of the entire portfolio. That requirement restricts the types of portfolios that can qualify for portfolio hedging; however, it also permits the existence of a mismatch between the change in the fair value of the individual hedged items and the change in the fair value of the hedged portfolio attributable to the hedged risk in portfolios that do qualify. As a result, the assumption of perfect effectiveness required for the shortcut method generally is inappropriate for portfolio hedges of similar assets or liabilities that are not also nearly identical (except for their notional amounts). Application of the shortcut method to portfolios that meet the requirements of paragraph 815-20-25-12(b)(1) is appropriate only if the assets or liabilities in the portfolio meet the same stringent criteria in paragraphs 815-20-25-104(e), 815-20-25-104(g), and 815-20-25-105(a) as required for hedges of individual assets and liabilities.

Application of Whether the Shortcut Method Was Not or No Longer Is Appropriate

815-20-25-117A In the period in which an entity determines that use of the shortcut method was not or no longer is appropriate, the entity may use a quantitative method to assess hedge effectiveness and measure hedge results without dedesignating the hedging relationship if both of the following criteria are met:

- a. The entity documented at hedge inception in accordance with paragraph 815-20-25-3(b)(2)(iv)(04) which quantitative method it would use to assess hedge effectiveness and measure hedge results if the shortcut method was not or no longer is appropriate during the life of the hedging relationship.
- b. The hedging relationship was highly effective on a prospective and retrospective basis in achieving offsetting changes in fair value or cash flows attributable to the hedged risk for the periods in which the shortcut method criteria were not met.

815-20-25-117B If the criterion in paragraph 815-20-25-117A(a) is not met, the hedging relationship shall be considered invalid in the period in which the criteria for the shortcut method were not met and in all subsequent periods. If the criterion in paragraph 815-20-25-117A(a) is met, the hedging relationship shall be considered invalid in all periods in which the criterion in paragraph 815-20-25-117A(b) is not met.

815-20-25-117C If an entity cannot identify the date on which the shortcut criteria ceased to be met, the entity shall perform the quantitative assessment of effectiveness documented at hedge inception for all periods since hedge inception.

815-20-25-117D The terms of the hedged item and hedging instrument used to assess effectiveness, in accordance with paragraph 815-20-25-117A(b), shall be those existing as of the date that the shortcut criteria ceased to be met. For cash flow hedges, if the hypothetical derivative method is used as a proxy for the hedged item, the value of the hypothetical derivative shall be set to zero as of hedge inception.

Hedge Effectiveness Criterion Applicable to Fair Value Hedges Only—Effectiveness Horizon

815-20-25-118 In documenting its risk management strategy for a fair value hedge, an entity may specify an intent to consider the possible changes (that is, not limited to the likely or expected changes) in value of the hedging derivative instrument and the hedged item only over a shorter period than the derivative instrument's remaining life in formulating its expectation that the hedging relationship will be highly effective in achieving offsetting changes in fair value for the risk being hedged. The entity does not need to contemplate the offsetting effect for the entire term of the hedging instrument.

Consideration of Prepayment Risk Using the Last-of-Layer Method

815-20-25-118A In a fair value hedge of interest rate risk designated under the last-of-layer method in accordance with paragraph 815-20-25-12A, an entity may exclude prepayment risk when measuring the change in fair value of the hedged item attributable to interest rate risk.

Hedge Effectiveness Criteria Applicable to Cash Flow Hedges Only

815-20-25-119 The hedge effectiveness criteria applicable to cash flow hedges only are organized as follows:

- a. Consideration of the time value of money
- b. Consideration of counterparty credit risk
- c. Additional considerations for options in cash flow hedges
- d. Assuming perfect hedge effectiveness in a cash flow hedge of a variable-rate borrowing with a receive-variable, pay-fixed interest rate swap recorded under the simplified hedge accounting approach.

Consideration of the Time Value of Money

815-20-25-120 In assessing the effectiveness of a cash flow hedge, an entity generally shall consider the time value of money, especially if the hedging instrument involves periodic cash settlements.

815-20-25-121 An example of a situation in which an entity likely would reflect the time value of money is a tailing strategy with futures contracts. When using a tailing strategy, an entity adjusts the size or contract amount of futures contracts used in a hedge so that earnings (or expense) from reinvestment (or funding) of daily settlement gains (or losses) on the futures do not distort the results of the hedge. To assess offset of expected cash flows when a tailing strategy has been used, an entity could reflect the time value of money, perhaps by comparing the present value of the hedged forecasted cash flow with the results of the hedging instrument.

Consideration of Counterparty Credit Risk

815-20-25-122 For a cash flow hedge, an entity shall consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative instrument that require the counterparty to make payments to the entity. Paragraph 815-20-35-14 states that, for an entity to conclude on an ongoing basis that a cash flow hedging relationship is expected to be highly effective in achieving offsetting changes in cash flows, the entity shall not ignore whether it will collect the payments it would be owed under the contractual provisions of the derivative instrument. See paragraphs 815-20-35-14 through 35-18 for further guidance.

Additional Considerations for Options in Cash Flow Hedges

815-20-25-123 When an entity has documented that the effectiveness of a cash flow hedge will be assessed based on changes in the hedging option's intrinsic value pursuant to paragraph 815-20-25-82(a), that assessment (and the related cash flow hedge accounting) shall be performed for all changes in intrinsic value—that is, for all periods of time when the option has an intrinsic value, such as when the underlying is above the strike price of the call option.

815-20-25-124 When a purchased option is designated as a hedging instrument in a cash flow hedge, an entity shall not define only limited parameters for the risk exposure designated as being hedged that would include the time value component of that option. An entity cannot arbitrarily exclude some portion of an option's intrinsic value from the hedge effectiveness assessment simply through an articulation of the risk exposure definition. It is inappropriate to assert that only limited risk exposures are being hedged (for example, exposures related only to currency-exchange-rate changes above \$1.65 per pound sterling as illustrated in Example 26 [see paragraph 815-20-55-205]).

815-20-25-125 If an option is designated as the hedging instrument in a cash flow hedge, an entity may assess hedge effectiveness based on a measure of the difference, as of the end of the period used for assessing hedge effectiveness, between the strike price and forward price of the underlying, undiscounted. Although assessment of cash flow hedge effectiveness with respect to an option designated as the hedging instrument in a cash flow hedge shall be performed by comparing the changes in present value of the expected future cash flows of the forecasted transaction to the change in fair value of the derivative instrument (aside from any excluded component under paragraph 815-20-25-82), that measure of changes in the expected future cash flows of the forecasted transaction based on forward rates, undiscounted, is not prohibited. With respect to an option designated as the hedging instrument in a cash flow hedge, assessing hedge effectiveness based on a similar measure with respect to the hedging instrument eliminates any difference that the effect of discounting may have on the hedging instrument and the hedged transaction. Pursuant to paragraph 815-20-25-3(b)(2)(iv), entities shall document the measure of intrinsic value that will be used in the assessment of hedge effectiveness. As discussed in paragraph 815-20-25-80, that measure must be used consistently for each period following designation of the hedging relationship.

Assessing Hedge Effectiveness Based on an Option's Terminal Value

815-20-25-126 The guidance in paragraph 815-20-25-129 addresses a cash flow hedge that meets all of the following conditions:

- a. The hedging instrument is a purchased option or a combination of only options that comprise either a net purchased option or a zero-cost collar.
- b. The exposure being hedged is the variability in expected future cash flows attributed to a particular rate or price beyond (or within) a specified level (or levels).
- c. The assessment of effectiveness is documented as being based on total changes in the option's cash flows (that is, the assessment will include the hedging instrument's entire change in fair value, not just changes in intrinsic value).

815-20-25-127 This guidance has no effect on the accounting for fair value hedging relationships. In addition, in determining the accounting for seemingly similar cash flow hedging relationships, it would be inappropriate to analogize to this guidance.

815-20-25-128 For a hedging relationship that meets all of the conditions in paragraph 815-20-25-126, an entity may focus on the hedging instrument's terminal value (that is, its expected future pay-off amount at its maturity date) in determining whether the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. An entity's

focus on the hedging instrument's terminal value is not an impediment to the entity's subsequently deciding to dedesignate that cash flow hedge before the occurrence of the hedged transaction. If the hedging instrument is a purchased cap consisting of a series of purchased caplets that are each hedging an individual hedged transaction in a series of hedged transactions (such as caplets hedging a series of hedged interest payments at different monthly or quarterly dates), the entity may focus on the terminal value of each caplet (that is, the expected future pay-off amount at the maturity date of each caplet) in determining whether each of those hedging relationships is expected to be highly effective in achieving offsetting cash flows. The guidance in this paragraph applies to a purchased option regardless of whether at the inception of the cash flow hedging relationship it is at the money, in the money, or out of the money.

815-20-25-129 A hedging relationship that meets all of the conditions in paragraph 815-20-25-126 may be considered to be perfectly effective if all of the following conditions are met:

- a. The critical terms of the hedging instrument (such as its notional amount, underlying, maturity date, and so forth) completely match the related terms of the hedged forecasted transaction (such as the notional amount, the variable that determines the variability in cash flows, the expected date of the hedged transaction, and so forth).
- b. The strike price (or prices) of the hedging option (or combination of options) matches the specified level (or levels) beyond (or within) which the entity's exposure is being hedged.
- c. The hedging instrument's inflows (outflows) at its maturity date completely offset the change in the hedged transaction's cash flows for the risk being hedged.
- d. The hedging instrument can be exercised only on a single date—its contractual maturity date.

The condition in (d) is consistent with the entity's focus on the hedging instrument's terminal value. If the holder of the option chooses to pay for the ability to exercise the option at dates before the maturity date (for example, by acquiring an American-style option), the hedging relationship would not be perfectly effective.

815-20-25-129A In a hedge of a group of forecasted transactions in accordance with paragraph 815-20-25-15(a)(2), an entity may assume that the timing in which the hedged transactions are expected to occur and the maturity date of the hedging instrument match in accordance with paragraph 815-20-25-129(a) if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month.

Hedge Effectiveness of a Net-Purchased Combination of Options

815-20-25-130 The guidance in the following paragraph addresses a cash flow hedging relationship that meets both of the following conditions:

- a. A combination of options (deemed to be a net purchased option) is designated as the hedging instrument.
- b. The effectiveness of the hedge is assessed based only on changes in intrinsic value of the hedging instrument (the combination of options).

815-20-25-131 The assessment of effectiveness of a cash flow hedging relationship meeting the conditions in the preceding paragraph may be based only on changes in the underlying that cause a change in the intrinsic value of the hedging instrument (the combination of options). Thus, the assessment can exclude ranges of changes in the underlying for which there is no change in the hedging instrument's intrinsic value.

Hedge Accounting Provisions Applicable to Certain Private Companies

Assuming Perfect Hedge Effectiveness in a Cash Flow Hedge of a Variable-Rate Borrowing with a Receive-Variable, Pay-Fixed Interest Rate Swap Recorded under the Simplified Hedge Accounting Approach

815-20-25-133 Paragraphs 815-10-35-1A through 35-1C, 815-10-50-3, 815-20-25-3A, 815-20-25-119, 815-20-25-134 through 25-138, 815-20-55-79A through 55-79B, 825-10-50-3, and 825-10-50-8 provide guidance for an entity electing the simplified hedge accounting approach. See paragraph 815-10-65-6 for transition guidance on applying the simplified hedge accounting approach.

815-20-25-134 The conditions for the simplified hedge accounting approach determine which cash flow hedging relationships qualify for a simplified version of hedge accounting. If all of the conditions in paragraphs 815-20-25-135 and 815-20-25-137 are met, an entity may assume perfect effectiveness in a cash flow hedging relationship involving a variable-rate borrowing and a receive-variable, pay-fixed interest rate swap.

815-20-25-135 Provided all of the conditions in paragraph 815-20-25-137 are met, the simplified hedge accounting approach may be applied by a **private company** except for a financial institution as described in paragraph 942-320-50-1. An entity may elect the simplified hedge accounting approach for any receive-variable, pay-fixed interest rate swap, provided that all of the conditions for applying the simplified hedge accounting approach specified in paragraph 815-20-25-137 are met. Implementation guidance on the conditions set forth in paragraph 815-20-25-137 is provided in paragraphs 815-20-55-79A through 55-79B.

815-20-25-136 In applying the simplified hedge accounting approach, the documentation required by paragraph 815-20-25-3 to qualify for hedge accounting must be completed by the date on which the first annual **financial statements are available to be issued** after hedge inception rather than concurrently at hedge inception.

815-20-25-137 An eligible entity under paragraph 815-20-25-135 must meet all of the following conditions to apply the simplified hedge accounting approach to a cash flow hedge of a variable-rate borrowing with a receive-variable, pay-fixed interest rate swap:

- a. Both the variable rate on the swap and the borrowing are based on the same index and reset period (for example, both the swap and borrowing are based on one-month London Interbank Offered Rate [LIBOR] or both the swap and borrowing are based on three-month LIBOR).
- b. The terms of the swap are typical (in other words, the swap is what is generally considered to be a “plain-vanilla” swap), and there is no floor or cap on the variable interest rate of the swap unless the borrowing has a comparable floor or cap.
- c. The repricing and settlement dates for the swap and the borrowing match or differ by no more than a few days.
- d. The swap’s fair value at inception (that is, at the time the derivative was executed to hedge the interest rate risk of the borrowing) is at or near zero.
- e. The notional amount of the swap matches the principal amount of the borrowing being hedged. In complying with this condition, the amount of the borrowing being hedged may be less than the total principal amount of the borrowing.

- f. All interest payments occurring on the borrowing during the term of the swap (or the effective term of the swap underlying the forward starting swap) are designated as hedged whether in total or in proportion to the principal amount of the borrowing being hedged.

815-20-25-138 A cash flow hedge established through the use of a forward starting receive-variable, pay-fixed interest rate swap may be permitted in applying the simplified hedge accounting approach only if the occurrence of forecasted interest payments to be swapped is probable. When forecasted interest payments are no longer probable of occurring, a cash flow hedging relationship will no longer qualify for the simplified hedge accounting approach and the General Subsections of this Topic shall apply at the date of change and on a prospective basis.

Timing of Hedge Documentation for Certain Private Companies If Simplified Hedge Accounting Approach Is Not Applied

Concurrent Hedge Documentation

815-20-25-139 Concurrent with hedge inception, a **private company** that is not a financial institution as described in paragraph 942-320-50-1 shall document the following:

- a. The hedging relationship in accordance with paragraph 815-20-25-3(b)(1)
- b. The hedging instrument in accordance with paragraph 815-20-25-3(b)(2)(i)
- c. The hedged item in accordance with paragraph 815-20-25-3(b)(2)(ii), including (if applicable) firm commitments or the analysis supporting a last-of-layer designation in paragraph 815-20-25-3(c), or forecasted transactions in paragraph 815-20-25-3(d)
- d. The nature of the risk being hedged in accordance with paragraph 815-20-25-3(b)(2)(iii).

815-20-25-140 A private company that is not a financial institution is not required to perform or document the following items concurrent with hedge inception but rather is required to perform or document them within the time periods discussed in paragraph 815-20-25-142:

- a. The method of assessing hedge effectiveness at inception and on an ongoing basis in accordance with paragraph 815-20-25-3(b)(2)(iv) and (vi)
- b. Initial hedge effectiveness assessments in accordance with paragraph 815-20-25-3(b)(2)(iv)(01) through (04).

815-20-25-141 Example 1A beginning in paragraph 815-20-55-80A illustrates hedge documentation when the critical terms of the hedging instrument and hedged forecasted transaction match. Although that Example illustrates the documentation of the method of assessing hedge effectiveness, private companies that are not financial institutions may complete hedge documentation requirements in accordance with paragraphs 815-20-25-139 through 25-140.

Hedge Effectiveness Assessments

815-20-25-142 For a private company that is not a financial institution, the performance and documentation of the items listed in paragraph 815-20-25-140, as well as required subsequent quarterly hedge effectiveness assessments, may be completed before the date on which the next interim (if applicable) or annual financial statements are available to be issued. Even though the completion of the initial and ongoing assessments of effectiveness may be deferred to the date on which financial statements are available to be issued the assessments shall be completed using information applicable as of hedge inception and each subsequent

quarterly assessment date when completing this documentation on a deferred basis. Therefore, the assessment should be performed to determine whether the hedge was highly effective at achieving offsetting changes in fair values or cash flows at inception and in each subsequent quarterly assessment period up to the reporting date.

Hedge Accounting Provisions Applicable to Certain Not-for-Profit Entities

815-20-25-143 Not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) may apply the guidance on the timing of hedge documentation and hedge effectiveness assessments in paragraphs 815-20-25-139 through 25-142. Specifically, those entities shall document the items listed in paragraph 815-20-25-139 concurrent with hedge inception, but they may perform and document the items listed in paragraph 815-20-25-140 and perform the required subsequent quarterly hedge effectiveness assessments in accordance with paragraph 815-20-25-142 within the time periods discussed in paragraph 815-20-25-142.

Exhibit 3 – Revisions adopted to SSAP No. 86 on December 12, 2022 (Agenda Item 2022-09)

Fair Value Hedges (Note – Paragraphs 26.a. through 26.c. are not affected and are omitted for brevity.)

26. Fair value hedges qualify for hedge accounting if all of the following criteria are met:

- d. The hedged item is specifically identified as either all, ~~or~~ a specific portion, or the partial term of a recognized asset, or all or a specific portion of ~~or a recognized~~ liability or of an unrecognized firm commitment. The hedged item is a single asset or liability (or a specific portion or partial term thereof) or is a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof) or a closed portfolio of assets (pursuant to paragraph 26.f. and Exhibit A, paragraph 46) where assumed layer or layers is anticipated to be outstanding (or a specific portion thereof)³. For a partial term hedge of one or more consecutive selected contractual cash flows where the hedged item begins when the first hedge cash flow begins to accrue and ends at the end of the designation hedge period, the assumed maturity of the hedged item occurs at the end of the designated hedge period; (ASC 815-25-35-13B Partial Term Hedging.)
- e. If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities must share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk; and
- f. For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers (this designation is referred to throughout as the “portfolio layer method” (detailed in Exhibit A). (ASC 815-20-25-12A Portfolio Layer Method)
- ~~f.g.~~ If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is:
 - i. The risk of changes in the overall fair value of the entire hedged item;

³ For clarity, partial-term hedges and portfolio hedges addressed in paragraph 26.f. are limited to the situations in which the hedged item(s) is a recognized asset or a closed portfolio of financial assets. These hedging accounting methods are not permitted to hedge liabilities.

- ii. The risk of changes in its fair value attributable to changes in benchmark interest rate;
- iii. The risk of changes in its fair value attributable to changes in the related foreign currency exchange rates; or
- iv. The risk of changes in its fair value attributable to both changes in the obligor's creditworthiness and changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge (referred to as credit risk).

If the risk designated as being hedged is not the risk in paragraph 26.f.i., two or more of the other risks (benchmark interest rate risk, foreign currency exchange risk, and credit risk) may simultaneously be designated as being hedged.

The benchmark interest rate being hedged in a hedge of interest rate risk must be specifically identified as part of the designation and documentation at the inception of the hedging relationship. In calculating the change in the hedged item's fair value attributable to changes in the benchmark interest rate, the estimated coupon cash flows used in calculating fair value ~~shall must~~ be based on either all of the full contractual cash flows of the entire hedged item or the benchmark rate component of the contractual coupon cash flows of the hedged item determined at hedge inception. An entity may designate a fair value hedge of interest rate risk in which the hedged item is a prepayment instrument. The entity may consider only how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity (for example, an entity may consider only how change in the benchmark interest rate affect an obligor's decision to call a debt instrument when it has the right to do so.) The entity need not consider other factors that would affect this decision (for example, credit risk) when assessing hedge effectiveness. (ASU 815-25-35-13 & 815-20-25-6B) ~~Excluding some of the hedged item's contractual cash flows (for example, the portion of the interest coupon in excess of the benchmark interest rate) from the calculation is not permitted.~~⁴ An entity may not simply designate prepayment risk as the risk being hedged for a financial asset. However, it can designate the option component of a prepayable instrument as the hedged item in a fair value hedge of the entity's exposure to changes in the fair value of that "prepayment" option, perhaps thereby achieving the objective of its desire to hedge prepayment risk. The effect of an embedded derivative of the same risk class must be considered in designating a hedge of an individual risk. For example, the effect of an embedded prepayment option must be considered in designating a hedge of benchmark interest rate risk.

Disclosure Requirements

62. Reporting entities shall disclose the following for all derivative contracts used:

- a. General disclosures:
 - vii. The net gain or loss recognized in unrealized gains or losses during the period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach. (ASC 815-10-50-5C.)

Relevant Literature

64. This statement adopts the framework established by FAS 133, *FASB Statement No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB*

⁴The first sentence of paragraph 26.d. that specifically permits the hedged item to be identified as either all or a specific portion of a recognized asset or liability or of an unrecognized firm commitment is not affected by the provisions in this subparagraph.

Statement No. 133, An amendment of FASB Statement No. 133 (FAS 137) and FASB Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, An amendment of FASB Statement No. 133 (FAS 138), for fair value and cash flow hedges, including its technical guidance to the extent such guidance is consistent with the statutory accounting approach to derivatives utilized in this statement. This statement adopts the provisions of FAS 133 and 138 related to foreign currency hedges. With the exception of guidance specific to foreign currency hedges and amendments specific to refining the hedging of interest rate risk (under FAS 138, the risk of changes in the benchmark interest rate would be a hedged risk), this statement rejects FAS No. 137 and 138 as well as the various related Emerging Issues Task Force interpretations. This statement adopts paragraphs 4 and 25 of FASB Statement No. 149: Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) regarding the definition of an underlying and guidance for assessing hedge effectiveness. (The adoption from FAS 149 on the assessment of hedge effectiveness is impacted by the adoption with modification of guidance from ASU 2017-12 as detailed in paragraph 65.b., with the guidance from ASU 2017-12 superseding the prior adoption to the extent applicable.) All other paragraphs in FAS 149 are rejected as not applicable for statutory accounting. This statement adopts FSP FAS 133-1 and FIN 45-5: Disclosures about Credit Derivatives and Certain Guarantees, An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45 and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4) and requires disclosures by sellers of credit derivatives. This statement rejects FSP FIN 39-1, Amendments of FASB Interpretation No. 39, and ASU 2014-03, Derivatives and Hedging – Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach.

65. This statement adopts, with modification, certain revisions to ASC 815-20 included in ASU 2017-12. Remaining provisions of ASU 2017-12 will be subsequently assessed for statutory accounting and shall not be considered adopted for statutory accounting until that assessment is complete.
- a. Revisions effective January 1, 2019 with early adoption permitted, are limited to specific provisions, and related transition guidance, pertaining to the documentation and assessment of hedge effectiveness and only includes: 1) provisions allowing more time to perform the initial quantitative hedge effectiveness assessment; 2) provisions allowing subsequent assessments of hedge effectiveness to be performed qualitatively if certain conditions are met; and 3) revisions regarding use of the critical terms and short-cut methods for assessing hedge effectiveness.
 - b. Revisions effective January 1, 2023, with early adoption permitted, are limited to the criteria for initial and subsequent hedge effectiveness detailed in the FASB Accounting Standards Codification (ASC) paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12. This adoption reflects statutory modifications to specify that the accounting and reporting of hedging instruments, including excluded components of the instruments, shall follow statutory specific guidance detailed in the statement. The intent of this guidance is to clarify that the determination of whether a hedging instrument qualifies as an effective hedge shall converge with U.S. GAAP, but that the measurement method shall continue to follow statutory specific provisions. The adoption of the referenced ASC paragraphs only extends to revisions incorporated through ASU 2017-12; therefore, any subsequent U.S. GAAP edits would require statutory accounting consideration before considered adopted.
 - c. Revisions effective January 1, 2022, with early adoption permitted, are limited to the criteria for the portfolio layer method detailed in ASU 2022-01, criteria to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity date in 815-20-25-6B, adding option in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate based on the benchmark rate components of the contractual cash flows detailed in FASB ASC 815-25-35-13, and the partial-term hedging method detailed in FASB ASC 815-25-35-13B. The adoption of the partial term hedging method reflects statutory modifications that limits its use only when the hedged item is a recognized asset. This is different than U.S. GAAP, which permits the partial term method for hedged liabilities. The statutory limitation is established to prevent interim basis adjustments to hedged liabilities that could present a reduction of reported liabilities on the financial statements when the actual liability has not been reduced. Reconsideration of this statutory limitation may occur after a broader project

to consider how derivative basis adjustments to hedged liabilities shall be reflected in the financial statements.

Effective Date and Transition

~~74.73~~ This statement is effective for derivative transaction entered into or modified on or after January 1, 2003. A modification is any revision or change in contractual terms of the derivative. SSAP No. 31 applies to derivative transaction prior to January 1, 2003. Alternatively, an insurer may choose to apply this statement to all derivatives to which the insurer is a party as of January 1, 2003. In either case, the insurer is to disclose the transition approach that is being used.

- a. Revisions adopted to paragraph 64 to reject FSP FIN 39-1 is effective January 1, 2013, for companies that have previously reported a position in the balance sheet that was net of counterparty agreements. (Companies that have previously reported derivative instruments and/or related collateral gross shall not be impacted by these revisions.)
- b. Revisions adopted in paragraph 16 clarify the reporting for amounts received/paid to adjust variation margin until the derivative contract has ended and are effective January 1, 2018, on a prospective basis, for reporting entities that have previously considered these amounts to reflect settlement or realized gains/losses. (Companies that have previously reported variation margin changes in line with the revisions shall not be impacted by these revisions.)
- c. Revisions to incorporate limited provisions from ASU 2017-12 pertaining to the documentation of hedge effectiveness (detailed in paragraph 65) are effective January 1, 2019, with early adoption permitted for year-end 2018. However, if the reporting entity is a U.S. GAAP filer, the reporting entity may only elect early adoption if the entity has also elected early adoption of ASU 2017-12 for year-end 2018.
- d. Revisions adopted April 2019 to explicitly include structured notes in scope of this statement are effective December 31, 2019. Revisions adopted July 2020 to define "derivative premium," require gross reporting of derivatives without the impact of financing premiums and require separate recognition of premiums payable and premiums receivable, are effective January 1, 2021.
- e. Revisions adopted August 2022 that adopt with modification the criteria for initial and subsequent hedge effectiveness detailed in the FASB ASC paragraphs 815-20-25-72 through 815-20-35-20, as modified through the issuance of ASU 2017-12 and that incorporate statutory accounting revisions for the accounting and reporting of excluded components are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively for all new and existing hedges. Entities shall detail the adoption of this guidance as a change in accounting principle pursuant to SSAP No. 3—*Accounting Changes and Corrections of Errors*.
- f. Revisions adopted December 12, 2022 that adopt U.S. GAAP guidance for the portfolio layer method, U.S. GAAP guidance to only consider how changes in the benchmark interest rate affect the decision to settle the hedged item before its scheduled maturity, U.S. GAAP guidance adding option in calculating the change in the hedged item's fair value attributed to changes in the benchmark interest rate based on the benchmark rate component of the contractual coupon cash flows, that and adopt with modification U.S. GAAP guidance for partial term hedging are effective January 1, 2023, with early adoption permitted. These revisions shall be applied prospectively to qualifying new hedges.

Edits to New Exhibit A – Discussion of Hedge Effectiveness

17. All of the following conditions apply to both fair value hedges and cash flow hedges: (815-20-25-104)
- e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items occur on the date in which the last hedged cash flow is due and payable ends at the end of the designated hedge period, in accordance with paragraph 815-25-35-13B, with the following qualifications:
 - i. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).
 - ii. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:
18. All of the following incremental conditions apply to fair value hedges only: (815-20-25-105 & 815-25-35-13B)
- a. The expiration date of the interest rate swap matches the maturity date of the interest-bearing asset or liability or the assumed maturity date if the hedged item is measured as a partial-term hedge of interest rate risk in which the assumed maturity of the hedged items ends at the end of the designated hedge period ~~occur on the date in which the last hedged cash flow is due and payable in accordance with paragraph 815-25-35-13B.~~

Portfolio Layer Method (New paragraphs at the end of Exhibit A.)

46. For a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments, an entity may designate as the hedged item or items a hedged layer or layers (this designation is referred to throughout as the “portfolio layer method.”) (ASU 815-20-25-12A)

- a. As part of the initial hedge documentation, an analysis is completed and documented to support the entity’s expectation that the hedged item or items (that is, the hedged layer or layers in aggregate) is anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity’s current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio.
- b. For purposes of its analysis in paragraph 46.a., the entity assumes that as prepayments, defaults, and other factors affecting the timing and amount of cash flows occur, they first will be applied to the portion of the closed portfolio that is not hedged; and
- c. The entity applies the partial-term hedging guidance to the assets or beneficial interest used to support the entity’s expectation in paragraph 46.a. An asset that matures on a hedged layer’s assumed maturity date meets this requirement.

47. After a closed portfolio is established in accordance with paragraph 46, and entity may designate new hedging relationships associated with the closed portfolio without dedesignating any existing hedging relationships associated with the closed portfolio if the criteria of paragraph 46 are met for those newly designated hedging relationships. (ASU 815-20-25-12B)

48. For the portfolio layer method if both of the following conditions exist, the quantitative test described for similar assets (shared risk exposure) may be performed qualitatively on a hedge-by-hedge basis and only at hedge inception:

- a. The hedged item is a hedged layer in a portfolio layer hedge and designated in accordance with paragraph 26.f. of SSAP No. 86.
- b. An entity measures the change in fair value of the hedged item based on the benchmark rate component of the contractual coupon cash flows.

Using the benchmark rate component of the contractual coupon cash flows when all assets have the same assumed maturity date and prepayment risk does not affect the measurement of the hedged item results in all hedged items having the same benchmark rate component coupon cash flows. (ASU 815-20-55-14A)

49. For one or more hedging relationships designated under the portfolio layer method, an entity shall discontinue (or partially discontinue) hedge accounting in the following circumstances: (ASU 815-25-40-8)

- a. If the entity cannot support on a subsequent testing date that the hedged layer or layers are anticipated to be outstanding for the designated hedge (that is, a breach is anticipated), it shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer anticipated to be outstanding for the designated hedge period.
- b. If on a subsequent testing date the outstanding amount of the closed portfolio of financial assets or one or more beneficial interests is less than the hedged layer or layers (that is, a breach has occurred), the entity shall discontinue (or partially discontinue) hedge accounting for one or more hedging relationships for the portion of the hedged item that is no longer outstanding.

50. In the event of either an anticipated breach (as described in paragraph 49.a.) or a breach that has occurred (as described in paragraph 49.b.) for portfolio layer method, if multiple hedged layers are associated with a closed portfolio, an entity shall determine which hedge or hedges to discontinue (or partially discontinue) in accordance with an accounting policy election. That accounting policy election shall specify a systematic and rational approach to determining which hedge or hedges to discontinue (or partially discontinue). An entity shall establish its accounting policy no later than when it first anticipates a breach or when a breach has occurred (whichever comes first). After an entity establishes its accounting policy, it shall consistently apply its accounting policy to all portfolio layer method breaches (anticipated and occurred). (ASU 815-25-40-8A)

U.S. GAAP references not pulled into Exhibit will also be updated as follows:

Consideration of Prepayment Risk Using the ~~Last-of-Layer~~ Portfolio Layer Method

815-20-25-118A In a fair value hedge of interest rate risk designated under the portfolio layer ~~last-of-layer~~ method in accordance with paragraph 815-20-25-12A, an entity may exclude prepayment risk when measuring the change in fair value of the hedged item attributable to interest rate risk.

Edits to Exhibit C-B – Specific Hedge Accounting Procedures for Derivatives**2. Swaps, Collars, and Forwards (see also discussion in Introduction above):**

- d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):
 - i. Exercise—The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;
 - ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, will adjust the basis (or proceeds) of the hedged item(s) individually or in aggregate. If a portfolio layer method hedging relationship is discontinued (or partially discontinued) in a voluntary dedesignation or in anticipation of a breach, the basis adjustment associated with the dedesignated amount as of the discontinuation date shall be allocated to the remaining individual assets in the closed portfolio that supported the dedesignated hedged layer using a systematic and rational method. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. (ASU 815-25-40-9)
 - iii. Gain/loss on termination of derivatives will be recognized currently in net income (realized gain/loss) to the extent they ceased to be effective hedges.
 - iv. Upon the redesignation of a derivative from a currently effective hedging relationship,
 - (a) with an item(s) carried at amortized cost to another effective hedging relationship with an item(s) carried at amortized cost, the derivative shall continue to be recorded at amortized cost and no gain or loss on the derivative shall be recognized.
 - (b) with an item(s) carried at amortized cost or fair value to an effective relationship with an item(s) carried at fair value, the accounting for the derivative shall be consistent with (ii) above.
 - (c) with an item(s) carried at fair value to an effective relationship with an item(s) carried at amortized cost, the accounting for the derivative shall be consistent with (ii.) above.

Statutory Issue Paper No. 168

Updates to the Definition of a Liability

STATUS

Finalized August 13, 2023

Original and Current Authoritative Guidance: SSAP No. 5R

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. This issue paper documents the SAP clarification revisions to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*. The intent of the revisions is to align current statutory accounting guidance, specifically the definition of a “liability,” with the term utilized by the Financial Accounting Standards Board (FASB).

SUMMARY CONCLUSION

2. The statutory accounting principle clarifications to SSAP No. 5R (illustrated in Exhibit A), reflect that for the purposes of statutory accounting, a liability shall be defined as: a present obligation of an entity to transfer an economic benefit. A liability has two essential characteristics: (1) it is a present obligation, and (2) the obligation requires an entity to transfer or otherwise provide economic benefit to others. For the purposes of these characteristics, *transfer* is typically used to describe obligations to pay cash or convey assets, while the term *provide* is used to describe obligations to provide services or stand by to do so. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity’s financial statements when incurred.

3. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies. (The definition and recognition requirements of loss contingencies under SSAP No. 5R are not proposed to be revised and will continue as statutory accounting guidance.)

DISCUSSION

4. In December 2021, FASB issued *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which introduced updated definitions of certain key elements used in financial reporting – most notably updating the fundamental definition of a liability. Through the FASB’s adoption of Concept Statement No. 8, the original Concept Statement No. 6 has been superseded. As statutory accounting currently reflects FASB’s historical definition, this issue paper is to review the prior concept definition (currently utilized by statutory accounting) and compare it to FASB’s updated concept definition and assess whether the revised concept definition shall be reflected in statutory accounting.

5. FASB concept statements do not reflect authoritative U.S. GAAP guidance. Rather concept statements are intended to set forth objectives and fundamental concepts that will be the basis for development of financial accounting and reporting guidance. The term “liability” is not captured or defined in the FASB Accounting Standards Codification (which is the source of authoritative U.S. GAAP.) Furthermore, although the concept statement is intended to be used as a guide in establishing authoritative

U.S. GAAP, the FASB is not restricted to the concepts when developing guidance, and the FASB may issue U.S. GAAP which may be inconsistent with the objectives and fundamental concepts set forth in Concept Statements. A change in a FASB Concept Statement does not 1) require a change in existing U.S. GAAP, 2) amend, modify or interpret the Accounting Standards Codification, or 3) justify either changing existing generally accepted accounting and reporting practices or interpreting the Accounting Standards Codification based on personal interpretations of the objectives and concepts in the concepts statement.

6. Under the prior FASB concept statement, which was reflected in SSAP No. 5R, a liability was defined as a probable future sacrifice of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of past transactions or events. In addition, the historical definition possessed three essential characteristics in that (1) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (2) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (3) the transaction or other event obligating the entity has already happened.

7. Pursuant to the prior concept statement, and as incorporated in SSAP No. 5R, *probable*, as referenced both in the definition and essential characters, was used in a usual general meaning, rather than in a specific accounting or technical sense and referred to which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

8. With the new FASB conceptual framework chapter, a liability is now defined as a present obligation of an entity to transfer an economic benefit. In addition, the current definition has two essential characteristics in that the liability is (1) a present obligation, and (2) the obligation requires an entity to transfer or otherwise provide economic benefits to others.

9. The updated liability definition from Concept Statement No. 8 no longer includes the term *probable* or the phrase *in the future* and *as a result of past transactions or events*. The FASB concluded that the term *probable* has historically been misunderstood as implying that a future obligation must meet a probability to a certain threshold before the definition of a liability was met. Thus, if the probability of a future transfer of an asset (or the requirement to provide a service) was low, a liability would likely not be recognized. In removing the term *probable* (and replacing it with “present obligation”), FASB concluded that in almost all situations, the presence of an obligation will be apparent. It stated that most present obligations are legally enforceable, including obligations arising from binding contracts, agreements, statutes, or other legal or contractual means. Chapter 4 also discusses the prevalence of certain business risks and how to assess if they result in the recognition of a liability. The FASB concluded that while certain businesses have a risk that a future event will cause them to transfer an economic benefit (an asset), the risk itself does not represent a present obligation because exposure to a potential negative consequence does not constitute a present obligation.

10. However, the FASB also stated that situations lacking clear legal or contractual evidence of a present obligation may pose particular challenges that may make it difficult to discern whether a present obligation exists. In these settings, the FASB stated that constructive obligations or other noncontractual obligations are created by circumstance rather than by explicit agreement. In the absence of an explicit agreement, sufficient information to distinguish a present obligation is likely only available at the specific standards level. Thus, the FASB concluded that the specific facts and circumstances at the standards level (or in the case of statutory accounting, at the SSAP level) must be utilized to determine whether the entity has created a constructive obligation and must recognize a liability.

11. The FASB also struck the phrase *as the result of past transactions or events*. With this action, the FASB clarified that if the liability represents a *present obligation*, by default, the obligation must have occurred as the result of a past transaction or event and thus this phraseology was deemed redundant and unnecessary.

12. When reviewing the substance of the revisions, the FASB concluded that the updated definition resulted in a clearer and more precise definition. Furthermore, while it did not fundamentally change the historical concept of a liability, the revised definition potentially expands the population of liabilities to include certain obligations to issue or potentially issue an entity's own shares rather than settle an obligation exclusively with assets. In essence, clarifying that instruments with characteristics of both liabilities and equity may in fact be classified as liabilities in certain situations.

13. In general, the FASB did not anticipate that the liability definition revisions would result in any material changes in instrument reclassification (e.g., items now being classified as a liability when previously they were not considered liabilities). Again, FASB Concept Statements are not authoritative and thus the guidance in any specific standard will still be utilized for instrument measurement and classification. For statutory accounting purposes, the updated definition should be viewed similarly, that is it does not change fundamental concepts, change current practices, or introduce a new, original or a modified accounting principle. The revisions to the definition of a liability clarify the definitional language and do not modify the original intent of SSAP No. 5R and thus the changes are deemed to be a statutory accounting principle clarification.

14. The remaining concepts and guidance articulated in SSAP No. 5R (e.g., contingencies, impairments, guarantees, etc.) were not proposed for revision and thus are not further discussed in this issue paper.

Actions of the Statutory Accounting Principles (E) Working Group

15. During the 2022 Spring National Meeting, the Working Group exposed this issue paper for public comment.

16. During the 2022 Summer National Meeting, the Working Group re-exposed this issue paper for public comment.

17. At the 2022 Fall National Meeting, the Working Group re-exposed this issue paper related to the definition change of a liability in *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*. This exposure intends to provide additional time for industry to review the changes in accordance with statutory accounting statements. NAIC staff were directed to collaborate with interested parties on proposed clarifying language.

18. At the 2023 Spring National Meeting, the Working Group exposed this issue paper with revisions to: 1) add an additional footnote to the definition of a liability in SSAP No. 5R which defers to more topic specific contradictory guidance and 2) revise the relevant literature section of SSAP No. 5R to note the modification. These clarifications were because of the authoritative treatment that statutory accounting provides to the definition of an asset and a liability in SSAP No. 4 and SSAP No. 5R. For U.S. GAAP, the FASB Conceptual statements definitions are not authoritative, but rather are concepts to consider when developing and applying guidance. The FASB basis for conclusions noted that some existing authoritative FASB literature regarding liabilities is inconsistent with the updates to Concepts Statement No. 8. Therefore, a modification regarding topic specific liabilities guidance was incorporated to address variations from the definition of a liability. Examples of existing SAP variations from the definition of a liability include but are not limited to:

- a. *SSAP No. 7—Asset Valuation Reserves and Interest Maintenance Reserves – AVR and IMR* establish liabilities for regulatory objectives.
- b. *SSAP No. 62R—Property and Casualty Reinsurance* – contains the provision for reinsurance liability guidance which results in a liability that is a regulatory valuation allowance for overdue and slow paying reinsurance and also enforces credit for reinsurance (*Credit for Reinsurance Model Law* (#785)) collateral requirements.

- c. *SSAP No. 92—Post Retirement Benefits Other than Pensions*, provides liability recognition, which adopts several U.S. GAAP standards with modifications.

19. At the 2023 Summer National Meeting, the Working Group adopted the exposed revisions to SSAP No. 5R as documented in this issue paper and adopted this issue paper.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

20. Relevant excerpts of SSAP No. 5R, paragraphs 2-3 regarding the definition of a liability accounting are as follows:

2. A liability is defined as certain or probable¹ future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).

3. A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable¹ future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

Generally Accepted Accounting Principles

21. Relevant paragraphs from *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements* have been included below:

Liabilities

E37. A liability is a present obligation of an entity to transfer an economic benefit.

Characteristics of Liabilities

E38. A liability has the following two essential characteristics: a. It is a present obligation. B. The obligation requires an entity to transfer or otherwise provide economic benefits to others.²

E39. Liabilities commonly have features that help identify them. For example, many liabilities require the obligated entity to pay cash to one or more identified other entities. Liabilities may not require an entity to pay cash but may require the entity to convey other assets, provide services, or transfer other economic benefits or to be ready to do so. Liabilities are based on a foundation of legal rights and duties.

E40. Entities routinely incur liabilities in exchange transactions to acquire the funds, goods, and services they need to operate. For example, borrowing cash (acquiring funds) obligates an entity to repay the amount borrowed, acquiring assets on credit obligates an entity to pay for the assets,

¹ *FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements*, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in *FASB Statement 5, Accounting for Contingencies*, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.

² This chapter continues the practice of describing liabilities as an obligation either to transfer or to provide economic benefits. For example, the term transfer has typically been used to describe obligations to pay cash or convey assets, and the term provide has typically been used to describe obligations to perform services or stand ready to do so.

and selling products with a warranty or guarantee obligates an entity to either pay cash or repair or replace any products that prove defective. Often, obligations incurred in exchange transactions are contractual based on written or oral agreements to pay cash or to provide goods or services to specified or determinable entities on demand at specified or determinable dates or on the occurrence of specified events.

Present obligation

E41. A liability requires that an entity be obligated to perform or act in a certain manner. In most cases it is apparent that liabilities are legally enforceable. Legally enforceable obligations include those arising from binding contracts, agreements, rules, statutes, or other requirements that would be upheld by a judicial system or government. Judicial systems vary in type and form, and the term judicial systems includes any such system that would enforce laws, statutes, and regulations. In the context most relevant to financial reporting, an obligation is any condition that binds an entity to some performance or action. In a financial reporting context, something is binding on an entity if it requires performance. Performance is what the entity is required to do to satisfy the obligation.

E42. Many obligations that qualify as liabilities stem from contracts and other agreements that are enforceable by courts or from governmental actions that have the force of law. Agreements, contracts, or statutory requirements often will specify or imply how an obligation was incurred and when and how the obligation is to be settled. For example, borrowing and lease agreements specify the amount of charges and the dates when the payments are due. The absence of a specified maturity date or event to require settlement may cast doubt that an obligation exists.

E43. Liabilities necessarily involve other parties, society, or law. The identity of the other party or recipient need not be known to the obligated entity before the time of settlement. An obligation of an entity to itself cannot be a liability. For example, in the absence of external requirements an entity is not obligated to repair the roof of its building or maintain its plant and equipment. Although those actions may be wise business moves, the entity may forgo or defer such activities because there is no present obligation to perform the activity.

E44. Certain obligations require nonreciprocal transfers from an entity to one or more other entities. Such obligations include taxes imposed by governments, donations pledged to charitable entities, and cash dividends declared but not yet paid.

E45. To have a liability, an entity must have a present obligation, that is, the obligation exists at the financial statement date. The settlement date of the liability may occur in the future, but the obligation must be present at the financial statement date. Transactions or other events or circumstances expected to occur in the future do not in and of themselves give rise to obligations today.

E46. An intention to purchase an item, for example, an asset, does not in and of itself create a liability. However, a contractual obligation that requires an entity to pay more than the fair value of the asset at the transaction date may create a liability before the asset is received, reflecting what the entity might have to pay to undo the unfavorable contract.

E47. Business risks result from the conduct of an entity's business activities. A business risk is not a present obligation, though at some point in the future an event may occur that creates a present obligation. Some businesses have the potential of carrying out activities and creating present obligations as a result of those activities. However, no present obligation exists even if it is virtually certain that an obligating event will occur, though at present no such event has occurred. The essence of distinguishing business risks from liabilities is determining the point in time when an entity has a present obligation.

E48. Some business risks result from an entity's transactions, for example, selling goods in overseas markets might expose an entity to the risk of future cash flow fluctuations because of changes in foreign exchange rates. Other business risks result from an entity's operating environment, for example, operating in a highly specialized industry might expose an entity to the

risk that it will be unable to attract sufficient skilled staff to sustain its operating activities. Those risks are not liabilities.

E49. To be presently obligated, an entity must be bound, either legally or in some other way, to perform or act in a certain way. Most liabilities are legally enforceable, including those arising from contracts, agreements, rules, and statutes. An entity also can become obligated by other means that would be expected to be upheld by a judicial process. However, the existence of a present obligation may be less clear in those circumstances.

E50. Some liabilities rest on constructive obligations, including some that arise in exchange transactions. A constructive obligation is created, inferred, or construed from the facts in a particular situation rather than contracted by agreement with another entity or imposed by government. An entity may become constructively obligated through customary business practice. In the normal course of business, an entity conducting certain activities may not create a clear contractual obligation but may nonetheless cause the entity to become presently obligated. For example, policies and practices for sales returns and those for warranties in the absence of a contract may create a present obligation because the pattern of behavior may create an enforceable claim for performance that would be upheld in the ultimate conclusion of a judiciary process.

E51. An entity's past behavior also may give rise to a present obligation. Repeated engagement in a certain behavior may obligate the entity to perform or act in a certain way on the basis of that pattern of behavior. For example, the entity may create a constructive obligation to employees for vacation pay or year-end bonuses by paying them every year even though it is not contractually bound to do so and has not announced a policy to do so.

22. The most notable changes regarding the definition of a liability included removal of the term *probable* and the phrase *as a result of past transactions or events*. Rationale for these changes were documented in *Chapter 4, Elements of Financial Statements* commentary as follows:

BC4.11. The definitions of both an asset and a liability in Concepts Statement 6 include the term *probable* and the phrases *future economic benefit* and *past transactions or events*. The term *probable* in the definitions in Concepts Statement 6 has been misunderstood as implying that a future economic benefit or a future sacrifice of economic benefit must be probable to a certain threshold before the definition of an asset or a liability is met. In other words, if the probability of future economic benefit is low, the asset definition is not met under that interpretation. A similar interpretation could be made for liabilities. The footnotes to the Concepts Statement 6 definition of assets and liabilities also were not helpful in clarifying the application of the term *probable* as used in the definitions of assets and liabilities. Accordingly, the Board decided to eliminate that term from the definitions of both assets and liabilities.

BC4.12. The term *future* in the definitions in Concepts Statement 6 focused on identifying a future flow of economic benefits to demonstrate that an asset exists or identifying a future transfer of economic benefits to demonstrate that a liability exists. The definitions in Concepts Statement 6 were often misunderstood as meaning that the asset (liability) is the ultimate future inflow (outflow). For example, in the instance of trade receivables, the definition in Concepts Statement 6 could be misunderstood to indicate that the asset is the successful collection of the receivable in the future. When applied appropriately, however, the definition would conclude that the asset is the present right to collection. Similar misunderstandings occurred in applying the liability definition. As a result, the Board concluded that a focus on the term *present* would appropriately shift the focus from identifying a future occurrence. Therefore, the Board decided to include the term *present right* to demonstrate that an asset exists and emphasize the term *present obligation* to demonstrate that a liability exists.

BC4.13. The definitions of assets and liabilities in Concepts Statement 6 both include the phrase *past transactions or events*. The Board concluded that if an entity has a present right or a present obligation, one can reasonably assume that it was obtained from some past transaction or event. Therefore, that phrase is considered redundant and has been eliminated from the definitions.

23. The other significant change to the definition of a liability included changing *future sacrifices* to a *present obligation*. Rationale for these changes were documented in *Chapter 4, Elements of Financial Statements* commentary as follows:

BC4.25. The term present obligation is included in the definition of a liability, both in this chapter and in Concepts Statement 6. Because the application of the liability definition under Concepts Statement 6 did not give sufficient emphasis to the term present obligation, the definition in this chapter more appropriately emphasizes that term. Assessing whether a present obligation exists is the primary criterion in the definition of a liability in this chapter. The primacy of the term present obligation is made more evident through the removal of many of the problematic terms in the definition of a liability in Concepts Statement 6, as discussed in paragraphs BC4.11–BC4.13.

BC4.26. Almost always, the existence of a present obligation will be apparent. Most present obligations are legally enforceable, including obligations arising from binding contracts, agreements, statutes, or other legal or contractual means. However, situations lacking clear legal or contractual evidence of a present obligation pose particular challenges that may make it difficult to discern whether a present obligation exists.

BC4.27. Determining when a present obligation exists has caused confusion with the existence of business risks. Business risks result from the nature of the business and where, when, and how an entity conducts its business. While certain businesses pose risks of future events occurring that will cause a transfer of economic benefits, the Board decided that the risks themselves are not present obligations because exposure to a potential negative consequence does not constitute a present obligation. Rather than viewing all business risks as liabilities, the Board decided that an entity has a present obligation only after an event occurs that demonstrates that the inherent business risk has created a present obligation. Thus, distinguishing when a business risk makes an entity presently obligated requires analysis of the facts and circumstances at the standards level.

BC4.28. Determining the existence of a present obligation is particularly challenging in evaluating constructive obligations. Interpreting constructive obligations too narrowly will tend to exclude significant actual obligations of an entity, while interpreting them too broadly will effectively nullify the definition by including items that lack an essential characteristic of liabilities.

BC4.29. Given that constructive obligations and other noncontractual obligations are created by circumstance rather than explicit agreement, it can be unclear whether a present obligation exists. In the absence of an explicit agreement, sufficient information to distinguish a present obligation is likely only available at the specific standards level. Thus, the Board decided that specific facts and circumstances at the standards level must be assessed to determine whether an entity has created a constructive obligation.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy

Generally Accepted Accounting Principles

- FASB Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting – Chapter 4, Elements of Financial Statements

Effective Date

24. As issue papers are not authoritative and are not represented in the Statutory Hierarchy (see Section V of the Preamble), the consideration and adoption of this issue paper will not have any impact on the SAP clarifications adopted to SSAP No. 5R by the Working Group on August 13, 2023.

EXHIBIT A – SAP Clarification Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets the other paragraphs of SSAP No. 5R are unchanged.

Statement of Statutory Accounting Principles No. 5 — Revised

Liabilities, Contingencies and Impairments of Assets

SCOPE OF STATEMENT

1. This statement defines and establishes statutory accounting principles for liabilities, contingencies and impairments of assets.

SUMMARY CONCLUSION

Liabilities

2. A liability is defined as a present obligation of an entity to transfer an economic benefit. ~~certain or probable FN1 future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or to provide services to other entities in the future as a result of a past transaction(s) or event(s).~~

3. A liability¹ has three ~~two~~ essential characteristics: (a) it is a present obligation ~~embodies a present duty or responsibility to one or more other entities that entails settlement by probable FN1 future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, and~~ (b) the obligation requires an entity to transfer or otherwise provide economic benefit to others ~~duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and~~ (c) the transaction or other event obligating the entity has already happened. This includes, but is not limited to, liabilities arising from policyholder obligations (e.g., policyholder benefits, reported claims and reserves for incurred but not reported claims). Liabilities shall be recorded on a reporting entity's financial statements when incurred.

4. Estimates (e.g., loss reserves) are required in financial statements for many ongoing and recurring activities of a reporting entity. The mere fact that an estimate is involved does not of itself constitute a loss contingency. For example, estimates of losses utilizing appropriate actuarial methodologies meet the definition of liabilities as outlined above and are not loss contingencies.

~~FN1— FASB Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements, states: Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement 5, Accounting for Contingencies, paragraph 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.~~

Relevant Literature

39. This statement adopts *FASB Statement No. 5, Accounting for Contingencies* (FAS 5), *FASB Statement 114, Accounting by Creditors for Impairment of a Loan* only as it amends in part FAS 5 ~~and paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6—Elements of Financial Statements~~. *FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation*

¹ The guidance in this statement regarding the definition of a liability is applicable unless another authoritative statement of statutory accounting principles (SSAP) provides more topic-specific, contradictory guidance. In such cases the topic-specific guidance shall apply.

of FASB Statement No. 5 (FIN No. 14) is adopted with the modification to accrue the loss amount as the midpoint of the range rather than the minimum as discussed in paragraph 3 of FIN No. 14. This statement adopts with modification ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* with the same statutory modification adopted for FIN 14. [This statement incorporates the definition of a liability from FASB Statement of Financial Accounting Concepts No. 8, Chapter 4, Elements of Financial Statements, paragraphs E37 and E38, with modification reflected in this statement regarding topic-specific guidance.](#)

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*
- *Issue Paper No. 20—Gain Contingencies*
- *Issue Paper No. 135—Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*
- [Issue Paper No. 168—Updates to the Definition of a Liability](#)

Not for Distribution

Appendix F Policy Statements

Introduction

The policy statements contained within Appendix F are not included within the Statutory Hierarchy and thus should not be considered accounting guidance. As such, each policy statement is included for informational purposes only.

Table of Contents

Title	Page
NAIC Policy Statement on Maintenance of Statutory Accounting Principles.....	F-1
NAIC Policy Statement on Comments to GAAP & IFRS Exposure Drafts.....	F-5
NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process	F-6
NAIC Policy Statement on the Impact of Statements of Statutory Accounting Principles on NAIC Publications	F-10
NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank	F-11
NAIC Policy Statement on Coordination with the Valuation Manual.....	F-13
NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office.....	F-14

NAIC Policy Statement on Maintenance of Statutory Accounting Principles

1. Statutory accounting principles (SAP) provide the basis for insurers to prepare financial statements to be filed with and utilized by state insurance departments for financial regulation purposes. Accuracy and completeness of such filings are critical to meaningful solvency monitoring. Accordingly, maintenance of SAP guidance for changes in the industry and changes in regulatory concerns is vital to preserving the usefulness of SAP financial statements.

2. The promulgation of new or revised SAP guidance by the NAIC ultimately requires action of the entire NAIC membership. Responsibility for proposing new or revised SAP guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Statutory Accounting Principles (E) Working Group (Working Group) with the exclusive responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to revise existing SSAPs, and to issue interpretations.

Composition of the Statutory Accounting Principles (E) Working Group

3. The chair of the Task Force shall determine membership of the Working Group subject to approval by the Financial Condition (E) Committee. The Working Group shall be limited in size to no more than 15 members and will include representation from the four zones of the NAIC. Membership shall be vested in the state (until such time as the membership may be changed) but continuity of individuals, to the extent possible, is extremely desirable.

Development of New SSAPs or New SAP Concepts¹ in an Existing SSAP

4. New SSAPs will be developed to address, but will not be limited to: 1) concepts not previously addressed by a SSAP and that do not fit within the scope of an existing SSAP; 2) concepts that fit within the scope of an existing SSAP, but the Working Group elects to supersede existing SSAPs and 3) existing concepts that warrant significant revisions. New SAP concepts to existing SSAPs will be developed to address, but will not be limited to: 1) concepts that fit within the accounting topic of an existing SSAP, but have not been addressed by the Working Group; 2) changes to the valuation and/or measurement of an existing SSAP; and 3) modifications to the overall application of existing SSAPs. The decision to undertake development of a new SSAP or a new SAP concept in an existing SSAP will rest with the Working Group. New SSAPs or a new SAP concept in an existing SSAP will have a specified effective date.

5. Research and drafting of a new SSAP or a new SAP concept in an existing SSAP will be performed by NAIC staff under the direction and supervision of the Working Group which may enlist the assistance of interested parties and/or consultants with requisite technical expertise as needed or desired. The first step in developing new SSAPs and new SAP concepts in existing SSAPs will commonly be the drafting of an issue paper, which will contain a summary of the issue, a summary conclusion, discussion, and a relevant literature section. Public comments will be solicited on an issue paper (at least one exposure period), and at least one public hearing will be held before the issue paper is converted to a SSAP. Upon approval by the Working Group, all proposed SSAPs will be exposed for public comment for a period commensurate with the length of the draft and the complexities of the issue(s). After a hearing of comments, adoption of new SSAPs or new SAP concepts in existing SSAPs (including any amendments from exposure) may be made by simple majority. If no comments are received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other non-contested positions after the opportunity is given during the hearing to separately discuss the

¹ Prior to December 11, 2021, the term used to describe a new SAP concept was “substantive” and the term used to describe a SAP clarification was “nonsubstantive.” The new terms will be reflected in materials to describe revisions to statutory accounting principles on a prospective basis and historical documents will not be updated to reflect the revised terms.

proposal. All new SSAPs and new SAP concepts in existing SSAPs must be on the agenda for at least one public hearing before presentation to the Task Force for consideration. Adoption by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

6. The Working Group may, by a super majority vote (7 out of 10 members, 8 out of 11 or 12, 9 out of 13, 10 out of 14, and 11 out of 15) elect to: 1) combine the IP and SSAP process, resulting in concurrent exposure of the two documents; 2) expose and adopt revisions to a SSAP prior to the drafting/adoption of the related IP; and/or 3) forego completion of an IP and only proceed with a new SSAP or new SAP concept in an existing SSAP.

7. If accounting guidance, reserving standards, asset valuation standards, or any other standards or rules affecting accounting practices and procedures are first developed by other NAIC working groups, task forces, subcommittees, or committees, such proposed guidance, standards or rules shall be presented to the Working Group for consideration. In cases where such guidance has already been subjected to substantial due process (e.g., public comment periods and/or public hearings), the Working Group may elect to shorten comment periods and/or eliminate public hearings, and in such cases, will notify the Task Force of these actions.

Development of SAP Clarifications¹

8. SAP clarifications will be developed to address, but will not be limited to: 1) clarification of the intent or application of existing SSAPs; 2) new disclosures and modification of existing disclosures; 3) revisions that do not change the intent of existing guidance; and 4) revisions to *Appendix A—Excerpts of NAIC Model Laws* to reflect amendments to NAIC adopted model laws and regulations. Research and drafting of SAP clarification revisions will be performed by NAIC staff under the direction and supervision of the Working Group. Public comment will be solicited on these revisions, and the item will be included on the agenda for at least one public hearing before the Working Group adopts revisions. SAP clarification revisions are considered effective immediately after adoption by the Working Group, unless the Working Group incorporates a specific effective date. If comments are not received during the public comment period, the Working Group may adopt the proposal collectively (one motion/vote) with other “non-contested” positions after opportunity is given during the hearing to separately discuss the proposal. At its discretion, the Working Group may request that an issue paper be drafted for SAP clarification revisions in order to capture historical discussion and adopted revisions. Adoption of these revisions by the Task Force, its parent and the NAIC membership shall be governed by the NAIC bylaws.

Development of Interpretations to SSAPs and Referencing Interpretations Within SSAPs

Interpretations Which DO NOT Amend, Supersede or Conflict with Existing SSAPs

9. Interpretations may be developed to address issues requiring timely application or clarification of existing SAP, which shall not amend, supersede or conflict with effective SSAPs. Issues being considered as an interpretation must be discussed at no less than two open meetings. (Original introduction of the issue when the Working Group identifies the intent to address the issue as an “interpretation” during a public discussion is considered the first open meeting discussion.) The process must allow opportunity for interested parties to provide comments, but as interpretations are intended to provide timely responses to questions of application or interpretation and clarification of guidance, no minimum exposure timeframe is required.

10. As these interpretations do not amend, supersede or conflict with existing SSAP guidance, the interpretation is effective upon Working Group adoption unless specifically stated otherwise. The voting requirement to adopt an interpretation of this type is a simple majority. The Working Group shall report the adopted interpretation to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). Interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-

thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

Interpretations Which Amend, Supersede or Conflict with Existing SSAPs

11. In certain circumstances such as catastrophes and other time-sensitive issues requiring immediate, temporary statutory accounting guidance, the Working Group may adopt an interpretation which creates new SAP or conflicts with existing SSAPs. Historically, these interpretations temporarily modified statutory accounting principles and/or specific disclosures were developed in response to nationally significant events (e.g., Hurricane Sandy, September 11, 2001). (Examples of time-sensitive issues that have previously provided INT exceptions to SAP include the transition from LIBOR and special situations such as the federal TALF program.) Interpretations that conflict with existing SSAPs shall be temporary and restricted to circumstances arising from the need to issue guidance for circumstances requiring immediate guidance. In order to adopt an interpretation that creates new SAP or conflicts with existing SSAPs, the Working Group must have 67% of its members voting (10 out of 15 members) with a super majority (7 out of 10, 8 out of 11 or 12, 9 out of 13, 10 out of 14, or 11 out of 15) supporting adoption.

- a. These interpretations are effective upon Working Group adoption, unless stated otherwise, and shall be reported to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). In circumstances where the Working Group adopts an interpretation (which creates new SAP or conflicts with existing SSAPs) that is controversial in nature (i.e., due to regulator or industry feedback or could have a policy level impact), the Working Group may elect to postpone the effective date until the item has been discussed by the Task Force and the Financial Condition (E) Committee and both have had an opportunity to review the interpretation.
- b. These interpretations can be overturned, amended or deferred by a two-thirds majority of the Task Force membership. For clarification, a two-thirds majority of the Task Force requires two-thirds of the entire Task Force membership, not just those electing to vote. Additionally, interpretations can be overturned, amended, deferred, or referred to either the Task Force and/or the Working Group by a simple majority of the Financial Condition (E) Committee.

12. As new SSAPs are developed, it is essential to review and, if necessary, update the status of interpretations related to SSAPs that are being replaced and/or new SSAPs being developed. The following options are available to the Working Group when a SSAP with existing interpretations is replaced:

- a. **Interpretation of the new SSAP** - If the Working Group would like to maintain the interpretation, the new SSAP can be added to the list of statements interpreted by the interpretation. In addition, the status section of the new SSAP will list the interpretation number next to the heading "Interpreted by."
- b. **Nullification** - When an interpretation is nullified by a subsequent SSAP or superseded by another interpretation, the interpretation is deemed no longer technically helpful, is shaded and moved to Appendix H (Superseded SSAPs and Nullified Interpretations), and the reason for the change is noted beneath the interpretation title. The status section of the SSAP describes the impact of the new guidance and the effect on the interpretation (for example, nullifies, incorporated in the new SSAP with paragraph reference, etc.).

- c. **Incorporation** - When an interpretation is incorporated into a new SSAP, the Working Group can choose from the following two options:
- i. If the interpretation only interprets one SSAP, then the interpretation is listed as being nullified under the “affects” section of the SSAP and is not referenced under the “interpreted by” section of the status page of the SSAP.
 - ii. If the interpretation references additional SSAPs, and the Working Group intends to maintain the guidance, the interpretation is unchanged (no nullification). The new SSAP (Summary of Issue section) reflects that the interpretation issue has been incorporated into the new statement.

Not for Distribution

NAIC Policy Statement on Comments to GAAP & IFRS Exposure Drafts

1. As expressed in the Statement of Concepts, statutory accounting principles (SAP) utilize the framework established by U.S. Generally Accepted Accounting Principles (GAAP). The NAIC's guidance on SAP (defined in the *Accounting Practices and Procedures Manual*) is comprehensive for those principles that differ from GAAP based on the concepts of statutory accounting. Those GAAP pronouncements that are not applicable to insurance companies will not be adopted by the NAIC. GAAP pronouncements that do not differ from SAP may specifically be adopted by the NAIC to be included in statutory accounting. GAAP pronouncements do not become part of SAP until and unless adopted by the NAIC. Future SAP pronouncements will specifically identify any GAAP pronouncements that are to be included in SAP whether in whole, in part, or with modification as well as any GAAP pronouncements that are rejected. Future GAAP pronouncements, which SAP has not yet addressed, shall not be considered as providing authoritative statutory guidance.
2. As stated in the previous paragraph, the NAIC believes it is important to comment on GAAP exposure drafts that will affect SAP before such guidance is finalized. Exposing potentially contentious issues to the applicable GAAP bodies before completion will create a more efficient and effective maintenance process for the Statutory Accounting Principles (E) Working Group (Working Group). In addition, this allows the NAIC to be proactive to GAAP rather than reactive under the current system. The NAIC also believes that there may be instances in which it is important to comment on exposure drafts of the International Financial Reporting Standards (IFRS). This is particularly important on projects in which U.S. FASB and the International Accounting Standards Board (IASB) are attempting to converge, or to limit differences between U.S. GAAP and IFRS.
3. Comments on exposed GAAP pronouncements or IFRS exposure drafts will be developed at the discretion of the Working Group chair. After a comment letter has been agreed to by the Working Group, the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee must review and approve the comment letter before it is sent to the applicable standard board. Every reasonable attempt will be made to provide an adequate comment period to interested parties; however, FASB and IFRS deadlines may inhibit exposure in every instance. The chairs will consider factors such as comment deadline and level of controversy surrounding the issue. The chair of the parent task force or committee may override such a decision at any time.
4. Comment letters submitted to the FASB on GAAP exposure drafts may be considered when the Working Group is reviewing finalized GAAP pronouncements (as defined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*). Nevertheless, these letters will not bind the Working Group to its tentative position during its deliberation to adopt, modify or reject the final GAAP guidance.

NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process

1. The purpose of this policy statement is to document the Statutory Accounting Principles (E) Working Group (Working Group) maintenance agenda process.
2. As acknowledged in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, the promulgation of statutory accounting principles (SAP) guidance will be delegated through the NAIC committee structure to the Accounting Practices and Procedures (E) Task Force (Task Force). The Task Force will charge the Working Group with the responsibility to develop and propose new statements of statutory accounting principles (SSAPs), to propose revisions to existing SSAPs, and to issue interpretations in response to questions of application and clarification on existing SSAPs.
3. Information and issues can be presented to the Working Group in a variety of ways. Issues can be recommended or forwarded from 1) other NAIC committees, task forces or working groups; 2) interested parties; 3) interested regulators; and 4) NAIC staff. Also, if any guidance within the Generally Accepted Accounting Principles (GAAP) Hierarchy (see § V of the Preamble to the *Accounting Practices and Procedures Manual* (AP&P Manual)) is added or revised, those changes must be considered by the Working Group for potential revisions to SAP. In order for an issue to be placed on the **Pending Listing**, the recommending party must complete a Statutory Accounting Principles Maintenance Agenda Submission Form (Form A) and submit it to the Working Group support staff no later than 20 business days prior to the next scheduled Working Group meeting. NAIC staff will prepare a submission form for all GAAP pronouncements that have not been previously addressed by the Working Group. NAIC staff will update the **Pending Listing** before each national meeting and will notify the recommending party of such action. If the Working Group does not wish to address the issue (e.g., issue deemed not applicable to statutory accounting) or rejects the position presented, then the Working Group may move the item to the **Rejected Listing**. Should the Working Group choose to address an issue, it is moved to the **Active Listing** where it is prioritized and categorized as a new SAP concept, clarification of an existing SAP, or an interpretation agenda item.
4. The **Active Listing** identifies agenda items that are in the process of development and includes the following:
 - a. **New SAP Concept:** These agenda items address the development of new SSAPs and/or the introduction of a new SAP concept as defined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*.
 - b. **Clarification of an Existing SAP:** These agenda items address the development of revisions which clarify an existing SAP as defined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*.
 - c. **Interpretations:** These agenda items address the development of interpretations to SAP as defined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*. If SSAP revisions are subsequently deemed necessary, the Working Group shall re-categorize the agenda item as either a new SAP concept or clarification of an existing SAP, as applicable, and follow the appropriate process to consider and adopt revisions.
5. After review of the agenda item (including any interested party comments), at its discretion, the Working Group makes the ultimate determination of whether an agenda item is categorized (or re-categorized) as a new SAP concept, clarification of an existing SAP, or an interpretation.
6. The **Rejected Listing** identifies items that were proposed to the Working Group and rejected without consideration. The **Disposition Listing** includes all agenda items considered by the Working

Group and provides the conclusions and guidance given for all adopted revisions to SAP and for all agenda items disposed without modification to SAP.

7. It should be noted that this policy statement addresses the process and the flow of information. The timing is left to the discretion of the Working Group. For instance, once public discussion requirements have been met, as detailed in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*, the Working Group can take action on an item at its discretion. In determining whether it is appropriate to take specific actions (including adoption), the Working Group must consider when the last exposure period occurred, and the extent of any prior comments received and discussions held. Additionally, there is no timeframe in which items must be addressed. Items will remain on the Active Listing until formally disposed of by the Working Group.

8. NAIC staff will maintain the following on the Working Group Web page (https://content.naic.org/cmte_e_app_sapwg.htm): 1) A blank Form A (Attachment A to this policy statement); 2) The current Maintenance Agenda, and 3) Current statutory and/or interpretation revisions exposed for public comment. Attachment B to this policy statement will be attached to all exposures with proposed revisions that result in a new SAP concept and serves as the request for written comment and notice of a public hearing.

Correction of Editorial Errors

9. Over time, during review and publication of the AP&P Manual, NAIC staff may identify inadvertent editorial errors and necessary revisions to the content of the Manual. These are editorial in nature and include grammatical errors, reference changes (i.e., paragraphs, SSAPs, and Model Laws and Regulations) and formatting issues. To aid in correcting these items and improve the overall usefulness of the AP&P Manual, the Working Group has implemented the following process:

- a. At each meeting of the Working Group, if NAIC staff have identified (or have been informed by interested parties or regulators) any grammatical errors, reference changes and/or formatting issues, NAIC staff will present a public memorandum to the Working Group outlining the proposed amendments to the AP&P Manual. These corrections are not intended to clarify or revise existing guidance and as such, do not ordinarily warrant the use of a Form A or addition to the Maintenance Agenda.
- b. After presentation to the Working Group, the memorandum will be exposed for a public comment period. If no objections are raised by the Working Group, interested regulators or interested parties, the revisions will be considered “noncontested” and presented to the Working Group for adoption. Upon adoption, the revisions will be incorporated into the AP&P Manual, with the revisions being posted on the “Updates to the AP&P Manual” secure Web page. Under this process, these revisions will be shown as tracked changes to the Manual unless otherwise noted in the memorandum.
- c. If objections are raised by the Working Group, interested regulators or interested parties, the proposed revisions will either be rejected without further discussion or incorporated into a Form A to be presented to the Working Group and subsequently exposed for a public comment period. Under this process, the revisions will follow the Maintenance Agenda process as outlined in this policy statement.

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue:

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☐	☐	☐
New issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

*Description of Issue:

*Existing Authoritative Literature:

*Activity to Date (issues previously addressed by Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

*Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

Recommended Conclusion or Future Action on Issue:

Recommending Party:

(Organization, Person Submitting, Title)

(Address, City, State, ZIP)

(Phone and Email Address)

(Date Submitted)

* Indicates required information before NAIC staff will accept form as a final document.

EXPOSURE DRAFT NUMBER - TITLE

Notice of Public Hearing and Request for Written Comments

Hearing Date: _____

Location: _____

Deadline for Written Notice of Intent to speak: _____

Deadline for Receipt of Written Comments: _____

Basis for hearings. The Statutory Accounting Principles (E) Working Group (Working Group) will hold a public hearing to obtain information from and views of interested individuals and organizations about the standards proposed in this Exposure Draft. The Working Group will conduct the hearing in accordance with the *National Association of Insurance Commissioners (NAIC) Policy Statement on Open Meetings*. An individual or organization desiring to speak must notify the NAIC in writing by _____. Speakers will be notified as to the date, location and other details of the hearings.

Oral presentation requirements. The intended speaker must submit a position paper, a detailed outline of a proposed presentation or comment letter addressing the standards proposed in this Exposure Draft by _____. Individuals or organizations whose submission is not received by this date will only be granted permission to present at the discretion of the Working Group chair. All submissions should be addressed to NAIC staff at the address listed below. Comments can also be submitted by electronic mail to _____@naic.org.

Format of hearings. Speakers will be allotted up to 10 minutes for their presentations to be followed by a period for answering questions from the Working Group. Speakers should use their allotted time to provide information in addition to their already submitted written comments as those comments will have been read and analyzed by the Working Group. Those submissions will be included in the public record and will be available at the hearings for inspection.

Copies. Exposure drafts can be obtained on the Working Group's Web page at https://content.naic.org/cmte_e_app_sapwg.htm.

Written comments. Participation at a public hearing is not a prerequisite to submitting written comments on this Exposure Draft. Written comments are given the same consideration as public hearing testimony.

The Statutory Accounting Principles Statement of Concepts was adopted by the Accounting Practices & Procedures (EX4) Task Force on September 20, 1994, in order to provide a foundation for the evaluation of alternative accounting treatments. All issues considered by the Working Group will be evaluated in conjunction with the objectives of statutory reporting and the concepts set forth in the Statutory Accounting Principles Statement of Concepts.

The exposure period is not meant to only measure support for, or opposition to, a particular accounting treatment but rather to accumulate an analysis of the issues from other perspectives and persuasive comments supporting them. Therefore, form letters and objections without valid support for their conclusions are not helpful in the deliberations of the Working Group. Comments should register agreement or disagreement with a detailed explanation, a description of the impact of the proposed guidelines, and possible alternative recommendations for accomplishing the regulatory objective.

Any individual or organization may send written comments to _____ by electronic mail in Microsoft Word format to _____@naic.org. After written comments have been reviewed by the Working Group, the letters will be posted publicly on the NAIC website.

National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197
(816) 842-3600

NAIC Policy Statement on the Impact of Statements of Statutory Accounting Principles on NAIC Publications

1. The purpose of this policy statement is to document the process and procedure for identifying the impact of statements of statutory accounting principles (SSAPs) on NAIC publications.
2. New and revised SSAPs can affect various NAIC publications in different ways. New accounting practices or procedures may result in new disclosures and reporting requirements (affecting annual statement blanks and instructions), modified analysis techniques (affecting RBC formula or IRIS ratios), or new examination procedures (affecting the *Financial Condition Examiners Handbook*).
3. The Statutory Accounting Principles (E) Working Group (Working Group) shall evaluate the impact that newly adopted SSAPs will have on other NAIC publications. To that end, the Working Group shall submit a referral to any group in response to new or revised SSAPs expected to impact other NAIC groups or publications. (Instead of a referral, a blanks proposal may be sponsored by the Working Group and submitted to the Blanks (E) Working Group). These referrals and blanks proposals are only required to be approved by the chair of the Working Group prior to submission to the other groups but may be shared with and approved by all Working Group members.

Not for Distribution

NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Annual Statement Blank

1. The purpose of the codification of statutory accounting principles (SAP) project was to produce a comprehensive guide to SAP for use by insurance departments, insurers, and auditors. Statutory accounting principles, as they existed prior to codification did not always provide a consistent and comprehensive basis of accounting and reporting. Insurance companies were sometimes uncertain about what rules to follow, and regulators were sometimes unfamiliar with the accounting rules followed by insurers in other states. This was due in part to the fact that prior to codification, accounting guidance could be found in the NAIC *Accounting Practices and Procedures Manual*, annual statement instructions, the *Financial Condition Examiners Handbook*, and various states' laws and regulations. As a result, insurers' financial statements were not prepared on a comparable basis. Now that accounting requirements have been more rigidly stipulated by the NAIC, it is imperative that the accounting requirements and the reporting and disclosure requirements remain synchronized. This is an excellent opportunity to create a system of parallel requirements. This effort has already been recognized by the NAIC/AICPA (E) Working Group. In 1999, the NAIC/AICPA (E) Working Group modified the *Model Regulation Requiring Annual Audited Financial Reports* to require the following for audited financial statements:

Notes to financial statements. These notes shall be those required by the appropriate NAIC annual statement instructions and the NAIC *Accounting Practices and Procedures Manual*. The notes shall include a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to Section [insert applicable section] of the [insert state] insurance law with a written description of the nature of these differences.

2. As stated in the model regulation, the NAIC/AICPA (E) Working Group has an expectation that the requirements of the annual statement instructions and the *Accounting Practices and Procedures Manual* will be identical in all pertinent parts that are subject to audit. There is no reason to create a different set of audit requirements in the annual statement instructions when a complete and comprehensive guide to statutory accounting exists. However, it must be noted that the statements of statutory accounting principles (SSAPs) are not intended to prescribe the specific format of the detailed financial statements.

3. The scope of this policy statement is defined as follows:

Any change to the annual statement core financials (balance sheet, income statement, cash flow and notes to the financial statements) must be reviewed by the Statutory Accounting Principles (E) Working Group to determine whether it conflicts with the disclosure requirements of the SSAPs.

4. The scope is defined in broad terms because it is very difficult to specify what constitutes a conflict with the SSAPs. For example, the renumbering of the assets page does not conflict because there is not a SSAP that prescribes the order of asset presentation. Contrast this with a seemingly innocuous proposal to modify Schedule P - Part 1 that would create a disclosure conflict with the related SSAP.

5. In order to ascertain that the requirements of the annual statement instructions and blank are in harmony with the SSAPs (as they relate solely to the core financial statements), the following procedures shall be followed:

a. The Blanks Agenda Item Submission Form will include an interrogatory that will indicate to the Blanks (E) Working Group whether the proposal:

- i. Affects the core financial statements
 - ii. Conflicts with an existing SSAP
 - iii. Is not currently required by a SSAP
 - iv. Has been reviewed by the Statutory Accounting Principles (E) Working Group
- b. NAIC staff supporting the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group are charged with verifying the accuracy of the interrogatory proposed in paragraph 5.a. After NAIC staff review the proposals, they will report their findings back to the applicable groups. If NAIC staff identify issues that need further exploration or consultation, the chairs of the two working groups or certain members from each group will hold a joint meeting.
- c. The Blanks (E) Working Group will reject proposals that will delete/modify information contained within the core financial statements that are required by an existing SSAP.
- d. The Blanks (E) Working Group will either reject proposals that would require additional audited disclosure or audited information within the core financial statements if that same item is not required by an existing SSAP; or move it outside the core financial statements. The sponsoring party will still have the option of placing this information outside the core financial statements (e.g., general interrogatories or interrogatories to schedules) until the disclosure is included in a SSAP. If the disclosure were added to a SSAP in the future, it could be moved to the Notes to the Financial Statements and subject to audit at that time.
- e. The NAIC will maintain a SSAP to annual statement cross-reference. This cross-reference will contain two significant features. First, it will list all of the SSAP disclosures and reference them to where in the annual statement the disclosure requirement is met. Second, the cross-reference will identify the annual statement components that are required by a SSAP. The cross-reference can be used by the Blanks (E) Working Group and interested parties in completing the new Blanks Agenda Item Submission Form Interrogatory.

NAIC Policy Statement on Coordination with the Valuation Manual

1. Proposed changes to the *Valuation Manual* must be consistent with the existing referenced model laws, including the *Standard Valuation Law* (Model #820), and, to the extent determinable, with models in development. To the extent that proposed changes to the *Valuation Manual* could have an impact on accounting and reporting guidance and other requirements as referenced by the *Accounting Practices and Procedures Manual*, proposed changes must be reviewed by the Statutory Accounting Principles (E) Working Group for consistency with the *Accounting Practices and Procedures Manual*, including consistency of implementation dates. The Life Actuarial (A) Task Force or its staff support will prepare a summary recommendation that will include as appropriate an analysis of the impact of proposed changes.
2. If the Statutory Accounting Principles (E) Working Group reaches the conclusion that the proposed changes to the *Valuation Manual* are inconsistent with the authoritative guidance in the *Accounting Practices and Procedures Manual*, The Life Actuarial (A) Task Force will work with the Statutory Accounting Principles (E) Working Group to resolve such inconsistencies prior to implementation.

Not for Distribution

NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office

1. The purpose of this policy statement is to detail the coordination and collaboration between the Securities and Valuation Office (SVO) and the Statutory Accounting Principles (E) Working Group (Working Group) support staff, the relationship between the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) and *Accounting Practices and Procedures Manual* (AP&P Manual) and the expectations of the Valuation of Securities (E) Task Force (VOSTF) and the Working Group.

NAIC Designations Do Not Communicate Statutory Accounting or Reporting

2. The assessment of credit risk for an obligation or asset, as specified in the P&P Manual, is a separate and distinct process from the determination of statutory accounting or reporting under the AP&P Manual. The manner in which an NAIC designation is used within statutory accounting guidance is limited to that, if any, specified in a statement of statutory accounting principle (SSAP) and cannot be derived or implied by language in the P&P Manual. Obtaining an NAIC designation does not change an investment's applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to be an admitted asset. There are limited instances in which a SSAP specifically identifies, within its scope, the inclusion of specific SVO-identified investments. The SVO review required for an investment to be included on a SVO listing is a separate evaluation process that focuses on the structure of the investment. This process is distinct from the SVO's assessment of an investment's credit risk, which results in a NAIC designation. As stated in the Statutory Hierarchy, Section V of the Preamble, the AP&P Manual is the highest level of authoritative guidance.

Sources and Application of Statutory Accounting Guidance

3. The authority to determine and interpret existing statutory accounting guidance in, or to develop new statutory accounting guidance for, the AP&P Manual, is a charge assigned by the Financial Condition (E) Committee through its Accounting Practices and Procedures (E) Task Force to the Statutory Accounting Principles (E) Working Group. The application of statutory accounting guidance to any specific obligation or asset to determine its status under the AP&P Manual is the obligation of the insurance company and its management. The state of domicile is the final authority with respect to statutory accounting and reporting guidance. Deviations from the authoritative guidance in the Statutory Accounting Hierarchy are reflected as a permitted or prescribed practice.

Impact on SVO Operations

4. Because SVO analytical determinations of credit quality do not convey opinions, conclusions or informational content relative to statutory accounting status, the SVO may assign an NAIC designation to any obligation or asset that is filed by an insurer, provided that its credit quality can be assessed consistently with the policies and methodologies specified in the P&P Manual.

Communication and Coordination Between SVO and SAPWG Staff

5. The following processes are intended to assist optimum communication and coordination between the SVO and SAPWG support staff functions.

- a. Maintain ongoing dialogue regarding investments, investment related SSAPs and relevant developments in the areas assigned to support staff of both groups.

- b. Maintain an ongoing dialogue relative to obligations and assets filed with the SVO, including communications about new types of obligations or assets filed with the SVO and their likely treatment under existing investment related SSAPs.
- c. Maintain an ongoing dialogue relative to new obligations or assets, in which no statutory accounting guidance exists, or uncertainty exists about how current statutory accounting guidance applies to features or characteristics of the obligation or asset.
- d. The NAIC Investment Analysis Office (IAO) and Financial Regulatory Services (FRS) staff shall provide notice to, and consult with, each other when either staff determines that existing technical guidance or procedures administered by the staff are no longer adequate to secure the original regulatory objective for which it was designed. Upon receipt of such notice, both staff will formulate a statement of the issues and, if possible, recommendations, and thereafter coordinate discussion between the SAPWG and the VOSTF consistent with the NAIC procedures and policies that apply to the situation. Such proposed recommendations shall be discussed consistent with the NAIC open meetings policy and any revisions to the authoritative guidance will be exposed for comment for a period of time commensurate with the significance of the change, to provide a formal forum for interested parties and regulators to provide input and allow for adequate due process.
- e. Situations in which NAIC staff (SVO or FRS) are contacted directly with questions on statutory accounting application, it shall be noted that opinions of NAIC staff are not authoritative and are based on the information provided and existing authoritative statutory accounting guidance. Information and issues can be submitted to the SAPWG for consideration, as detailed in the *NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process*.

Appendix G

Implementation Guide for the Annual Financial Reporting Model Regulation

Introduction

The new requirements within the Annual Financial Reporting Model Regulation (Model) related to auditor independence, corporate governance and internal control over financial reporting became effective in 2010. The Implementation Guide (Guide) is being published to assist companies in planning and preparing for compliance with the new requirements.

The Guide is intended to supplement the Model, not to create additional requirements, by providing interpretive guidance and clarifying the meaning of terms used in the Model. Such guidance is important to ensure common understanding between insurers and regulators and to memorialize the intent of the changes. Because issues and questions will occur from time-to-time, by placing the Guide outside of the Model, maintenance can be achieved in a cost-effective way without reopening the Model especially when the issue under consideration is an interpretation of the requirements. The Guide should not be viewed as a requirement of complying with the *Accounting Practices and Procedures Manual*.

Maintaining the Guide

The responsibility of developing and maintaining the Guide resides with the NAIC/AICPA (E) Working Group with changes to the Guide following the NAIC regulatory due process. The Guide resides as an informational appendix to the NAIC *Accounting Practices and Procedures Manual* (AP&P Manual). The AP&P Manual was selected as the logical repository since the Guide provides instruction about compliance with the Model, which directly relates to financial reporting and statutory accounting.

The regulatory due process for modifying this Guide requires the NAIC/AICPA (E) Working Group to send adopted proposals to the Accounting Practices and Procedures (E) Task Force for adoption and inclusion in the AP&P Manual. If the Accounting Practices and Procedures (E) Task Force recommends substantive changes to the proposal received from the NAIC/AICPA (E) Working Group, the proposal should be returned to the NAIC/AICPA (E) Working Group for further deliberation.

Table of Contents

The Table of Contents for the Guide mirrors that of the Model. However, not all sections of the Model require interpretive guidance. Consequently, only those sections containing guidance are contained in the Guide. The presentation of the Guide is organized by the section title with the section number of the Model appearing after the title.

Title	Section	Page
Definitions	3	2
General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment	4	4
Qualifications of Independent Certified Public Accountant	7	4
Communication of Internal Control Related Matters Noted in an Audit	11	10
Requirements for Audit Committees	14	11
Management's Report of Internal Control over Financial Reporting	17	13
Exemptions and Effective Dates	18	18
Appendix 1	17	22

Definitions (Section 3)

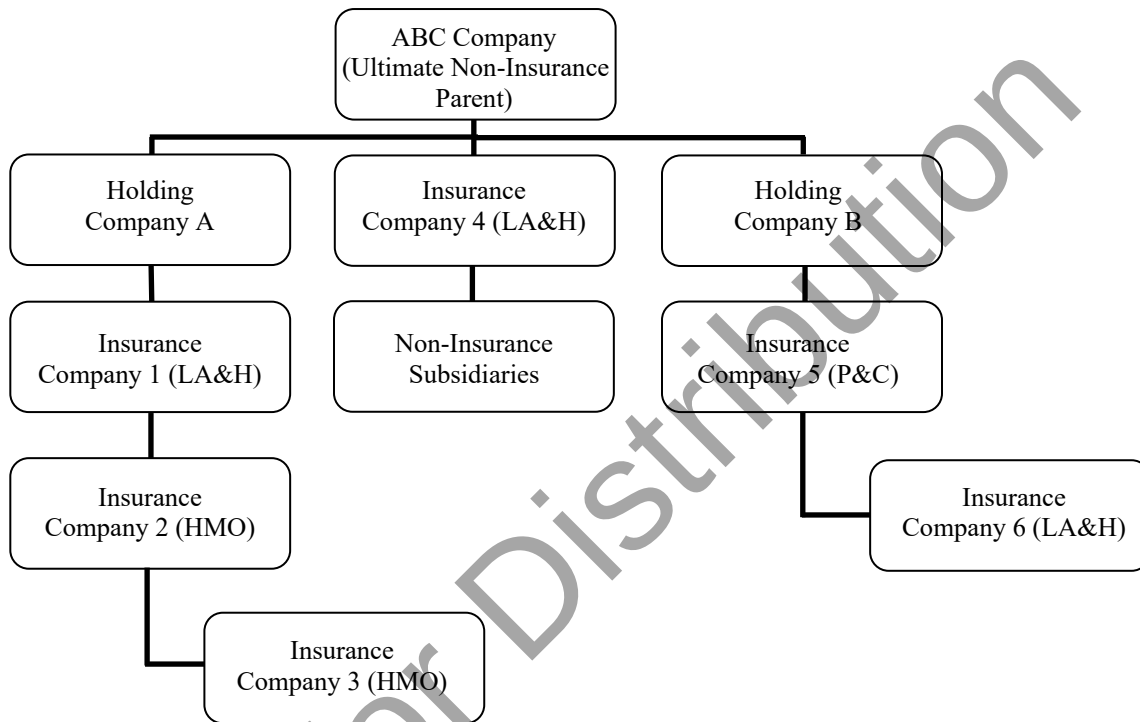
Certain terms and definitions contained in the Model need no further explanation. The Guide provides additional information for preparers and users for some definitions to facilitate their understanding.

“Audited financial report” (D), differs from the term “financial statements” in that the Audited financial report (see Section 5 of the Model) includes the financial statements plus the report of the independent certified public accountant. “Financial statements,” therefore, excludes the report of the independent certified public accountant.

“Group of insurers” (H), as intended for use in the Model is to recognize the variety of structures that may exist. Companies within a holding company structure, or other set of insurers identified by management, may often share common management, systems or processes. Consequently, when management asserts to the effectiveness of their internal controls, it is appropriate to make such an assertion for those companies based upon the organization management determines to be most relevant to meet the reporting requirements. Because holding company structures, and other groups of insurers, can be complex and organized to meet corporate objectives, that structure may not align with the organizations that are responsible for managing and preparing the financial statements of the insurer. The Model provides flexibility to insurers to identify a “Group of insurers” for purposes of evaluating the effectiveness of their internal control over financial reporting. In determining the appropriate scope and level of testing for systems that are shared by a group of insurers, management is not required to expand the scope or perform additional testing that would be redundant for each legal entity included within the group of insurers. To the extent that a specific internal control or system is unique to and has a material impact on the preparation of the audited statutory financial statements of a legal entity included in a group of insurers and the legal entity exceeds the premium thresholds contained in Section 17, that control or system is to be included in management's evaluation of internal controls.

A “Group of insurers” that has been granted approval to file audited statutory consolidated or combined financial statements of a group of insurers (as described in Section 8) may set the scope and level of testing for purposes of determining effectiveness of internal controls over financial reporting consistent with the basis on which the audited statutory financial statements for the Group are prepared (i.e., at the combined or consolidated level).

The following example is intended to illustrate various ways that a “Group of insurers” could be determined. The example is not intended to be limiting in any way. Rather, it is intended to show the flexibility to be in compliance with the Model. Insurers are encouraged to notify the Commissioner of its initial “Group of insurers” and any subsequent changes to such group.



1. “Group of insurers” could be established at the ultimate parent level, i.e., one report of the effectiveness of internal controls for all insurers in the group—insurance companies 1-6.
2. Two “Group of insurers” could be established at the holding company level, i.e., holding company A and B. In this case, a separate report would be required for holding company A, holding company B, and if it met the reporting threshold, insurance company 4 since it is not in either group.
3. Two “Group of insurers” could be established based upon the type of insurance company, i.e., LA&H companies 1, 4 and 6 could be one group and HMO companies 2 and 3 in the second group. In this case, a separate report would be required for the LA&H companies, the HMO companies and if it met the reporting threshold, insurance company 5 since it is not in either group.
4. Two “Group of insurers” could be established based upon the way the entities are managed. For example, companies, 1, 2, 3 and 5 have the same management while companies 4 and 6 have common management.
5. If management elects not to identify a “Group of insurers” for purposes of evaluating the effectiveness of internal control over financial reporting then each reporting entity meeting the reporting requirements of Section 17 would prepare such a report.

“Internal control over financial reporting” (I), as defined in the Model is intended to have the same meaning as understood in the public sector to comply with the requirements of the Sarbanes-Oxley Act of 2002. Because some terms might not be fully defined and to avoid misunderstanding, this Guide attempts to clarify such terms. For example, the word “reliability” used in the phrase “reliability of financial statements” has the same meaning as that contained in the generally accepted accounting principles (GAAP) framework, Statement of Financial Accounting Concepts Two. This Statement is referenced in the Preamble, Part III, paragraph 24 of the AP&P Manual.

General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment (Section 4)

Section 4D stipulates that each insurer required to file an annual Audited financial report pursuant to the Model shall designate a group of individuals as constituting its Audit committee. Section 4D further states that the Audit committee of an entity that controls an insurer may be deemed to be the insurer’s Audit committee for purposes of this regulation at the election of the controlling person. The definition of Audit committee in Section 3 of the Model references Section 14E for exercising this election. However, a disclaimer within Section 14 of the Model indicates that the section shall not apply to SOX Compliant Entities or wholly-owned subsidiaries of SOX Compliant Entities. Regardless of the disclaimer, in order to comply with the second sentence in Section 4D, the Audit committee of any entity that controls an insurer (a SOX Compliant entity or a non-SOX Compliant Entity) may be deemed to be the insurer’s Audit committee at the election of the controlling person, and only if such election is completed in the manner outlined in Section 14E.

The responsibility of the Audit committee is defined in Section 14 of the Model. Section 14 states that each member of the Audit committee shall be a member of the Board of Directors and sets forth the requirements for the proportion of independent Audit committee members based on the insurer’s direct written and assumed premiums. The definition of an independent Audit committee member is outlined in Section 14.

Qualifications of Independent Certified Public Accountant (Section 7)

Lead Audit Partner Rotation Requirement (Section 7D)

Purpose

The purpose of this section is to provide companies and their independent accountants with guidance to enable an orderly transition in meeting the revised lead audit partner rotation requirements as set forth in Section 7.

Background

Section 7 provides certain limitations on the number of years an audit partner may serve in the capacity of lead audit partner for an insurance company audit. Previously, the lead audit partner was permitted to serve for seven consecutive years in that capacity with a two-year break in service. Under the revised Model “...the lead ...audit partner (having primary responsibility for the audit) may not act in that capacity for more than five (5) consecutive years. The person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years.”

The new rotation requirements under Section 7 are effective beginning with audits of the 2010 financial statements. The rotation requirements of the Model and the interpretative guidance provided are applicable for statutory reporting and regulatory purposes. An insurer and its affiliates that are subject to the rotation requirements of the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) must also continue to comply with those rotation requirements.

Relief from the Lead Audit Partner Rotation Requirement (Section 7D)

The Model states:

An insurer may make application to the Commissioner for relief from the above rotation requirement on the basis of unusual circumstances. This application should be made at least thirty (30) days before the end of the calendar year. The Commissioner may consider the following factors in determining if the relief should be granted:

- (a) Number of partners, expertise of the partners or the number of insurance clients in the currently registered firm;
- (b) Premium volume of the insurer; or
- (c) Number of jurisdictions in which the insurer transacts business.

The following examples illustrate circumstances that the Commissioner may consider in determining if relief from the lead partner rotation requirement shall be granted:

1. No other partners in the firm's local office have the qualifications to serve as lead audit partner and the use of a qualified partner resident in another location could result in increased audit risk and higher audit fees.
2. Limited number of partners in the firm that have the qualifications to serve as the lead audit partner.
3. Switching firms could result in increased audit risk due to the new engagement team's lack of familiarity with the insurer.
4. Limited availability of other firms in a particular location with the requisite expertise.
5. The regulator believes that complex issues at an insurer make a particular partner best suited to continue as lead audit partner.
6. Short-term relief due to the occurrence of an unforeseeable event that renders a partner unable to continue as the lead audit partner on the engagement.
7. Short-term relief due to unexpected delays in the state's licensing or admission process that prevent the "new" lead audit partner from assuming that role.

Also, the granting of transitional relief may be warranted when the non-insurance parent or ultimate parent of an insurance company is an SEC registrant and the current lead audit partner on the SEC registrant has completed his or her rotation as the lead audit partner on insurance subsidiaries prior to completing his or her five-year rotation as the lead partner on the audit of the GAAP financial statements of the SEC registrant. In this situation the relief would allow the lead audit partner to complete his or her rotation on the SEC registrant as long as he or she no longer acts in the capacity of lead audit partner for any insurance subsidiaries and/or any downstream affiliates of the insurance subsidiaries.

Frequently Asked Questions (Section 7D)

Following are a series of frequently asked questions to assist companies and their independent accountants in interpreting this guidance. Dates provided refer to the year of financial statements under audit.

In determining when the lead audit partner must rotate, consecutive time served in the capacity of lead audit partner prior to the effective date of these rules would be counted (i.e., the lead audit partner is not

afforded a “fresh start”). If the lead audit partner completed the two-year break in service required by the previous version of the Model prior to the effective date of these rules, the partner is eligible to resume service as a lead audit partner for a five-year period and need not wait additional years to accomplish a five-year break in service.

1. 2010 would be the fifth year that a partner would serve as lead audit partner of an insurance company. Would that partner be able to complete the 2010 year-end audit?

Yes. The partner would be able to complete the 2010 year-end audit; however, the partner would be required to rotate off the engagement after the 2010 year-end audit.

2. 2010 would be the sixth or seventh year that a partner would serve as the lead audit partner. Would that partner be able to serve in that capacity for the 2010 audit?

No. The partner would be required to rotate off for the 2010 year-end audit. In determining when the lead audit partner must rotate, consecutive time served in the capacity of lead audit partner since the most recent two-year break in service prior to the effective date of these rules would be counted.

3. If a partner serves as the concurring partner from 2007 – 2010, can that partner serve as the lead audit partner in 2011? If so, for how many years?

Yes. The Model does not prohibit a partner that has served as the concurring partner from subsequently serving as the lead audit partner. The time served as concurring partner does not count towards the five-year limitation. In the situation above, the partner would be permitted to serve as lead audit partner from the 2011 year-end audit through the 2015 year-end audit.

4. Can a lead audit partner serve as the concurring review partner during the required five-year break in service?

Yes. The Model specifies that a partner may not act in “that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years” where “that” refers to the role of lead audit partner. Therefore, the Model does not prohibit that partner from serving as concurring partner during that partner’s five-year break in service.

5. During the five-year break in service, can a partner serve as lead audit partner on an insurance company affiliate of that company?

No. The Model specifies a “person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years.” The phrase “insurance subsidiaries or affiliates” is interpreted to mean any subsidiaries and affiliates (whether insurance or non-insurance).

6. If a lead audit partner serves for six years prior to the effective date of the revised Model (year-end audits from 2003 – 2008) then rotates off the engagement for two years (year-end audits 2009 – 2010), can that partner serve for five additional consecutive years (year-end audits from 2011 – 2015) as the lead audit partner?

No. The requirement for a break in service of five consecutive years becomes effective for the 2010 year-end audits. If the partner has not completed the two-year break in service prior to the effective date of the new requirement, the partner becomes subject to the new requirement and must complete a five-year break in service. However, if the lead audit partner completes the two-year break in service by 2009 instead of 2010, that partner would be permitted to resume the lead audit partner role in 2010.

7. A partner that served seven years as lead audit partner has not worked on the engagement for two years. Assuming 2010 otherwise would be year three of the break in service, can that partner assume the lead audit partner role for the 2010 year-end audit?

Yes. The requirement for the five-year break in service starts with engagement years beginning 2010. Prior to 2010, the rotation requirement is for a two-year break in service.

8. If a lead audit partner served in that capacity for years 2007 – 2009 and was not on the engagement (or that of any subsidiary or affiliate) for 2010, would that partner have to complete a five-year break in service before again serving as the lead audit partner?

No. However, the partner could only serve as the lead audit partner for two more years since the partner has already served three years on this engagement.

9. Can a former lead audit partner currently in a break in service continue to serve the client in a role other than the lead audit partner, for example concurring partner or auxiliary partner, such as tax review partner or other assisting role?

Yes. The Model auditor rotation rules apply only to the role of lead audit partner on the audit of the insurance company and its insurance subsidiaries or affiliates.

10. 2010 is the first year that a partner serves as the lead audit partner on an insurer. The partner serves as the lead audit partner on that insurer for year-end audits of 2010 – 2012; however, during 2013 – 2015 that partner does not serve as the lead audit partner on that insurer or any of its affiliates. If that partner again serves the insurer (or any of its insurance subsidiaries or affiliates) as the lead audit partner for 2016 year-end audit, when must that partner rotate off the engagement?

The partner is permitted to serve as the lead audit partner for the 2016 and 2017 year-end audits and must begin a five-year break in service with the year-end 2018 audit. The break in service during 2013 – 2015 would be for less than the five-year period required by the Model. In order for the partner to be permitted to begin a new five-year service period as lead audit partner on the insurer or any of its insurance subsidiaries or affiliates, a full five-year break in service is required to be completed by that partner.

11. How is service as the lead audit partner on the audit of the GAAP-basis financial statements of a separate account evaluated under the Model?

A separate account is not a legal entity, but an accounting entity with accounting records for variable contract assets, liabilities, income, and expenses segregated as a discrete operation within the insurance company. Therefore, the separate account is considered to be an insurance affiliate for purposes of applying the Model.

If the insurer is a part of a mutual fund complex, the mutual funds are considered to be non-insurance affiliates even if held as investments in the insurer's separate accounts.

12. An insurer changes to a new independent accounting firm. At the same time, the lead audit partner for that insurer joins the new independent accounting firm. Would the lead audit partner's time at the previous accounting firm count toward the five-year rule at the new accounting firm?

Yes. The rule specifically applies to the lead audit partner and not the independent accounting firm.

13. Some firms have individuals that are CPAs but not partners (i.e., nonequity participants such as directors or principals) that serve in the role of the lead audit partner. Can such a CPA serve in the role of the lead audit partner of an insurance company?

Yes. The Model defines the lead audit partner as the individual having “primary responsibility for the audit.” Whether this capacity is served by a partner or other CPA with the equivalent qualifications is at the discretion of the independent accounting firm. As such, the individual would be subject to the rotation requirements of the lead audit partner under Section 7.

Questions 14 through 23 are based on the following hypothetical fact pattern and assume there are no public registrants in the group.

Neither insurance subsidiary A nor insurance subsidiary B has any investment in non-insurance subsidiary C.

- Partner Smith served as the lead audit partner on non-insurance holding company H for six years through the 2010 year-end audit.
 - Partner Jones served as the lead audit partner on insurance subsidiary A for four years through the 2010 year-end audit.
 - Partner Little served as the lead audit partner on insurance subsidiary B for three years through the 2010 year-end audit.
 - Partner Brown served as the lead audit partner on non-insurance subsidiary C for two years through the 2010 year-end audit.
 - Partner Miller served as the lead audit partner on insurance subsidiary D for three years through the 2010 year-end audit.
 - Partner King served as the lead audit partner on non-insurance subsidiary E for seven years through the 2010 year-end audit.
14. Can Partner Smith rotate from serving as the lead audit partner on non-insurance holding company H to serving as the lead audit partner on insurance subsidiary B for the 2011 year-end audit?

Yes. The limitation under Section 7 initiates with service as the lead audit partner of an *insurer*. Assuming Partner Smith has not previously served as the lead audit partner on an insurer, he or she can then serve as the lead audit partner on insurance subsidiary B or any of its affiliates for up to five years.

15. Can Partner King rotate from serving as the lead audit partner on non-insurance subsidiary E to serving as the lead audit partner on insurance subsidiary B for the 2011 year-end audit?

Yes. The limitation initiates with service as the lead audit partner of an *insurer*. Assuming Partner King has not previously served as the lead audit partner on an insurer, he or she can then serve as the lead audit partner on insurance subsidiary B or any of its affiliates for up to five years.

16. Can Partner Brown rotate from serving as the lead audit partner on non-insurance subsidiary C to serving as lead audit partner on insurance subsidiary B for the 2011 year-end audit?

Yes. The limitation initiates with service as the lead audit partner of an *insurer*. Assuming Partner Brown has not previously served as the lead audit partner on an insurer, he or she can then serve as the lead audit partner on insurance subsidiary B or any of its affiliates for up to five years. Therefore, Brown could serve insurance subsidiary B for five years beginning with the 2011 year-end audit.

17. Can Partner Brown rotate from serving as the lead audit partner on non-insurance subsidiary C to serving as lead audit partner on Holding Company H for the 2011 year-end audit?

Yes. C is a non-insurance subsidiary and H is a non-insurance holding company; therefore, assuming Partner Brown has not previously served as the lead audit partner on an insurer, the partner rotation requirements of Section 7 are not applicable relative to non-insurance subsidiary C and non-insurance holding company H.

18. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner for insurance subsidiary B for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate).

19. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner on non-insurance subsidiary C for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

20. Can Partner King rotate from serving as the lead audit partner on non-insurance subsidiary E to serving as the lead audit partner on non-insurance subsidiary C for the 2011 year-end audit?

Yes. E is a non-insurance subsidiary and C is a non-insurance subsidiary; therefore, assuming Partner King has not previously served as the lead audit partner on an insurer, the partner rotation requirements of Section 7 are not applicable relative to non-insurance subsidiary E and non-insurance subsidiary C.

21. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner on non-insurance subsidiary E for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

22. Can Partner Jones rotate from serving as the lead audit partner on insurance subsidiary A to serving as the lead audit partner on insurance subsidiary D for the 2011 year-end audit?

Yes. However, Jones can only serve for one year due to four years prior service as the lead audit partner on insurance subsidiary A (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

23. Can Partner Little rotate from serving as the lead audit partner on insurance subsidiary B to serving as the lead audit partner on non-insurance subsidiary E for the 2011 year-end audit?

Yes. However, Little can only serve for two years due to three years prior service as the lead audit partner on insurance subsidiary B (an insurance affiliate). The limitation initiates with serving as the lead audit partner on an insurer.

Prohibited Services (Section 7 G)

The Model does not allow the Commissioner to accept an Audited financial report prepared by an accountant who provides the insurer, contemporaneously with the audit, non-audit services as outlined within the Model. One of the prohibited services outlined in the Model consists of bookkeeping or other services related to the accounting records or financial statements of the insurer. The prohibition in this area should include, but is not limited to, services related to the preparation of the Annual Statement to be submitted by the insurer. However, the drafting of the Audited financial report would not be prohibited, provided that the accountant does not assume decision-making authority (e.g., approval of journal entries) in compiling the draft report.

Communication of Internal Control Related Matters Noted in an Audit (Section 11)

In addition to the annual Audited financial report, each insurer must furnish the Commissioner with a written communication as to any unremediated material weakness in its internal control over financial reporting noted during the audit. The communication is prepared by the accountant within 60 days after the filing of the annual Audited financial report and is filed by the insurer. Recognizing it may not always be practical, insurers are encouraged to file the communication concurrently with the filing of the annual Audited financial report for those years in which the insurer is aware that a financial condition examination has been scheduled. The insurer is required to provide a description of remedial actions taken or proposed to correct unremediated material weaknesses, if the actions are not described in the accountant's communication.

The Model requires that the Commissioner be notified when unremediated material weaknesses in internal control over financial reporting were noted during the audit. Previous versions of the Model required such communication when any significant deficiencies in internal control over financial reporting were noted during the audit, whether remediated or not. This distinction is important because of the level of severity of the internal control deficiency that is applicable to each term. The terms "material weakness" and "significant deficiency" have the same meaning respectively as used in PCAOB or American Institute of Certified Public Accountants (AICPA) auditing literature - PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements or AICPA AU Section 325, Communicating Internal Control Matters Identified in an Audit (see Section 17E of this Guide for the definitions of material weakness and significant deficiency that are included in the auditing literature). However, the insurer is expected to maintain information about significant deficiencies that were communicated by its auditors and such information should be available for review during the financial condition examination.

Effective for audits as of December 31, 2021, and thereafter, the information required in Section 12 of the MAR required to be communicated by the accountant should be supplemented by providing both the name of the current lead audit partner and the year at which he or she began serving in that capacity. For the purpose of maintaining confidentiality, this information will not be included in the annual letter of qualifications, but instead shall be included in the internal control communication required in Section 11 of the MAR by the accountant as a footer or under the firm signature as follows:

The engagement partner, [name], has served in that capacity with respect to the Company since [year that current term started],

Consistent with the Drafting Note¹ to Section 11 of the MAR, the information provided on the engagement partner shall remain confidential.

¹ The insurer is expected to maintain information about significant deficiencies communicated by the independent certified public accountant. Such information should be made available to the examiner conducting a financial condition examination for review and kept in such a manner as to remain confidential.

The following is an example of the type of communication that an insurer should prepare to communicate the remedial actions taken or proposed to correct a material weakness in its internal control over financial reporting noted during an audit.

Communication of Internal Control Related Matter Noted in an Audit - Sample

Honorable Commissioner
State of Domicile Insurance Department
State of Domicile

Dear Honorable Commissioner:

During the audit completed for the year ended December 31, 20XX, for XYZ Holding Company Inc (“XYZ”), a material weakness was noted in XYZ’s internal control over financial reporting related to the calculation of insurance reserves. Due to the manner in which the data for homeowners policies are captured by the systems used in its Southeastern US regional office, changes in XYZ’s estimate of insurance reserves for certain policies are not reviewed by XYZ’s Actuarial Department prior to being recorded in the company’s accounting records.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. In connection with the weakness noted above, XYZ’s management has taken remedial actions to change its procedures for coding policies issued in the states affected so that all homeowners’ policy data are included in the Actuarial Department review of estimate of insurance reserves. This change was effective on July 1, 20XX.

Should you have any questions regarding this matter, please do not hesitate to contact me at the number noted above.

Regards,

XYZ Holding Company, Inc.

Requirements for Audit Committees (Section 14)

A disclaimer within Section 14 of the Model indicates that the section shall not apply to SOX Compliant Entities or wholly-owned subsidiaries of SOX Compliant Entities. This disclaimer was placed within the Model to avoid conflicts between the independence requirements of the Model and those required of public companies under Section 301 of the Sarbanes Oxley Act of 2002. The expectation of regulators in developing this disclaimer was that the same independent Audit committee required of public companies under Section 301 would be deemed to be the insurer’s Audit committee for purposes of this regulation (pursuant to Section 4D of the Model) or would participate in the oversight of the insurers within the group. Therefore, if material weaknesses, significant deficiencies and/or significant solvency concerns are identified at the legal entity level, the independent Audit committee should be involved in addressing these issues, regardless of their materiality at the consolidated, parent company level.

Independence of an Audit Committee Member (Section 14C)

A policyholder would be considered "independent" unless they receive direct compensation from the insurer for other unrelated services.

A person who is otherwise considered independent and also serves on the Board of Directors of a contracting entity (e.g., medical provider, vendors, banks, etc.) is considered independent.

An otherwise non-independent member of the Board of Directors is considered independent for Audit committee purposes if state law requires participation on the Board (e.g., Medical providers) as long as the member is not an officer or employee of the insurer or one of its affiliates.

Notification letter (Section 14E)

In accordance with Section 14E, upon the initial election by the insurer to designate the Audit committee of an entity that controls the insurer as its Audit committee, the insurer shall provide written notification to the Commissioner of the affected insurer. This notification shall identify the controlling entity and the basis for the election. This election remains in effect for perpetuity, until rescinded, at which time written notification would need to be provided to the Commissioner of the insurer. The notification letter should be timely filed with the Commissioner by the ultimate controlling person prior to the issuance of the statutory Audited financial report. However, each of the affected insurers (i.e. those that will have an Audit committee designated by its ultimate controlling person) that is subject to the provisions of Section 14 shall ensure that the notification letter is filed with the Commissioner. Absence such filing, each of the affected insurers would be individually responsible for complying with Section 14. For example, referring to the “Group of insurers” chart in Section 3, if the ABC Company is the ultimate controlling person and elects to have its Audit committee serve as the Audit committee for insurance company 5, then ABC Company would file the notification letter (insurance company 5 would have to ensure that the notification letter is filed or comply with Section 14 as a single entity). Once submitted, the election remains in effect until rescinded. The following example illustrates the reporting requirement.

The XYZ insurance company (e.g., insurance company 5) is an indirect subsidiary of and controlled by ABC Company. ABC Company has an independent Audit committee comprised of directors of ABC Company. XYZ insurance Company has elected to designate the Audit committee of ABC Company as the Audit committee of XYZ insurance Company for purposes of complying with Audit committee requirements of the Annual Financial Reporting Model Regulation.

(Signed) _____
(XYZ Insurance Company Chief Executive Officer)

(Signed) _____
(ABC Company Chief Executive Officer)

(Date) _____

(Date) _____

Transitional Guidance (Section 14G)

Once a company exceeds the requisite thresholds for Audit committee requirements contained in Section 14 of the Model, it is required to comply with the Audit committee requirements by January 1 following one (1) complete calendar year. The following are examples of transitional period requirements.

A: Company surpasses \$300 million threshold:

ABC Insurance Company has reached the \$300 million requisite threshold in its December 31, 2011, audited statutory statement and therefore will be required to meet “majority (50% or more) member independence” Audit committee requirements by January 1, 2013, providing the company necessary time for recruitment and approvals.

B: Company surpasses \$500 million threshold:

ABC Insurance Company has subsequently reached the \$500 million requisite threshold in its December 31, 2014, audited statutory statement and therefore will be required to meet the “Supermajority (75% or more) member independence” Audit committee requirements by January 1, 2016.

C: Company drops below threshold amount:

If ABC Insurance Company has penetrated the requisite \$500 million threshold and has been in compliance with the requirements but subsequently drops below the \$500 million threshold, e.g., \$450 million in its December 31, 2018, audited statutory statements, the company would be subject to the “majority (50% or more) member independence” requirement and could reduce the Audit committee independence in 2019. Companies, however, are encouraged to structure their Audit committees with at least a supermajority of independent Audit committee members.

Hardship Waiver (Section 14H)

An insurer may make application to the Commissioner for a waiver from the Section 14 requirements based upon hardship. Examples may include, but are not limited to, requests based on the business type of the entity, the availability of qualified board members, or the ownership (e.g., entities owned by non-profit health systems) or organizational structure of the entity. If the application for a waiver is approved, the insurer would file, with its annual statement filing, the approval for relief from Section 14 with the states that it is licensed in or doing business in and the NAIC. If the nondomestic state accepts electronic filing with the NAIC, the insurer would file the approval in an electronic format acceptable to the NAIC.

Management’s Report of Internal Control over Financial Reporting (Section 17)

Premium Threshold (Section 17A)

The term “direct written premium” is frequently associated with the property/casualty business. While the Model continues to use the term, it raises the question for other businesses, e.g., life and fraternal, what is the appropriate measure for assessing compliance? The following examples have been developed to illustrate the computation since the starting point is the audited financial statements of the reporting entity, and it is possible that the amount reported may not be consistent with written premium as reported in the regulatory reporting blank.

The annual direct written and assumed premium:

- will be derived from the annual Audited financial report of an individual insurer, as of December 31 immediately preceding;
- are generally reported in the Statement of Operations of the Audited Financial Report on an ‘earned’ and a ‘net of reinsurance ceded’ basis;
- will be computed by making the following adjustments:

P/C, Health and Title entities:

	\$
Premiums earned (Statement of Income in Audited financial report)	A
Add/Deduct: Change in unearned premium	B
Add: Reinsurance ceded	C
Direct written and assumed premium *	D=A+B+C

*Note: Direct written and assumed premium would be reduced by any premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program

- A - Premiums earned per the Statement of Income will generally equal the Annual Statement, Page 4.
- B - Change in unearned premium is the difference between the current period amount and the prior year-end amount reported in the liabilities section of the balance sheet. The amount may also be derived from other company prepared exhibits.
- C - Reinsurance ceded may be derived from the notes to the Audited financial report, if disclosed, or other company prepared exhibits or schedules. If the Statement of Income or Statement of Operations separately presents reinsurance ceded, an adjustment is not required.
- D - Must be equal to, or greater than, \$500 million in order to be subject to Section 17 reporting.

Life and Fraternal entities:

	\$
Premiums earned (Statement of Operations in Audited financial report)	A
Add: Reinsurance ceded	B
Direct written and assumed premium	C=A+B

- A - Premiums earned per the Statement of Operations will generally equal the Annual Statement, Page 4.
- B - Reinsurance ceded may be derived from the notes to the Audited financial report, if disclosed, or other company prepared exhibits or schedules. If the Statement of Operations separately presents reinsurance ceded, an adjustment is not required.
- C - Must be equal to, or greater than, \$500 million in order to be subject to Section 17 reporting.

Companies in an RBC Level Event or in Hazardous Financial Condition (Section 17B)

For purposes of this subsection, the phrase “RBC level event” refers to any of the regulatory action levels described in the Risk-Based Capital requirements or the trend test. For example, if the reporting entity’s total adjusted capital is equal to or less than 200% of the required risk-based capital, the result would trigger regulatory action.

Management’s Report of Internal Control over Financial Reporting (Sections 17C & 17D)

Management must annually provide their domiciliary insurance department with a report on internal controls over the statutory financial statement process. Recognizing it may not always be practical, insurers are encouraged to file the report concurrently with the filing of the annual Audited financial report for those years in which the insurer is aware that a financial condition examination has been scheduled. The elements to be included in the report are outlined in 17D.

As outlined in Section 17C, an addendum is required for all reports that rely on a Section 404 Report (Sarbanes-Oxley). The Model states that the Section 404 Report means management’s report on internal control over financial reporting as defined by the SEC and the related attestation report of the independent certified public accountant. However, in 2010, the Dodd-Frank Act exempted non-accelerated SEC filers (those reporting companies that do not meet the definition of either an “accelerated filer” or a “large accelerated filer” under Exchange Act Rule 12b-2.) from the requirement to obtain the related attestation report of the independent certified public accountant. As such, non-accelerated SEC filers may file a

Section 404 Report that does not include an attestation report of the independent certified public accountant, along with the appropriate addendum, to fulfill requirements in this area.

Alternately, insurers may utilize a report received as a result of work performed in accordance with Statement of Standards in Attestation Engagements (SSAE) No. 15 in a similar fashion to a Section 404 Report. As such, there are two main types of reports that can be provided:

- Reports from entities that have complied with all required elements of Section 404 of the Sarbanes-Oxley Act (or have received an SSAE No. 15 report) either as a requirement or on a voluntary basis.
- Reports from entities that have not complied with Section 404 of the Sarbanes-Oxley Act (or have not received an SSAE No. 15 report).

Appendix 1 of this guide provides examples of Management's Report of Internal Controls over Financial Reporting utilizing various facts and circumstances.

Section 17D(2): Management must make an assertion regarding the effectiveness of the insurer's Internal control over financial reporting to the best of its knowledge and belief after diligent inquiry. For purposes of filing the report, "diligent inquiry" means conducting a search and thorough review of relevant documents which are reasonably likely to contain significant information with regards to Internal control over financial reporting and making reasonable inquiries of current employees and agents whose duties include responsibility for Internal control over financial reporting.

Section 17D(5): The report must disclose any unremediated material weaknesses in Internal control over financial reporting that exist as of the balance sheet date. If the insurer or Group of insurers has identified an unremediated material weakness, management is not permitted to conclude that its Internal control over financial reporting is effective and it must include a description of the nature of any unremediated material weakness in the report. December 31 is used as the measurement date to whether a material control weakness is unremediated for purposes of reporting under this section of the Model.

Section 17D(6): Users of the report should be aware of the inherent limitations in Internal control over financial reporting. PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements provides the following description of such inherent limitations:

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Additionally, readers of the report should be aware that projecting management's assertion regarding the effectiveness of Internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate.

Section 17D(7): The report must include signatures of the chief executive officer and chief financial officer (or the equivalent position/title). If a report is being filed on behalf of a Group of insurers, management should identify the officeholders (i.e., the CEO and CFO of Company ABC) that have the

authority to sign the report on behalf of all of the legal entities being reported upon within the Group of insurers.

Basis for Management's Review and Assertions (Section 17E)

One of the primary reasons for the new Section 17 of the Model is to bring additional focus and attention to internal control over financial reporting. Financial reporting is the underpinning of many of the solvency oversight activities of insurance regulators. Section 17 of the Model identifies management's responsibilities for internal control over financial reporting and provides regulators additional assurances of the effectiveness of internal control practices in a cost-effective manner.

The basis for Management's Report of Internal Control over Financial Reporting shall be subject to insurance departments' financial condition examinations. Because of this and other solvency tools available to regulators, there is no requirement that the independent certified public accountant be engaged to perform an examination of the effectiveness of internal control over financial reporting. However, Section 9 requires the independent public accountant to consider (as that term is defined in AICPA Statement on Auditing Standards (SAS) No. 102, Defining Professional Requirements in Statements on Auditing Standards, or its replacement) the most recently available Management's Report of Internal Control over Financial Reporting in planning and performing the audit of the statutory financial statements. SAS No. 102, paragraph 4 states, "If a SAS provides that a procedure or action is one that the auditor "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not." AU Section 319 of the Professional Standards of the AICPA, Consideration of Internal Control in a Financial Statement Audit, requires that the auditor obtain an understanding of internal control sufficient to plan and execute the audit. It is in this context that the auditor is required to "consider" management's report. There is no requirement that the auditor test or otherwise use management's report.

The Model does not mandate a specific framework for management's review and evaluation of internal controls. SEC registrants typically (but are not required to) use the COSO Internal Control-Integrated Framework in assessing the effectiveness of internal control over financial reporting. The COSO-sponsored "Enterprise Risk Management-Integrated Framework" and the PCAOB Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting are other examples of relevant literature companies may want to consider in applying such a framework. Under the Model, however, management, when making its assessment and preparing its report, has discretion as to the nature of the internal control framework used. Insurers shall have flexibility as to the frequency and scope of testing activities and the documentation provided upon examination to support the assertions. Management should assess and select an appropriate framework or approach based upon its business risks and objectives.

Management's assertions about the effectiveness of internal controls enhance oversight and understanding of insurer solvency by allowing regulators to have greater confidence in the accuracy of financial reporting, which also provides a benefit to policyholders and creditors. An expected benefit of this enhancement, where internal controls are effective, is that financial examinations will become more efficient and risk-focused.

Management's Report of Internal Control over Financial Reporting may span more than one legal entity. Because internal controls are primarily about processes and these processes are often applied across multiple legal entities within an organization, (e.g., investment systems, premium and loss/benefit systems, and financial reporting processes), management may consider common processes and the associated controls when determining the Group of insurers for reporting purposes.

The Model provides flexibility in meeting the requirements of Section 17D and E. The controls included in the scope of management's report should only include those controls deemed significant or critical by management. The following examples represent aspects and components of internal control that insurers

may want to consider when making the assertions and determining relevant documentary evidence. These are not intended to serve as, and should not be considered, requirements:

- The internal control environment including oversight provided by the Audit committee of the Board of Directors. Insurers may want to consider how they can demonstrate “Tone at the Top.” The insurer’s compliance programs, code of conduct and the processes for reporting policy exceptions and overrides of controls may also be appropriate to consider.
- The risk assessment process utilized and identification of the areas of potential material internal control risk related to the financial statement. Risk areas that one might typically find for an insurance enterprise include:
 - Investments (including capital expenditures)
 - Policy and Claim Reserves
 - Benefit Payments
 - Premiums / Agent’s Balances
 - Reinsurance
 - Related Party (Affiliate) Transactions
 - Operating Expenses/Taxes
- The control activities in place including procedures over financial reporting, which in management’s judgment are appropriate under the circumstances. These might include the daily or monthly controls management relies upon in the normal course of its activities. They would also include any SAS 70 reports received from vendors upon which management relies. General information systems and technology controls might also be considered.
- The monitoring and testing processes used in the normal course of business to ascertain that the internal controls are in place and are working as intended. Insurers may want to consider describing the purpose, function or role of an internal audit department and/or describe other self-audit and analysis activities.
- The information and communication processes, including the frequency of reporting and monitoring activities and communication of internal control responsibilities.

Section 17D(5) of the Model indicates that if one or more unremediated material weaknesses in Internal control over financial reporting exists as of the balance sheet date, then management is not permitted to conclude that internal control over financial reporting is effective and it must include a description of the nature of any unremediated material weaknesses in the report. For purposes of this determination, material weakness has the same meaning as used in PCAOB or AICPA auditing literature – PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements or AICPA AU Section 325, Communicating Internal Control Related Matters Identified in an Audit. Such guidance provides the following definitions:

Significant Deficiency – A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness – A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Insurers filing Management's Report of Internal Control over Financial Reporting as a Group of insurers may want to also consider identifying or documenting common systems and controls used by multiple companies within an insurance holding company system and how such information was used in the development of the Group of insurers for reporting purposes.

To allow insurers to comply with Section 17 in a cost-effective manner, management may base its assertions, in part, upon its review, monitoring and testing processes performed in the normal course of its activities. Management may also consider diligent inquiry of key process owners throughout the organization to provide additional assurance as to the operating effectiveness of its internal control over financial reporting. For purposes of filing the report, "diligent inquiry" means conducting a search and thorough review of relevant documents which are reasonably likely to contain significant information with regards to Internal control over financial reporting and making reasonable inquiries of current employees and agents whose duties include responsibility for Internal control over financial reporting.

Exemptions and Effective Dates (Section 18)

Hardship Waivers (Section 18A)

Notwithstanding any other provision of the Model, an insurer may make written application to the Commissioner for waiver from any or all provisions of the Model based upon financial or organizational hardship. For example, the Commissioner could under this section grant a waiver of the Section 14B audit committee independence requirements to a company exceeding the \$500 million premium threshold, even though the Section 14H waiver would not apply. This exemption is granted at the discretion of the Commissioner, and may be granted at any time for a specified period or periods.

Specific Effective Dates (Section 18F)

An insurer will be required to file a Section 17 report if the insurer exceeds the premium threshold (as defined in Section 17A.)

1. Assume the insurer reports premiums as follows (note that the direct written and assumed premium in these examples would be reduced by any premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program) :

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	410.5	425.7	450.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	526.3	545.8	578.0

In the above example, the insurer has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3.

2. Assume the insurer reports premiums as follows:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	380.5	390.8	410.5	425.7
Add: Reinsurance ceded	100.5	110.7	115.7	115.8	120.1
Gross direct written and assumed premium	450.8	491.2	506.5	526.3	545.8

In the above example, the insurer has reached the requisite threshold in 201x+2 and therefore will file its first Section 17 report effective December 31, 201x+4.

3. Assume the insurer reports premiums as follows:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	380.5	410.5	425.7
Add: Reinsurance ceded	100.5	115.7	110.7	115.8	120.1
Gross direct written and assumed premium	450.8	506.5	491.2	526.3	545.8

In the above example, the insurer has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3. Because the insurer dropped below the threshold in 201x+2, the insurer is not required to file a Section 17 report and thus, the reporting period starts over. The insurer reaches the threshold in 201x+3 and therefore, required to file the Section 17 report effective December 31, 201x+5. The insurer may choose to begin voluntarily filing the Section 17 report beginning with 201x+3 especially if the insurer has done the work to prepare the report.

Business Combination

A business combination is defined as acquisition of insurance/reinsurance business through:

- A. a stock acquisition,
- B. inforce reinsurance assumption, or
- C. a merger of insurers in a Group of insurers.

A. Stock Acquisitions

Assume Company A, which has premiums of \$500m or more, buys Company B and retains Company B as a separate legal entity.

If Company B has premiums of less than \$500m (as derived from Section 17A), no Section 17 report is required.

If Company B has premiums of \$500m or more (as derived from Section 17A), a Section 17 report is required.

1. Assume Company B is acquired effective January 1, 201x and subsequently reports premiums as follows. Assume further that Company A and B elect to file separate Section 17 reports:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	410.5	425.7	450.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	526.3	545.8	578.0

In the above example, Company B has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3.

2. Assume Company B is acquired June 30, 201x+2 by Company A and Company B has premiums as follows. Assume further that Company A elects to file a single Section 17 report with the Group of insurers consisting of Company A and B:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	410.5	425.7	450.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	526.3	545.8	578.0

In the above example, Company B has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3. However due to the acquisition in 201x+2, the first combined Section 17 report, i.e., Group of insurers, would be effective December 31, 201x+4, two years subsequent to acquisition.

B. Inforce Reinsurance Assumption

For the purposes of determining premiums pursuant to Section 17A, assumed premiums from the assumption of an inforce reinsurance transaction will be excluded from the measurement of premiums, for two calendar years subsequent to acquisition.

Assume the insurer assumed an inforce transaction effective June 30, 201x+2 and reports premiums as follows:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Net (written) premiums, per Statement of Operations in Audited financial report	350.3	390.8	610.5	850.7	875.8
Add: Reinsurance ceded	100.5	115.7	115.8	120.1	127.2
Gross direct written and assumed premium	450.8	506.5	726.3	970.8	1,003.0
Less: Gross assumed premium resulting from a business combination	0	0	200.0	425.0	425.0
Gross direct written and assumed premium, subject to Section 17	450.8	506.5	526.3	545.8	578.0

In the above example, the insurer has reached the requisite threshold in 201x+1 and therefore will file its first Section 17 report effective December 31, 201x+3, however only for business inforce in 201x+1 and still inforce in 201x+3. The business assumed at June 30, 201x+2 will be subject to a Section 17 report effective December 31, 201x+4, two calendar years after acquisition.

C. Mergers of Insurers in a Group of Insurers

If the merged insurer has premiums of less than \$500m (as derived from Section 17A), a Section 17 report is not required.

If the merged insurer has premiums of \$500m or more (as derived from Section 17A), a Section 17 report is required.

1. Assume that Insurer A and Insurer B have Gross direct written and assumed premiums as follows, and agree to merge effective January 1, 201x+1, with Insurer A as the surviving entity:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Gross direct written and assumed premium – Insurer A	450.3	460.8	510.5	n/a	n/a
Gross direct written and assumed premium – Insurer B	100.5	115.7	115.8	n/a	n/a
Less: Intercompany transactions – gross	-	65.3	62.2	n/a	n/a
Combined gross direct written and assumed premiums Insurer A	-	511.2	564.1	n/a	n/a

In the above example, the merged entity (insurer A) has reached the requisite threshold in 201x+1, and will file its first Section 17 report effective December 31, 201x+3.

2. Assume that Insurer A and Insurer B have Gross direct written and assumed premiums as follows, and agree to merge effective January 1, 201x+2, with Insurer A as the surviving entity:

\$ millions	201x	201x+1	201x+2	201x+3	201x+4
Gross direct written and assumed premium – Insurer A	450.3	460.8	510.5	n/a	n/a
Gross direct written and assumed premium – Insurer B	100.5	115.7	115.8	n/a	n/a
Less: Intercompany transactions – gross	-	-	62.2	n/a	n/a
Combined gross direct written and assumed premiums Insurer A	-	-	564.1	n/a	n/a

In the above example, the merged entity (insurer A) has reached the requisite threshold in 201x+2, and will file its first Section 17 report effective December 31, 201x+4, two years subsequent to merger.

APPENDIX 1

Illustrative Examples of Management’s Report of Internal Control over Financial Reporting

The following are examples of Management’s Report of Internal Controls over Financial Reporting utilizing different facts and circumstances. These are only examples and individual company facts and circumstances will dictate the contents of their report. However, there are common elements that should be included in all reports as discussed in Sections 17C and 17D of the Model.

Example A: An SEC registrant or a member of a holding company system whose parent is an SEC registrant that had all material control processes over statutory financial reporting addressed in its Section 404 report Page 23

Example B: An SEC registrant or a member of a holding company system who is a SEC registrant and is a non-accelerated filer that had all material control processes over statutory financial reporting addressed in its Section 404 report. For these non-accelerated filers, the Section 404 report does not require the report of independent registered public accounting firm on internal control over financial reporting..... Page 25

Example C: An SEC registrant or a member of a holding company system whose parent is an SEC registrant that did not have all material control processes over statutory financial reporting addressed in its Section 404 report..... Page 27

Example D: An SEC registrant or a member of a holding company system who is a SEC registrant and is a non-accelerated filer that did not have all material control processes over statutory financial reporting addressed in its Section 404 report. For these non-accelerated filers, the Section 404 report does not require the report of independent registered public accounting firm on internal control over financial reporting..... Page 30

Example E: A non-SEC registrant or a member of a holding company system that voluntarily complied with Section 404 of the Sarbanes-Oxley Act and produced a report on internal controls which included an auditor’s opinion..... Page 33

Example F: A company [or “group of insurers”] that is not subject to Section 404 and utilized their own framework to evaluate controls..... Page 35

Example G: An SEC registrant or a member of a holding company system whose parent is an SEC registrant that had all material control processes addressed in their Section 404 report and had an unremediated material weakness..... Page 37

Example H: An SEC registrant or member of a holding company system whose parent is an SEC registrant that did not include all material processes over statutory financial reporting addressed in its Section 404 report and had an unremediated material weakness noted Page 39

Example I: An SEC registrant or member of a holding company system whose parent is an SEC registrant that had all material processes over statutory financial reporting addressed in its Section 404 report. However, they recently acquired another insurer that is not included in their assessment Page 42

EXAMPLE A: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT HAD ALL MATERIAL CONTROL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company Inc ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Addendum to Management’s Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X**

For purposes of this addendum, the “Section 404 Report” means Management’s Report on Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B**XYZ Holding Company, Inc.****Management’s Report of Internal Control over Financial Reporting****List of Companies that are part of the Group of insurers****Pursuant to [relevant state statute or Section 17 of the Model]**

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE B: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHO IS A SEC REGISTRANT AND IS A NON-ACCELERATED FILER THAT HAD ALL MATERIAL CONTROL PROCESSES OVER STATUTORY REPORTING ADDRESSED IN ITS SECTION 404 REPORT. FOR THIS NON-ACCELERATED FILER, THE SECTION 404 REPORT DOES NOT REQUIRE THE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model] as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17 of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). This does not include a report of independent registered public accounting firm on internal control over financial reporting for XYZ, as it is not required for non-accelerated filers. In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X**

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting only contained in or incorporated by reference in the Company's Form 10-K/20-F. This does not include a report of independent registered public accounting firm on internal control over financial reporting, as it is not required for non-accelerated filers. Accordingly, as required by [relevant state statute or Section 17 of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B**XYZ Holding Company, Inc.****Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]**

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE C: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT DID NOT HAVE ALL MATERIAL CONTROL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model] as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X**

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Company's Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that the only material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report are the processes discussed below. Management of XYZ hereby affirms that all other material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers were included in the Section 404 Report. The following statutory financial reporting processes were reviewed separately from the internal controls reported by the Group of insurers in its Section 404 report:

Significant Control Processes not tested due to Group Materiality Considerations

The Section 404 report excludes certain control processes deemed material to individual insurance legal entities included within the Group of insurers. This exclusion was due to group materiality decisions made at the parent company level. These processes, and the legal entities within the Group of insurers impacted, are listed as follows:

Workers' Compensation Claims Processing – The HIJ claims processing system is utilized to process workers' compensation claims material to ABC Insurance Subsidiary and DEF Insurance Subsidiary.

Related Party Transactions Eliminated through Consolidation

The Section 404 report does not consider controls surrounding related party transactions as the effects of those transactions are eliminated through consolidation at the holding company financial statement level. Significant related party transactions, and the legal entities within the Group of insurers impacted, are listed as follows:

Affiliate reinsurance agreements – A significant amount of reinsurance coverage is obtained by ABC Insurance Subsidiary and DEF Insurance Subsidiary through contracts with XYZ Parent Company.

Management service agreements – ABC Insurance Subsidiary receives all of its management services through an agreement with XYZ Parent Company.

Tax allocation agreements – ABC Insurance Subsidiary and DEF Insurance Subsidiary are subject to an intercompany tax allocation agreement with XYZ Parent Company.

Deferred Income Taxes

Federal income taxes are provided for XYZ's estimated current and deferred liability. Deferred taxes are provided for differences between the financial statement and tax bases of assets and liabilities. Pursuant to *SSAP No. 101—Income Taxes*, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus, while under GAAP/IFRS, these changes are included in income tax expense or benefit. Gross deferred tax assets not meeting the realization criteria outlined in *SSAP No. 101* are not admitted.

Nonadmitted Assets

Certain XYZ assets (principally furniture, equipment, prepaid expenses, agents' balances, and certain deferred tax assets) have been designated as nonadmitted assets under statutory accounting guidance (primarily in *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 20—Nonadmitted Assets*). Such nonadmitted assets are excluded from assets by a charge to statutory surplus. Under GAAP/IFRS, such amounts are carried at amortized cost with an appropriate valuation allowance, as necessary.

Asset Valuation Reserve (“AVR”)

The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve (“IMR”)

The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Management of XYZ conducted an assessment of the internal controls over these processes and concluded that they were effective with respect to the audited statutory financial statements.

(Please note that this is not intended to be an all-inclusive list. It should only include material process that were not covered in the Section 404 Report. The facts and circumstances of each situation will determine the items to be included.)

ATTACHMENT B

XYZ Holding Company, Inc.

Management’s Report of Internal Control over Financial Reporting

List of Companies that are part of the Group of insurers

Pursuant to [relevant state statute or Section 17 of the Model]

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE D: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHO IS A SEC REGISTRANT AND IS A NON-ACCELERATED FILER THAT DID NOT HAVE ALL MATERIAL CONTROL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT. FOR THESE NON-ACCELERATED FILERS, THE SECTION 404 REPORT DOES NOT REQUIRE THE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model] as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17 of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). This does not include a report of independent registered public accounting firm on internal control over financial reporting for XYZ, as it is not required for non-accelerated filers. In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X**

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting only contained in or incorporated by reference in the Company's Form 10-K/20-F. This does not include a report of independent registered public accounting firm on internal control over financial reporting, as it is not required for non-accelerated filers. Accordingly, as required by [relevant state statute or Section 17 of the Model], management of XYZ hereby affirms that the only material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report are the processes discussed below. Management of XYZ hereby affirms that all other material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers were included in the Section 404 Report.

Significant Control Processes not tested due to Group Materiality Considerations

The Section 404 report excludes certain control processes deemed material to individual insurance legal entities included within the Group of insurers. This exclusion was due to group materiality decisions made at the parent company level. These processes, and the legal entities within the Group of insurers impacted, are listed as follows:

Workers' Compensation Claims Processing – The HIJ claims processing system is utilized to process workers' compensation claims material to ABC Insurance Subsidiary and DEF Insurance Subsidiary.

Related Party Transactions Eliminated through Consolidation

The Section 404 report does not consider controls surrounding related party transactions as the effects of those transactions are eliminated through consolidation at the holding company financial statement level. Significant related party transactions, and the legal entities within the Group of insurers impacted, are listed as follows:

Affiliate reinsurance agreements – A significant amount of reinsurance coverage is obtained by ABC Insurance Subsidiary and DEF Insurance Subsidiary through contracts with XYZ Parent Company.

Management service agreements – ABC Insurance Subsidiary receives all of its management services through an agreement with XYZ Parent Company.

Tax allocation agreements – ABC Insurance Subsidiary and DEF Insurance Subsidiary are subject to an intercompany tax allocation agreement with XYZ Parent Company.

Deferred Income Taxes

Federal income taxes are provided for XYZ's estimated current and deferred liability. Deferred taxes are provided for differences between the financial statement and tax bases of assets and liabilities. Pursuant to *SSAP No. 101—Income Taxes*, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus, while under GAAP/IFRS, these changes are included in income tax expense or benefit. Gross deferred tax assets not meeting the realization criteria outlined in *SSAP No. 101* are not admitted.

Nonadmitted Assets

Certain XYZ assets (principally furniture, equipment, prepaid expenses, agents' balances, and certain deferred tax assets) have been designated as nonadmitted assets under statutory accounting guidance (primarily in *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 20—Nonadmitted Assets*). Such nonadmitted assets are excluded from assets by a charge to statutory surplus. Under GAAP/IFRS, such amounts are carried at amortized cost with an appropriate valuation allowance, as necessary.

Asset Valuation Reserve (“AVR”)

The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve (“IMR”)

The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Management of XYZ conducted an assessment of the internal controls over these processes and concluded that they were effective with respect to the audited statutory financial statements.

(Please note that this is not intended to be an all-inclusive list. It should only include material process that were not covered in the Section 404 Report. The facts and circumstances of each situation will determine the items to be included.)

ATTACHMENT B

XYZ Holding Company, Inc.

Management’s Report of Internal Control over Financial Reporting

List of Companies that are part of the Group of insurers

Pursuant to [relevant state statute or Section 17 of the Model]

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE E: A NON-SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM THAT VOLUNTARILY COMPLIED WITH SECTION 404 OF THE SARBANES-OXLEY ACT AND PRODUCED A REPORT ON INTERNAL CONTROLS WHICH INCLUDED AN AUDITOR'S OPINION

Management's Report of Internal Control over Financial Reporting

As a non-SEC registrant, XYZ Holding Company, Inc. ("XYZ") is not required to prepare or file with the U.S. Securities and Exchange Commission a Sarbanes-Oxley Act Section 404 report on internal control over financial reporting. However, management has elected to prepare, and have audited by XYZ's independent certified public accountant, such a report for the fiscal year-ended December 31, 201X.

Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] the attached copy of XYZ's Section 404 Report for the fiscal year ended December 31, 201X, which includes Management's Report of Internal Control over Financial Reporting and report of independent registered public accounting firm on internal control over financial reporting for XYZ. In addition, an Addendum (Attachment A) is included to this report that identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Addendum to Management’s Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X**

For purposes of this addendum, the “Section 404 Report” means Management’s Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Annual Report to Stockholders. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B**XYZ Holding Company, Inc.****Management’s Report of Internal Control over Financial Reporting****List of Companies that are part of the Group of insurers****Pursuant to [relevant state statute or Section 17 of the Model]**

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE F: A COMPANY [OR “GROUP OF INSURERS”] THAT IS NOT SUBJECT TO SECTION 404 AND UTILIZED THEIR OWN FRAMEWORK TO EVALUATE CONTROLS**Management’s Report of Internal Control over Financial Reporting**

[As a non-SEC registrant, XYZ Holding Company, Inc. (“XYZ”) is not required to prepare or file with the U.S. Securities and Exchange Commission a Sarbanes-Oxley Act Section 404 report on internal control over financial reporting. Each of the insurance companies listed on Attachment A is a wholly owned subsidiary of XYZ. For the purpose of XYZ’s Management’s Report of Internal Control over Financial Reporting, management has identified its “Group of insurers,” as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment A.]

Management of ABC Insurance Company [or XYZ] is responsible for establishing and maintaining adequate internal control over statutory financial reporting. The Company has established an internal control system designed to provide reasonable assurance regarding the fair presentation of statutory financial reporting. The Company developed its own internal framework for evaluating the effectiveness of internal control over statutory financial reporting. The Company’s framework includes the identification and evaluation of the company’s internal control environment and areas of potential material internal control risk, documentation of existing internal controls, monitoring and testing of those key controls, documentation of remedial actions planned or taken, if any, and communication of the findings of the evaluation by the Company’s senior management to the Audit committee of the Board of Directors.

Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Company’s internal control over statutory financial reporting, which included identifying, reviewing, monitoring and testing significant internal controls over statutory financial reporting. Based on our assessment under the above described approach and through diligent inquiry, management has concluded that the Company’s internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Company’s internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Management's Report of Internal Control over Financial Reporting****List of Companies that are part of the Group of Insurers****Pursuant to [relevant state statute or Section 17 of the Model]**

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

Not for Distribution

EXAMPLE G: AN SEC REGISTRANT OR A MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT HAD ALL MATERIAL CONTROL PROCESSES ADDRESSED IN THEIR SECTION 404 REPORT AND HAD AN UNREMIEDIATED MATERIAL WEAKNESS

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly-owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

A material weakness was noted in XYZ's internal control over financial reporting related to the calculation of insurance reserves. Due to the manner in which the data for homeowners policies are captured by the systems used in its Southeastern US regional office, changes in XYZ's estimate of insurance reserves for certain policies are not reviewed by XYZ's Actuarial Department prior to being recorded in the company's accounting records.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected on a timely basis. In connection with the weakness noted above, XYZ's management has taken remedial actions to change its procedures for coding policies issued in the states affected so that all homeowners policy data are included in the Actuarial Department review of estimate of insurance reserves. This change was effective on July 1, 20XX.

As a result of the unremediated material weakness described above, XYZ management has concluded that, as of December 31, 201X, XYZ's internal control over statutory financial reporting was not effective.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A

XYZ Holding Company, Inc.

Addendum to Management's Report of Internal Control over Financial Reporting For the Year Ended December 31, 201X

For purposes of this addendum, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B

XYZ Holding Company Inc.

Management's Report of Internal Control over Financial Reporting

List of Companies that are part of the Group of insurers

Pursuant to [relevant state statute or Section 17 of the Model]

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE H: AN SEC REGISTRANT OR MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT DID NOT INCLUDE ALL MATERIAL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT AND HAD AN UNREMIEDIATED MATERIAL WEAKNESS NOTED

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly-owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness was noted in XYZ's internal control over financial reporting related to the calculation of insurance reserves. Due to the manner in which the data for homeowners policies are captured by the systems used in its Southeastern US regional office, changes in XYZ's estimate of insurance reserves for certain policies are not reviewed by XYZ's Actuarial Department prior to being recorded in the company's accounting records.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected on a timely basis. In connection with the assessment above, XYZ's management identified a material weakness as of December 31, 201X in the controls over the calculation of insurance reserves.

As a result of the unremediated material weakness described above, XYZ management has concluded that, as of December 31, 201X, XYZ's internal control over statutory financial reporting was not effective.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A

XYZ Holding Company, Inc.

Addendum to Management's Report of Internal Control over Financial Reporting For the Year Ended December 31, 201X

For purposes of this filing, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Company's Form 10-K/20-F. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that the only material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report are the processes discussed below. Management of XYZ hereby affirms that all other material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers were included in the Section 404 Report. The following statutory financial reporting processes were reviewed separately from the internal controls reported by the Group of insurers in its Section 404 report:

Significant Control Processes not tested due to Group Materiality Considerations

The Section 404 report excludes certain control processes deemed material to individual insurance legal entities included within the Group of insurers. This exclusion was due to group materiality decisions made at the parent company level. These processes, and the legal entities within the Group of insurers impacted, are listed as follows:

Workers' Compensation Claims Processing – The HIJ claims processing system is utilized to process workers' compensation claims material to ABC Insurance Subsidiary and DEF Insurance Subsidiary.

Related Party Transactions Eliminated through Consolidation

The Section 404 report does not consider controls surrounding related party transactions as the effects of those transactions are eliminated through consolidation at the holding company financial statement level. Significant related party transactions, and the legal entities within the Group of insurers impacted, are listed as follows:

Affiliate reinsurance agreements – A significant amount of reinsurance coverage is obtained by ABC Insurance Subsidiary and DEF Insurance Subsidiary through contracts with XYZ Parent Company.

Management service agreements – ABC Insurance Subsidiary receives all of its management services through an agreement with XYZ Parent Company.

Tax allocation agreements – ABC Insurance Subsidiary and DEF Insurance Subsidiary are subject to an intercompany tax allocation agreement with XYZ Parent Company.

Deferred Income Taxes

Federal income taxes are provided for XYZ's estimated current and deferred liability. Deferred taxes are provided for differences between the financial statement and tax bases of assets and liabilities. Pursuant to *SSAP No. 101—Income Taxes*, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus, while under GAAP/IFRS, these changes are included in income tax expense or benefit. Gross deferred tax assets not meeting the realization criteria outlined in *SSAP No. 101* are not admitted.

Nonadmitted Assets

Certain XYZ assets (principally furniture, equipment, prepaid expenses, agents' balances, and certain deferred tax assets) have been designated as nonadmitted assets under statutory accounting guidance (primarily in *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 20—Nonadmitted Assets*). Such nonadmitted assets are excluded from assets by a charge to statutory surplus. Under GAAP/IFRS, such amounts are carried at amortized cost with an appropriate valuation allowance, as necessary.

Asset Valuation Reserve (“AVR”)

The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve (“IMR”)

The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

Management of XYZ conducted an assessment of the internal controls over these processes and concluded that they were effective with respect to the audited statutory financial statements.

(Please note that this is not intended to be an all-inclusive list. It should only include material processes that were not covered in the Section 404 Report. The facts and circumstances of each situation will determine the items to be included.)

ATTACHMENT B

XYZ Holding Company, Inc.

Management's Report of Internal Control over Financial Reporting

List of Companies that are part of the Group of insurers

Pursuant to [relevant state statute or Section 17 of the Model]

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

EXAMPLE I: AN SEC REGISTRANT OR MEMBER OF A HOLDING COMPANY SYSTEM WHOSE PARENT IS AN SEC REGISTRANT THAT HAD ALL MATERIAL PROCESSES OVER STATUTORY FINANCIAL REPORTING ADDRESSED IN ITS SECTION 404 REPORT. HOWEVER, THEY RECENTLY ACQUIRED ANOTHER INSURER THAT IS NOT INCLUDED IN THEIR ASSESSMENT

Management's Report of Internal Control over Financial Reporting

XYZ Holding Company, Inc. ("XYZ") is required to file annual reports on Form 10-K/20-F with the U.S. Securities and Exchange Commission. Each of the insurance companies listed on Attachment B is a wholly owned subsidiary of XYZ. For the purpose of XYZ's Management's Report of Internal Control over Financial Reporting, management has identified its "Group of insurers," as that term is defined in [relevant state statute or Section 3H of the Model], as the insurance companies listed on Attachment B.

Management of XYZ is responsible for establishing and maintaining adequate internal control over statutory financial reporting. XYZ's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements in accordance with statutory accounting principles. Management conducted an assessment of the effectiveness, as of December 31, 201X, of the Group of insurers' internal control over statutory financial reporting, based on the framework established in *Internal Control—Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. This assessment excluded an evaluation of internal controls over financial reporting for RST Insurance Company which was recently acquired. Based on our assessment under that framework, management concluded that the Group of insurers' internal control over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 201X.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In satisfaction of the Group of insurers' obligation to deliver Management's Report of Internal Control over Financial Reporting for the fiscal year ended December 31, 201X, as permitted by [relevant state statute or Section 17C of the Model], XYZ is hereby providing the Insurance Commissioner of [domiciliary state] copies of Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting for XYZ included in XYZ's Form 10-K/20-F for the fiscal year ended December 31, 201X (or alternatively the Annual Report to Stockholders). In addition, an Addendum (Attachment A) is included to this report which identifies the material processes that were not included in the Section 404 Report (as defined in Attachment A).

Based on management review of internal controls, there were no unremediated material weaknesses as of December 31, 201X identified as part of the Group of insurers' internal control structure over the statutory financial statements for the year ended December 31, 201X.

(Signed) _____
(Chief Executive Officer)

(Date) _____

(Signed) _____
(Chief Financial Officer)

(Date) _____

ATTACHMENT A**XYZ Holding Company, Inc.****Addendum to Management's Report of Internal Control over Financial Reporting
For the Year Ended December 31, 201X**

For purposes of this addendum, the "Section 404 Report" means Management's Report of Internal Control over Financial Reporting and the report of independent registered public accounting firm on internal control over financial reporting contained in or incorporated by reference in the Form 10-K. Accordingly, as required by [relevant state statute or Section 17C of the Model], management of XYZ hereby affirms that there are no material processes with respect to the preparation of the audited statutory financial statements of the Group of insurers that were excluded from the Section 404 Report.

ATTACHMENT B**XYZ Holding Company, Inc.****Management's Report of Internal Control over Financial Reporting
List of Companies that are part of the Group of insurers
Pursuant to [relevant state statute or Section 17 of the Model]**

<u>Name</u>	<u>NAIC No</u>
ABC Insurance Subsidiary	12345
DEF Insurance Subsidiary	12346
GHI Insurance Subsidiary	12347
JKL Insurance Subsidiary	12348
MNO Insurance Subsidiary	12349

UPDATES

to the

As of March 2024

Accounting Practices and Procedures Manual

Adopted items will be uploaded to the Updates section of this Manual following each interim and national meeting of the Statutory Accounting Principles (E) Working Group.

LAST UPDATED:

- January 10, 2024 – Interim Meeting
- February 20, 2024 – Interim Meeting
- March 16, 2024 – Spring National Meeting
 - May 15, 2024 – Interim Meeting
- August 13, 2024 – Summer National Meeting

**Revisions to the
As of March 2023 Accounting Practices and Procedures Manual**

On **January 10, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2023 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
INT 23-04	SSAP No. 61R	Scottish Re Life Reinsurance Liquidation Questions <i>SAP Clarification</i> Effective (December 31, 2023)	<i>INT 23-04: Scottish Re Life Reinsurance Liquidation Questions</i> provides accounting and reporting guidance for ceding entities with reinsurance balances to or from Scottish Re, a U.S.-based life reinsurer in liquidation. The guidance focuses primarily on reinsurance recoverables.
2023-24	INT 06-07 SSAP No. 2R SSAP No. 5R SSAP No. 22R SSAP No. 26R SSAP No. 32R SSAP No. 34 SSAP No. 37 SSAP No. 39 SSAP No. 41R SSAP No. 43R SSAP No. 61R SSAP No. 62R SSAP No. 86 SSAP No. 103R SSAP No. 105R	ASU 2016-13 Measurement of Credit Losses on Financial Instruments (CECL) <i>SAP Clarification</i> Effective (December 31, 2023)	Revisions reject ASU 2016-13 and related subsequent ASUs in various SSAPs and <i>INT 06-07: Definition of Phrase “Other Than Temporary.”</i> These revisions reject CECL for statutory accounting.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/01 1-10-24/adoptions/00 - adoptions toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2024/01%201-10-24/adoptions/00%20-%20adoptions%20toc.docx)

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-04: Scottish Re Life Reinsurance Liquidation Questions

INT 23-04 Dates Discussed

October 23, 2023; October 24, 2023; December 1, 2023; January 10, 2024

INT 23-04 References

Current:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

INT 23-04 Issue

Background:

1. Liquidations of U.S. licensed reinsurers are uncommon. Due to a 2023 liquidation order of a U.S.-based life reinsurer, life industry cedents have requested an interpretation to address the accounting and reporting for reinsurance receivables from the reinsurer's estate. This interpretation is intended to be applied generically; however, the following circumstances are relevant to the accounting issues identified.

- a. The recent liquidation order was for Scottish Re, a U.S. life reinsurance entity, which was in regulatory supervision for several years.
- b. The life reinsurer was not assuming new business but was receiving ongoing premium on yearly renewable contracts.
- c. The 2023 liquidation order cancelled reinsurance contracts on a cut-off basis, effective September 30, 2023.
- d. Settlement from the reinsurer's estate is expected to exceed one year.
- e. Settlement from the reinsurer's estate to the ceding entities is expected to be less than 100%. That is, cedents are expected to receive a portion of what they are owed.
- f. Some ceding insurers established trusts to hold assets backing the reserves under the reinsurance agreements.

Interpretation Discussion

2. This interpretation is applicable only to the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

3. If a liquidation order cancels a life reinsurance contract on a cut-off basis, should the life reinsurance commutation guidance in *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* be used as the primary accounting guidance for the commutation?

INT 23-04: Life Reinsurance Liquidation Questions

4. Yes. SSAP No. 61R, paragraph 58, provides the primary guidance for a life reinsurance commutation. The guidance provides that:

Recaptures and Commutations

58. A recapture or a commutation of a reinsurance agreement is a transaction which results in the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreement or a portion of the agreement. Commuted and recaptured balances shall be accounted for by writing them off through the accounts, exhibits and schedules in which they were originally recorded. The assumed reserves and reserve credits taken are eliminated by the reinsurer and ceding entity, respectively. The reinsurer and ceding entity must also make any required IMR liability adjustment changes. Any net gain or loss is reported in the summary of operations.

Issue 2 – Impairment of Reinsurance Recoverables

5. The reinsurer that was previously in regulatory supervision and is now in liquidation was known to have financial difficulties and many ceding entities have either established valuation allowances and/or written off reinsurance recoverables as impairment losses. Questions have been received in response to the diversity in practice on whether the ceding entities were reporting impairment losses or were reporting a valuation allowance on all categories of their expected reinsurance recoverables from the reinsurer which is now in liquidation.

6. Do reporting entities have the choice of setting up a valuation allowance or applying the impairment guidance in SSAP No. 61R to the reinsurance recoverables from the life reinsurer in liquidation?

7. No. Reporting entities do not have a choice of a valuation allowance or applying impairment analysis. SSAP No. 61R, paragraph 42, requires impairment analysis of uncollectible reinsurance amounts in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset*. The guidance requires that impaired amounts shall be written off through a charge to the Statement of Operations utilizing the same accounts which established the reinsurance recoverables. SSAP No. 5R and SSAP No. 61R do not permit a valuation allowance.

8. The liquidation order of a reinsurer should prompt an impairment analysis of all amounts recoverable from the reinsurer with a write-off of amounts not expected to be recovered.

9. The impairment analysis shall be updated at every reporting date.

Issue 3 – Reporting of Reinsurance Recoverables

10. The liquidation order results in a commutation and recapture of business for the ceding entity. A liquidation will determine the reinsurer's estate assets, then determine payments based on liquidation priority. This will result in a delay in settlement from the estate of the reinsurer. As previously detailed, the amounts paid by the estate shall be impaired to the amount expected to be received by the ceding entities.

11. Where shall the ceding entity report the remaining receivables for the reinsurer's estate?

12. In accordance with the recapture and commutation guidance in SSAP No. 61R, paragraph 58 (quoted above), the ceding entity shall remove balances through the schedules and exhibits originally reported. No reserve credit or contra-liabilities shall be reported. The reinsurance reserve credits shall be removed. Gains or losses are reported in the summary of operations.

INT 23-04: Life Reinsurance Liquidation Questions

13. Based on preliminary information received, it is expected that there will be an amount receivable for paid claims incurred before the reinsurance contract cancellation. This amount shall be reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers.

14. Amounts recoverable from the reinsurer's estate for claims incurred before the reinsurance contract cancellation and unpaid as of the reporting date shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.

15. If the ceding entity owes amounts to the reinsurer's estate, the amounts shall be reported as a liability on line 9.3 - Other Amounts Payable on Reinsurance.

16. After impairing the recoverables, any other amount expected to be recovered from the reinsurer's estate shall be reported on line 25 Aggregate Write-ins for Other Than Invested Assets.

Issue 4 – Admissibility of Reinsurance Recoverables

17. As noted above, quarterly impairment analysis of collectability is required. After evaluating for impairment, if there are remaining receivables from the reinsurer's estate, do those assets qualify as admitted reinsurance recoverable assets?

18. Reinsurance recoverables from Scottish Re in liquidation are admitted as follows:

- a. The reinsurance recoverable amount from Scottish Re from paid claims incurred prior to the reinsurance contract cancellation which are reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers which are not in dispute are admitted after impairment review.
- b. To the extent reinsurance amounts recoverable are secured by assets in an Appendix A-785 - Credit for Reinsurance compliant trust, such recoverable amounts may be admitted to the extent the that the amounts are not in dispute and that the collateral in an Appendix A-785 compliant trust is sufficient.

19. Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust that is compliant with Appendix A-785.

Issue 5 – Disclosures

20. Do the relevant disclosures in SSAP No. 61R and other relevant SSAPs apply to a commuted life reinsurance contract which has not been fully settled due to a liquidation?

21. Yes. The relevant disclosures in SSAP No. 61R and other relevant SSAPs continue to apply to a life reinsurance contract which is commuted and recaptured due to a liquidation. These disclosures include but are not limited to the disclosures regarding commutation, uncollectible reinsurance and anything else that is required.

22. Disclosure in the reinsurance notes to the financial statements shall include additional information necessary to obtain an understanding of the impact of Scottish Re reinsurance counterparties in liquidation, including but not limited to, reinsurance payable liabilities, reinsurance recoverables by paid claims and other amounts, information regarding the status of any collateral and its fair value. Where applicable, reporting entities should disclose any individual components (e.g., unreimbursed claims or provisions for future losses) of recoverable amounts that are presented in the aggregate on the financial statements. The

INT 23-04: Life Reinsurance Liquidation Questions

disclosure shall include measurement, impairment and collectability of any reinsurance recoverables including timing of expected payments and nonadmitted amounts.

INT 23-04 Summary

23. Although readers should refer to the detailed guidance above, a summary of the key provisions is as follows:

- a. Issue 1 – Commutation or Recapture of a Life Reinsurance Contract: Follow SSAP No. 61R, paragraph 58, as it provides primary recapture and commutation guidance.
- b. Issue 2 – Impairment of Reinsurance Recoverables: SSAP No. 61R paragraph 42, requires impairment of uncollectible reinsurance in accordance with SSAP No. 5R.
- c. Issue 3 – Reporting of Reinsurance Recoverables: Follow the recapture and commutation guidance in SSAP No. 61R, then analyze for impairment. Report reinsurance payables separate from reinsurance recoverables. Amounts related to paid and unpaid claims incurred prior to reinsurance contract cancellation are reported on asset page line 16.1 - Amounts Recoverable from Reinsurers and asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts, respectively. Any remaining reinsurance recoverables from the reinsurance counterparty after impairment assessment shall be reported on the asset page line 25 Aggregate Write-ins for Other than Invested Assets.
- d. Issue 4 – Admissibility of Reinsurance Recoverables: Admit amounts related to claims incurred prior to contract cancellation which have been paid by the reporting entity as of the reporting date (reported on asset page line 16.1 - Amounts Recoverable from Reinsurers) which are not in dispute after impairment review. Admit reinsurance recoverables which are not in dispute, and which are secured by collateral in an A-785 compliant trust. Nonadmit all amounts recoverable from a life reinsurer in liquidation which are either in dispute or which are not secured by collateral in a trust compliant with Appendix A-785.
- e. Issue 5 – Disclosures: Follow existing applicable disclosures and provide additional information sufficient to understand the nature and impact of a reinsurance counterparty in liquidation as described in paragraph 22.

INT 23-04 Status

24. The consensuses in this interpretation were adopted on January 10, 2024, with an effective date of reporting periods on or after December 31, 2023.

25. No further discussion is planned.

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: ASU 2016-13 Measurement of Credit Losses on Financial Instruments

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In June 2016, the Financial Accounting Standards Board (FASB) issued *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* (CECL) to change impairment and credit loss United States generally accepted accounting principles (GAAP) guidance from an “incurred loss” methodology to an “expected loss” methodology. These changes were made primarily in response to the 2008 Great Recession in which companies were anticipating significant credit losses but were unable to record these losses as the probable threshold had not yet been met. In response to this issue, FASB established the Financial Crisis Advisory Group (FCAG) to advise FASB on improvements to financial reporting in response to the Great Recession. The main recommendation from the FCAG to FASB was to investigate improvements to impairment and credit loss guidance through the development of an alternative to the “incurred loss” methodology. Based on this recommendation FASB developed CECL which replaces the “incurred loss” methodology and provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. CECL affects all entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance recoverables and any other financial assets not specifically excluded that have the contractual right to receive cash. The impact from applying CECL is anticipated to vary by reporting entity in accordance with the credit quality of assets held and how they apply current GAAP.

One significant difference between previous GAAP and CECL is that the impairment guidance for in-scope assets were superseded and replaced with credit loss guidance under *Topic 326—Financial Instruments—Credit Losses*. Beyond consolidating new credit loss guidance into a single topic, CECL fundamentally changed the methodology for calculating and recording credit losses by replacing the incurred credit loss model with the expected credit loss model, which requires expected losses to be assessed and recorded at the onset of the acquisition of in-scope assets. This requirement is applicable for all in-scope assets unless management assesses that the asset represents a zero-risk transaction, U.S. Treasuries for example. As a result, the calculation of a credit loss allowance is now required for many assets which previously would have only recorded a credit loss allowance once it has occurred, or the probable threshold had been met. The asset categories scoped into the new CECL credit loss guidance are as follows:

- Financing Receivables
- Receivables from Sales-Type or Direct Finance Leases
- Related Party Accounts and Loans Receivable, excluding related parties under common control.
- All financial instruments held at Amortized Cost (categorized as Held to Maturity under GAAP), excluding purchased financial assets with credit deterioration (PCDs).
 - Includes but is not limited to debt securities, trade and time-share receivables, contract assets, and reinsurance recoverables.
- Off-balance-sheet credit exposures not accounted for as insurance.
 - Includes but is not limited to loan commitments, forward commitments to purchase loans, letters of credit, and financial guarantees.
- Cash Equivalents

While CECL does require the accrual of an allowance on expected credit losses, it does not require a specific evaluation method but rather adopts a principles-based approach which allows for any kind of credit loss evaluation if the end product of the evaluation meets certain defined criteria. Additionally, assets with similar risk profiles may be evaluated for expected credit losses collectively but these risk profiles must be assessed annually to determine if they remain similar. Note that Available for Sale securities are excluded from the expected credit loss methodology but are instead required to utilize a modified other-than-temporary impairment (OTTI) model detailed in Topic 326-30. The following information summarizes the key information on the accounting and reporting of credit losses under Topic 326:

Overview of CECL Concepts:

Accounting guidance is divided into securities reported at amortized cost (includes investment held at Held-to-Maturity, or HTM), and debt securities reported as available for sale (AFS), which reports fair value through OCI. The following reflects high-level concepts from CECL:

Amortized Cost Securities:

1. Allowance for credit losses is a valuation accounting that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected on the financial assets. Net income is adjusted to reflect the allowance for credit losses based on the current expected estimate. The allowance shall be reported at each reporting date. Changes from current estimates shall be compared to estimates previously reported, with adjustments reflected in net income.
2. The entity shall measure credit losses on a collective basis when similar risk characteristics exist. If a financial asset does not share risk characteristics with other assets, the entity shall evaluate the asset on an individual basis. (Should not include individual and collective assessments on the same asset.)
3. The entity shall estimate expected credit losses over the contractual terms of the financial assets, considering prepayments. However, it shall not extend the contractual term for expected extensions, renewals, and modifications unless there is a reasonable expectation of executing a troubled debt restructuring.
4. When developing an estimate, the entity shall consider available information relevant to assessing collectability of cash flows. This may include internal information, external information, or a combination of past events, current conditions and reasonable and supportable forecasts. (Internal information may be determined sufficient.)
5. Historical credit loss information for assets with similar characteristics generally provides a basis for expected losses, but entities shall not rely solely on past events to estimate expected credit losses. When using historical information, the entity shall consider the need to adjust for management expectations about current conditions and reasonable and supported forecasts that differ from the historical period.
6. Estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote. However, entities are not required to measure expected credit losses when the expectation of nonpayment of the amortized cost basis is zero.
7. Estimate of expected credit losses shall reflect how credit enhancements (other than freestanding contracts) mitigate expected credit losses. However, freestanding contracts shall not be used to offset expected losses.
8. Assets purchased with existing credit deterioration are initially reported at the purchase price plus the allowance for credit losses to determine the initial amortized cost basis. Any noncredit discount or premium shall be allocated to each individual asset. At the acquisition date, the initial allowance for credit losses determined on a collective basis shall be allocated to individual assets to appropriately allocate any noncredit discount or premium.

9. For collateral-dependent financial assets, entities shall measure expected credit losses based on the fair value of the collateral when the entity determines that foreclosure is probable. The entity may expect credit losses of zero when the fair value (less costs to sell) of the collateral at the reporting date is equal to or exceeds the amortized cost basis of the financial asset. If the collateral is less than the amortized cost basis, an entity shall recognize an allowance for credit losses as the difference between the collateral fair value and the amortized cost of the asset.
10. In the period when financial assets are deemed uncollectible, they shall be written off with a deduction from the allowance.
11. Detailed disclosures are included to enable users to understand: 1) credit risk inherent in a portfolio and how management monitors credit quality of a portfolio; 2) management's estimate of expected credit losses; and 3) changes in the estimate of expected credit losses that have occurred during the period. These disclosures include a rollforward of the allowance for credit losses and a reconciliation of the purchase price for assets purchased with credit deterioration.
12. Noted examples are included for collateral-dependent financial assets (real estate loans), assets with collateral maintenance provisions (reverse-repurchase agreements), and HTM debt securities when potential default is greater than zero, but expected nonpayment is zero (Treasury Securities).

Available-for-Sale Debt Securities

13. Investment is impaired if the fair value of the investment is less than amortized cost basis.
14. For individual AFS debt securities, the entity shall determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. Impairments related to credit losses shall be recorded through an allowance for credit losses. However, the allowance shall be limited by the amount that the fair value is less than the amortized cost basis.
15. At each reporting date, the entity shall record an allowance for credit losses that reflects the amount of impairment related to credit losses, limited by the fair value floor. Changes in the allowance shall be recorded in the period of the change as a credit loss expense (or reversal of credit loss expense).
16. Impairment shall be assessed at the individual security level. For example, debt securities bearing the same CUSIP – even if purchased in separate lots – may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized or unrealized gains and losses for the debt securities. Providing a general allowance for an unidentified investment in a portfolio of debt securities is not appropriate.
17. In assessing whether a credit loss exists, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists and an allowance for credit losses shall be recorded for the credit loss, limited by the amount that the fair value is less than amortized cost basis. Credit losses on an impaired security shall continue to be measured using the present value of expected future cash flows. (Entity would discount the expected cash flows at the effective interest risk implicit in the security at the date of acquisition.)
18. Estimates of expected future cash flows shall be on the entity's best estimate based on past events, current conditions and on reasonable and supportable forecasts.
19. If the entity intends to sell, or if more-likely-than-not will be required to sell before recovery of the amortized cost basis, any allowance for credit losses shall be written off and the amortized cost basis shall

be written down to the debt security's fair value at the reporting date with any incremental impairment reflected in earnings.

20. Entities shall reassess the credit losses each reporting period when there is an allowance for credit losses. Subsequent changes shall be recorded in the allowance for credit losses, with a corresponding adjustment in the credit loss expense. Entities are not permitted to reverse a previously recorded allowance for credit losses to an amount below zero.
21. Once an AFS debt security has been written down, the previous amortized cost basis less write-offs, including noncredit related impairment reported in earnings, shall become the new amortized cost basis, and shall not be adjusted for subsequent recoveries in fair value.
22. For AFS debt securities for which impairments were reported in earnings as a write-off because of an intent to sell or a more-likely-than-not requirement to sell, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. Over the life of the security, continue to estimate the present value of cash flows expected to be collected. For all other AFS debt securities, if there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, those changes shall be accounted for as a prospective adjustment to the yield. Subsequent increases in fair value after the write-down shall be included in other comprehensive income.
23. These AFS debt securities shall be presented on the balance sheet at fair value, with parenthetical presentation of the amortized cost and the allowance for credit losses. The allowance for credit losses shall be separately presented as a component of accumulated other comprehensive income.
24. Detailed disclosures are included to allow users to understand: 1) credit risk inherent in AFS debt securities; 2) management's estimate of credit losses; and 3) changes in the estimate of credit losses that have taken place during the period. These disclosures include detailed information for situations in which AFS securities are in an unrealized loss position, but the entity has reached a conclusion that an allowance for credit losses is unnecessary. Other key disclosures include the methodology and significant inputs used to measure credit loss, a rollforward of the allowance for credit losses, and a reconciliation of purchased financial assets with credit deterioration.
25. Noted examples are included for AFS debt securities in an unrealized loss position for which no credit losses are reported (situations include Treasury Securities, Federal Agency MBS, and Corporate Bonds).

Additionally, CECL would make changes to how companies account for off-balance sheet credit exposures. Traditionally, most credit exposures have had no financial impact outside of disclosures until the probable threshold has been met. However, as credit exposures are within the scope of CECL entities will likely be required to assess and accrue a credit loss allowance at the inception of the credit exposure.

CECL also includes revisions to various other elements of the FASB Codification – Contingencies, Guarantees, Troubled Debt Restructuring, Revenue, Business Combinations, Consolidation, Derivatives, Fair Value Measurement, Foreign Currency Transactions, Leases, Transfer and Servicing, Insurance, Financial Guarantee Contracts, & Health Care Entities. Staff will evaluate these changes in detail, and if these revisions are applicable to SAP, as CECL is considered.

Subsequent Revisions:

Several ASUs have been issued after CECL to provide clarification and improvements to the guidance in ASC Topic 326. Note that references to CECL are inclusive of these subsequent revisions. For the discussion at the 2023 Fall National Meeting, NAIC staff will include the following ASUs:

- *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, amends CECL guidance by providing clarification on two specific issues.
 - Issue 1 amended the transition date effective for nonpublic entities from 2020 to 2021 year-end.
 - Issue 2 clarifies that receivables from operating leases are not within the scope of CECL and should be accounted for in accordance with Topic 820.
- *ASU 2019-04, Codification Improvements to Topics 326, 815, 825*, addresses several topics, which are further disaggregated by issue, intended to clarify or correct the original CECL guidance. The Topics are numbered from 1-5 with several individual issues addressed within each Topic.
 - Topic 1 provides clarifications on accrued interest, transfers between categories/classifications of loans and debt securities, and recoveries on previously written off financial assets.
 - Topic 2 corrects cross-references, clarifies that reinsurance recoverables are within the scope of CECL, and provides methodological clarifications in several areas involving the calculation of credit loss reserves (see Issues 2D through 2F).
 - Topic 3 provides clarifications and corrections on several issues involving Fair Value Hedges and Hedge Accounting and clarifies that non-profit organizations that do not separately report earnings may not adopt the amortization approach as detailed for fair value hedging.
 - Topic 4 clarifies that Health and Welfare Benefit plans are not within the scope of CECL, that the scope of certain disclosures is limited to only public entities and clarifies guidance on alternative to fair value valuations.
 - Topic 5 clarifies the presentation of line of credit converted to debt items and whether entities should consider extension or renewals when calculating contract terms.
- *ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, amends the effective date for various ASUs. The transition date for CECL was moved to December 15, 2022, for all entities other than public SEC filers.
- *ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, addresses five issues identified with CECL.
 - Issues 1 and 2 involve clarifications and additional guidance on assets purchased with credit deterioration.
 - Issue 3 extends the disclosure relief detailed in ASU 2019-04 to additional disclosures on accrued interest receivables.
 - Issue 4 provides clarifications on CECL assessments which involve financial assets secured by collateral maintenance provisions.
 - Issue 5 corrects a cross-reference error.
- *ASU 2020-03 Codification Improvements to Financial Instruments* addresses several issues identified with CECL.
 - Issue 1 clarifies that all entities are required to provide the fair value option disclosures.
 - Issue 2 corrects certain paragraphs in Topic 820 to include the phrase nonfinancial items accounted for as derivatives under Topic 815 to be consistent with the previous amendments.
 - Issue 3 clarifies that the disclosure requirements in Topic 320 apply to the disclosure requirements in Topic 942 for depository and lending institutions.
 - Issues 4 and 5 correct and enhance various cross-references.
 - Issue 6 clarifies the correct contractual term used to measure the net investment in a lease.
 - Issue 7 clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326.

Staff Analysis:

The main purpose of statutory accounting principles (SAP) is to address the concerns of regulators, primarily as it relates to assessing solvency, who are the primary users of statutory financial statements. To do so, SAP stresses measurement of a company's ability to pay claims in the future and adopts reasonably conservative principles of accounting to ensure that insurance companies' capital and surplus is reflective of funds in excess of policyholder

liabilities which are available to pay claims should the assets backing reserves become insufficient. Risk-based capital then provides a basis for evaluating the sufficiency of this capital and surplus amount in the context of a particular company's risk-taking activities, including its exposure to credit risk. Capital requirements are calibrated to ensure sufficiency of capital even during periods of economic uncertainty and distress, within the intended level of statistical safety.

The statutory framework has long incorporated concepts that incorporate a prospective view of future credit risk that historical GAAP has not. The first is the Asset Valuation Reserve (AVR). AVR requires life insurance companies to establish a reserve to account for future impairment losses on all assets (with some minor exceptions). While this is much more formulaic than the allowance required under CECL, it is intended to accomplish the same objective. The second is that *SSAP No. 26R—Bonds* requires insurance companies that do not maintain AVR to report bonds at fair value if the bond is not considered high-quality (NAIC designations 3 to 6). While this requirement does not result in credit loss reserves, it does have a similar effect by requiring non-life companies to report lower quality bonds at fair value or convert previously highest or high-quality bonds to fair value in the event of credit quality degradation. Further, the RBC formula factors in the credit risk of each individual asset in calculating the amount of capital required to be held. These mechanisms incorporate an expectation of future credit losses. Therefore, while GAAP has just begun recognizing an expectation of future credit losses with the advent of CECL, the statutory framework has recognized and incorporated future credit loss potential for decades.

Although the statutory framework has long considered future credit losses, it is worth assessing CECL to determine whether it could introduce any improvements to the existing statutory framework if adopted. Based on the review performed, Staff does not recommend adoption of CECL for the following reasons:

- CECL is a framework that incorporates significant judgement and forecasting by the company to establish credit reserves. The assumptions and data that go into these estimates are required to be company-specific, reflecting the company's reasonable and supportable forecasts of future economic conditions. It also is required to consider current economic conditions, which results in sensitivity in the reserve to changing economic conditions. The statutory framework has historically limited insurer judgment in estimating reserves. Where judgment has been allowed, there are typically mechanisms in place to closely regulate and assess those assumptions for reasonableness. Further, loss reserves and RBC are generally set to already incorporate downside risk within a desired level of statistical safety. As the framework already incorporates an expectation of adverse experience, it is not particularly volatile with changes in economic conditions. It is intended to reflect risk through the economic cycle, not at a point in time. As a result of both the volatility and judgment involved, the CECL standard does not fit the overall design of the statutory accounting and solvency monitoring framework.
- CECL does not provide a specific method that companies must use to make expected loss estimates but is instead defined by several results-oriented principles. While this does allow companies the flexibility to adopt the forecasting process that best fits their investments and company, it also means that there will be a significant diversity in the methods used to calculate expected credit losses under CECL. Such optionality is generally not considered compatible with SAP and would also place a significant burden on regulators and examiners to assess the variety of forecasting methods utilized by insurance companies.
- The majority of insurance company investments are debt securities which are generally classified as Available for Sale (AFS) for GAAP reporting. Investments classified as AFS are held at fair value with changes in fair value recorded through other comprehensive income. The portion of the CECL standard that applies to AFS securities is markedly different than what applies to debt securities held at amortized cost. Unlike GAAP, statutory accounting requires the majority of debt securities to be held at amortized cost. As a result, using a CECL standard for statutory accounting would be significantly more expansive and impactful to a statutory balance sheet than under GAAP and would result in a significantly different application of CECL between statutory accounting and GAAP, even if the identical standard were adopted.
- CECL is a complex standard that requires companies to either develop internal models or to contract an external solution to support calculating a reserve. GAAP does allow companies to elect to hold their investments under the fair value option, in which case CECL is not required. This may be an appealing option for some insurers, particularly smaller ones that wish to avoid the operational cost of CECL. The

fair value option does not exist for statutory accounting. As such, adopting CECL would likely force insurers to incur the cost of CECL that would not otherwise be necessary for their GAAP financial statements.

- Similarly, many insurance companies do not prepare GAAP financial statements. This means that they would need to learn about and adopt CECL for the first time for their statutory financial statements if CECL were to be adopted.
- As RBC has its own methodology for incorporating credit risk, any CECL allowance would need to be reversed in the RBC formula in order to avoid double counting expected losses. This would largely eliminate any benefit of CECL to regulators' solvency monitoring efforts.

As a result of these factors, NAIC Staff does not recommend adopting CECL for statutory accounting.

Existing Authoritative Literature:

Existing SAP guidance has predominantly adopted (or adopted with modification) GAAP guidance pertaining to other-than-temporary impairment. However, the adopted guidance, although coming from GAAP, does not reflect GAAP concepts for similar securities. For example, the guidance in SSAP No. 26R reflects concepts from GAAP applicable for receivables and loans (e.g., it is probable that the entity will be unable to collect all amounts due accordingly to the contractual terms.) The guidance in SSAP No. 43R—*Loan-Backed and Structured Securities* is more comparable to current GAAP concepts applicable for both HTM and AFS debt securities (e.g., assessment of whether an entity will recover the amortized cost basis based on a review of the present value of cash flows.)

The GAAP categories for debt securities have previously been rejected for statutory accounting. As such, SAP does not include the classifications of "Held-to-Maturity," "Available-for-Sale" or "Trading" for debt securities. All debt securities are captured within SSAP No. 26R or SSAP No. 43R and reported at either amortized cost, or the lower of amortized cost or fair value, based on NAIC designation.

Existing Authoritative Literature:

INT 06-07: Definition of the Phrase "Other Than Temporary" – This INT reflects the adoption with modification of *FSP FAS 115-1/124-1: The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments*. **This FSP was subsequently included in the FASB Codification in ASC 320-10 and ASC 326-30 and this ASC guidance has been deleted (or significantly revised) with the issuance of ASU 2016-13.** (This INT has not been duplicated in this agenda item.)

Preamble – This guidance reflects some of the core principles of statutory accounting as it pertains to the Staff Analysis detailed above:

19. SAP is conservative in some respects but not unreasonably conservative over the span of economic cycles, or in recognition of the primary statutory responsibility to regulate for financial solvency. SAP attempts to determine at the financial statement date an insurer's ability to satisfy its obligations to its policyholders and creditors.

33. Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results. Statutory accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency. Valuation procedures should, to the extent possible, prevent sharp fluctuations in surplus.

SSAP No. 26R, Paragraphs 12-13 – This guidance reflects adoption of *FSP FAS 115-1/124-1: The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments*. **This FSP was subsequently included in the FASB Codification in ASC 320-10 and ASC 326-30 and this ASC guidance has been deleted (or significantly revised) with the issuance of ASU 2016-13.**

13. An other-than-temporary^(INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition.¹ A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.

14. In periods subsequent to the recognition of an other-than-temporary impairment loss for a bond, the reporting entity shall account for the other-than-temporarily impaired security as if the security had been purchased on the measurement date of the other-than-temporary impairment. The fair value of the bond on the measurement date shall become the new cost basis of the bond and the new cost basis shall not be adjusted for subsequent recoveries in fair value. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized over the remaining life of the security in the prospective manner based on the amount and timing of future estimated cash flows. The security shall continue to be subject to impairment analysis for each subsequent reporting period. Future declines in fair value which are determined to be other-than temporary shall be recorded as realized losses.

SSAP No. 43R, Paragraphs 12-13 – This guidance reflects concepts included within *FSP FAS 115-1/124-1: The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments*, as well the adoption of *EITF 99-20, Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security*, and *FSP ETIF 99-20-1, Amendments to the Impairment Guidance of ETIF Issue 99-20*. **The guidance reflected from this FSP was included in ASC 310-20, 325-40, and 326-30 and has been deleted or significantly revised with the issuance of ASU 2016-13:**

Collection of All Contractual Cashflows is Not Probable

19. The following guidance applies to loan-backed and structured securities with evidence of deterioration of credit quality since origination for which it is probable, either known at acquisition or identified during the holding period, that the investor will be unable to collect all contractually required payments receivable, except for those beneficial interests that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount determined at acquisition (see paragraphs 22-25).

20. The reporting entity shall recognize the excess of all cash flows expected at acquisition over the investor's initial investment in the loan-backed or structured security as interest income on an effective-yield basis over the life of the loan-backed or structured security (accretable yield). Any excess of contractually required cash flows over the cash flows expected to be collected is the nonaccretable difference. Expected prepayments shall be treated consistently for determining cash flows expected to be collected and projections of contractual cash flows such that the nonaccretable difference is not affected. Similarly, the difference between actual prepayments and expected prepayments shall not affect the nonaccretable difference.

21. An investor shall continue to estimate cash flows expected to be collected over the life of the loan-backed or structured security. If, upon subsequent evaluation:

¹ If a bond has been modified from original acquisition, the guidance in *SSAP No. 36—Troubled Debt Restructuring* and paragraph 22 of *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the modified contractual terms of the debt instrument.

- a. The fair value of the loan-backed or structured security has declined below its amortized cost basis, an entity shall determine whether the decline is other than temporary ^(INT 06-07). For example, if, based on current information and events, there is a decrease in cash flows expected to be collected (that is, the investor is unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with paragraph 19.b.), an other-than-temporary impairment shall be considered to have occurred. The investor shall consider both the timing and amount of cash flows expected to be collected in making a determination about whether there has been a decrease in cash flows expected to be collected.
- b. Based on current information and events, if there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall recalculate the amount of accretable yield for the loan-backed or structured security as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment less (2) cash collected less (3) other-than-temporary impairments plus (4) amount of yield accreted to date. The investor shall adjust the amount of accretable yield by reclassification from nonaccretable difference. The adjustment shall be accounted for as a change in estimate in conformity with SSAP No. 3—*Accounting Changes and Corrections of Errors* (SSAP No. 3), with the amount of periodic accretion adjusted over the remaining life of the loan-backed or structured security (prospective method).

Unrealized Gains and Losses and Impairment Guidance

29. For reporting entities required to maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with paragraph 36 of this statement. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

30. The application of this reporting requirement resulting from NAIC designation (i.e., lower of cost or fair value) is not a substitute for other-than-temporary impairment recognition (paragraphs 33-37). For securities reported at fair value where an other-than-temporary impairment has been determined to have occurred, the realized loss recognized from the other-than-temporary impairment shall first be applied towards the realization of any unrealized losses previously recorded as a result of fluctuations in the security's fair value due to the reporting requirements. After the recognition of the other-than-temporary impairment, the security shall continue to report unrealized gains and losses as a result of fluctuations in fair value.

31. If the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the impairment is other than temporary. Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized as a realized loss.

32. If an entity intends to sell the loan-backed or structured security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

33. If an entity does not intend to sell the loan-backed or structured security, the entity shall assess whether it has the intent and ability² to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. If the entity does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

34. If the entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the

² This assessment shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this statement (amortized cost).

security and the entity has the intent and ability to hold. Therefore, in those situations, an other-than-temporary impairment shall be considered to have occurred. (For mortgage-referenced securities, an OTTI is considered to have occurred when there has been a delinquency or other credit event in the referenced pool of mortgages such that the entity does not expect to recover the entire amortized cost basis of the security.) In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a non-interest related decline³ exists), and an other-than-temporary impairment shall be considered to have occurred. A decrease in cashflows expected to be collected on a loan-backed or structured security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cashflows expected to be collected.

35. In determining whether a non-interest related decline exists, an entity shall calculate the present value of cash flows expected to be collected based on an estimate of the expected future cash flows of the impaired loan-backed or structured security, discounted at the security's effective interest rate.

- a. For securities accounted for under paragraphs 14-18 – the effective interest rate of the loan-backed or structured security is the rate of return implicit in the security (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the security).
- b. For securities accounted for under paragraphs 19-21 – the effective interest rate is the rate implicit immediately prior to the recognition of the other-than-temporary impairment.
- c. For securities accounted for under paragraphs 22-25 – the reporting entity shall apply the guidance in paragraph 24.b.

36. When an other-than-temporary impairment has occurred because the entity intends to sell the security or has assessed that they do not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings as a realized loss shall equal the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. (This guidance includes loan-backed and structured securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized.)

37. When an other-than-temporary impairment has occurred because the entity does not expect to recover the entire amortized cost basis of the security even if the entity has no intent to sell and the entity has the intent and ability to hold, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate in accordance with paragraph 35. (This guidance includes loan-backed and structured securities previously held at lower of cost or market. For these securities, upon recognition of an other-than-temporary impairment, unrealized losses would be considered realized for the non-interest related decline. Hence, unrealized losses could continue to be reflected for these securities due to the reporting requirements.)

Reinsurance recoverables are explicitly included in the scope of the new CECL guidance, but only for “*expected losses related to the credit risk of the reinsurer/assuming company*” (326-20-55-82). The current existing statutory accounting guidance does not include the concept of reserving for expected credit losses. It should be noted that while not related to creditworthiness, *SSAP No. 62R—Property and Casualty Reinsurance* does include the concept

³ A non-interest related decline is a decline in value due to fundamental credit problems of the issuer. Fundamental credit problems exist with the issuer when there is evidence of financial difficulty that may result in the issuer being unable to pay principal or interest when due. An interest related decline in value may be due to both increases in the risk-free interest rate and general credit spread widening.

of the provision for reinsurance, which is more focused on known overdue/uncollectible reinsurance and does not take the creditworthiness of the reinsurer into the calculation. However, impairment analysis is required for reinsurance balances in both *SSAP No. 61R—Life, Deposit -Type and Accident and Health Reinsurance* and *SSAP No. 62R*.

Multiple other SSAPs are impacted by the updated guidance, and NAIC Staff has prepared tables in Exhibit 1 which provide detailed summarizations of the updates made by CECL.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

The following ASUs were issued after CECL as clarifications and improvements to the guidance in ASC Topic 326 but have already been addressed for statutory accounting purposes by the Working Group:

- *ASU 2019-05 Financial Instruments—Credit Losses (Topic 326)—Targeted Transition Relief* was assessed and rejected for statutory accounting purposes by the Working Group. For further details see Agenda Item 2019-28.
- *ASU 2022-02 Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures* was assessed and rejected for statutory accounting purposes by the Working Group. For further details see Agenda Item 2022-10.
- *ASU 2022-01 Derivatives and Hedging (Topic 815) Fair Value Hedging—Portfolio Layer Method* was assessed and adopted with modification for statutory accounting purposes by the Working Group. For further details see Agenda Item 2022-09.

Agenda item 2016-20 was started on CECL and last exposed for comment on August 4, 2018.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):

The credit losses project began as a joint project with the IASB, but the Boards determined that convergence was not possible in 2012 due to the differing needs of their respective stakeholder groups. The IASB issued *IFRS 9, Financial Instruments* in July 2014. The FASB and IASB both sought to respond to concerns identified pertaining to the delayed recognition of credit losses; however, the IASB's stakeholders strongly preferred an impairment model that uses a dual measurement approach, while U.S. stakeholders strongly preferred the current expected credit loss model.

The main difference between ASU 2016-13 and IFRS 9 relates to the timing of recognition of expected losses. The ASU requires that the full amount of expected credit losses be recorded for all financial assets measured at amortized cost, whereas IFRS 9 requires an allowance for credit losses equal to 12 months of expected credit losses until there is a significant increase in credit risk, at which point lifetime expected losses are recognized. Consequently, the allowance for credit losses as measured and recorded under the ASU will be accounted for differently under GAAP than under IFRS and will have a different effect on the financial statements.

Staff Recommendation:

Based on the Staff Analysis detailed on Pages 6-7, Staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to reject *ASU 2016-13 Measurement of Credit Losses on Financial Instruments* and other related ASUs (see "Subsequent Revisions" on page 5) within the following SSAPs:

- *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*
- *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*
- *SSAP No. 22R—Leases*

- SSAP No. 26R—Bonds
- SSAP No. 32R—Preferred Stock
- SSAP No. 34—Investment Income Due and Accrued
- SSAP No. 37—Mortgage Loans
- SSAP No. 39—Reverse Mortgages
- SSAP No. 41R—Surplus Notes
- SSAP No. 43R—Loan and Asset Backed Securities
- SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance
- SSAP No. 62R—Property and Casualty Reinsurance
- SSAP No. 86—Derivatives
- SSAP No. 103R—Transfer/Service of Financial Assets
- SSAP No. 105R—Working Capital Finance Investments
- INT 06-07: Definition of the Phrase “Other Than Temporary

Staff also recommends modifying *INT 06-07: Definition of Phrase “Other Than Temporary”* to clarify that companies should adhere to the impairment guidance detailed within the SSAPs, which may reflect U.S. GAAP guidance prior to the FASB’s issuance of ASU 2016-13.

Agenda item 2016-20 was started on CECL and last exposed for comment on August 4, 2018. Agenda item 2016-20 was reviewed by NAIC Staff, and we recommend it be formally disposed and replaced by this new agenda item.

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Relevant Literature

21. This statement rejects [*ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*](#). Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

43. This statement rejects [*ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*](#). Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 22R—Leases

53. This statement rejects [*ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\),*](#)

[ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 26R—Bonds

33. This statement rejects the GAAP guidance for debt securities, which is contained in *ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*, *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA*, and *FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115*. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 32R—Preferred Stock

21. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Emerging Issues Task Force No. 86-32, Early Extinguishment of a Subsidiary’s Mandatorily Redeemable Preferred Stock*. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 34—Investment Income Due and Accrued

9. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.](#)

Proposed Revisions to SSAP No. 37—Mortgage Loans

31. This statement rejects *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 88-17, Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations*, and *AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans*. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 39—Reverse Mortgages

Relevant Literature

17. This statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.*

Proposed Revisions to SSAP No. 41R—Surplus Notes

22. This statement rejects *AICPA Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes*, which requires surplus notes to be accounted for as debt and that interest be accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner. [This statement rejects ASU 2016-13 Financial Instruments—Credit Losses \(Topic 326\), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses \(Topic 326\), Derivatives and Hedging \(Topic 815\), and Leases \(Topic 842\), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.](#)

Proposed Revisions to SSAP No. 43R—Loan-Backed and Structured Securities

58. This statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.*

Proposed Revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

88. This statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842),*

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 62R—Property and Casualty Reinsurance

129. This statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 86—Derivatives

73. This statement rejects 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging. This statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 103R—Transfer/Service of Financial Assets

134. This statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 105R—Working Capital Finance Investments

Relevant Literature

32. This statement rejects *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments.*

Proposed Revisions to INT 06-07: Definition of Phrase “Other Than Temporary”

INT 06-07 Discussion

13. On xx/xx/2024, the Working Group rejected *ASU 2016-13 Measurement of Credit Losses on Financial Instruments* and other related ASUs. As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

Staff Review Completed by:

NAIC Staff – William Oden, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to reject ASU 2016-13, *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04, Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments*, within INT 06-07: Definition of Phrase “Other Than Temporary” and fifteen applicable SSAPs which are detailed above. The Working Group also moved agenda item 2026-20, which was started to address CECL, to the disposed listing. The Working Group directed NAIC staff to research how best to maintain pre-CECL GAAP impairment guidance for posterity.

On December 11, 2023, the Working Group chair approved an accelerated comment deadline that was requested by industry after the December 1, 2023 meeting. As a result, the comment deadline for the Fall National Meeting exposure of agenda item 2023-24 was shortened from February 4, 2024 to December 29, 2023, to allow the Working Group the ability to formally reject CECL and other related ASUs in January 2024.

On January 10, 2024, the Working adopted, as final, the exposed revisions, as detailed below, to INT 06-07 and SSAP Nos. 2R, 5R, 22R, 26R, 32R, 34, 37, 39, 41R, 61R, 62R, 86, 103R, and 105R to reject ASUs 2016-13, 2018-19, 2019-04, 2019-10, 2019-11, and 2020-03 as not applicable to statutory accounting. The Working Group also reiterated its direction to NAIC staff to research and prepare a document to maintain pre-CECL GAAP impairment guidance for posterity.

Note on January 10, 2024, Exposed Revisions: Subsequent to the Fall National Meeting Exposure, additional consistency revisions were made to the proposed revisions and are shown highlighted grey below for January 10, 2024, discussion. The sentence directing companies to continue applying the relevant statutory accounting impairment guidance was originally excluded from any revised SSAPs which was within scope of INT 06-07 as the INT already had this sentence. Staff later determined that it would be clearer and cleaner to have this sentence within all revised SSAPs. Additionally, Staff adjusted each of the revised SSAPs to specifically denote the effective date of the rejection.

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments

Relevant Literature

21. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets

43. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 22R—Leases

53. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 26R—Bonds

33. This statement rejects the GAAP guidance for debt securities, which is contained in ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, ASU 2016-01, Financial Instruments – Overall, FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, FASB Emerging Issues Task Force No. 89-18, Divestitures of Certain Investment Securities to an Unregulated Commonly Controlled Entity under FIRREA, and FASB Emerging Issues Task Force No. 96-10, Impact of Certain Transactions on Held-to-Maturity Classifications Under FASB Statement No. 115. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification

Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 32R—Preferred Stock

21. This statement rejects *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities*, *ASU 2016-01, Financial Instruments – Overall*, *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* and *FASB Emerging Issues Task Force No. 86-32, Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock*. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 34—Investment Income Due and Accrued

9. This statement adopts *FASB Staff Position 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, paragraph 16, with modification to be consistent with statutory language in the respective statutory accounting statements. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 37—Mortgage Loans

31. This statement rejects *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, *FASB Emerging Issues Task Force No. 88-17, Accounting for Fees and Costs Associated with Loan Syndications and Loan Participations*, and *AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans*. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB's issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 39—Reverse Mortgages

Relevant Literature

17. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 41R—Surplus Notes

22. This statement rejects AICPA Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes, which requires surplus notes to be accounted for as debt and that interest be accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 43R—Loan-Backed and Structured Securities

58. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

88. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 62R—Property and Casualty Reinsurance

129. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to

Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 86—Derivatives

73. This statement rejects 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2016-03, Intangibles—Goodwill and Other, Business Combinations, Consolidation, Derivatives and Hedging. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 103R—Transfer/Service of Financial Assets

134. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to SSAP No. 105R—Working Capital Finance Investments

Relevant Literature

32. Effective December 31, 2023, this statement rejects ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. Companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect U.S. GAAP guidance prior to FASB’s issuance of ASU 2016-13 and other related ASUs.

Proposed Revisions to INT 06-07: Definition of Phrase “Other Than Temporary”

INT 06-07 Discussion

13. On ~~xx/xx/2024~~, Effective December 31, 2023, The Working Group rejected *ASU 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, ASU 2019-04 Codification Improvements to Topics 326, 815, 825, ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, and ASU 2020-03 Codification Improvements to Financial Instruments. ASU 2016-13 Measurement of Credit Losses on Financial Instruments and other related ASUs.* As a result, companies should continue to apply the relevant statutory accounting impairment guidance, which may reflect prior U.S. GAAP guidance.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/011-10-24/01-23-24-ASU2016-13-CECL.docx>

Not for Distribution

Exhibit 1 – Summary of Changes from ASU 2016-13 and subsequent ASUs

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
Topic	Codification	Abbreviated Summary of Change	Related Paragraphs
Balance Sheet—Overall	210-10	Removal of disclosure guidance link.	45-15
Comprehensive Income—Overall	220-10	Supersede content and amend AFS guidance link.	45-10A 45-16A 55-15B
Statement of Cash Flows—Overall	230-10	Amends guidance to say amortized cost basis.	45-21
Interim Reporting—Overall	270-10	Amend guidance for new credit loss language and include references to transition guidance.	50-1
Receivables—Overall	310-10	Amends guidance for new CECL language, supersedes (or transfers to 326) several guidance paragraphs including OTTI, and adds new guidance on PCD interest income.	05-1 35-1 thru 49 35-53A thru C 45-1 45-4A 45-5 45-6 50-1 thru 35 55-1 thru 12 55-16 thru 22
Receivables—Nonrefundable Fees and Other Costs	310-20	Amends guidance for new CECL language and supersedes OTTI guidance.	15-3 15-4 35-9 60-1 60-2
Receivables—Loans and Debt Securities Acquired with	310-30	Supersedes entire subtopic and replaces with transition guidance.	All

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Deteriorated Credit Quality			
Receivables— Troubled Debt Restructurings by Creditors	310-40	Amends guidance for new CECL language, supersedes OTTI guidance, and eliminates exclusion of loan pools from the scope of 310-40.	15-11 15-12 35-7 thru 12 40-3 50-1 thru 6 55-7 55-13 thru 15
Investments—Debt Securities—Overall	320-10	Amends guidance for new CECL language and supersedes all OTTI and credit loss guidance.	15-4 15-9 15-10 35-1 35-17 thru 24 35-30 35-33A thru I 35-34 thru 37 35-43 40-1 40-2 45-7 thru 9A 50-1 thru 8B 55-16 thru 19 55-21A thru 23
Investments—Equity Method and Joint Ventures—Overall	323-10	Amendment conforms terminology to match CECL guidance.	35-25 55-30 55-34 55-38 55-42 55-44 55-46

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Investments—Other—Beneficial Interests in Securitized Financial Assets	325-40	Amends guidance for new CECL language and supersedes all OTTI and credit loss guidance. Also adds specific guidance for benefit interests acquired as with PCD and adds a requirement to use the PV of future cash flows to measure expected credit losses for benefit interests.	15-3 15-4 25-2 30-1 thru 2 35-2 thru 4C 35-6 35-6A thru 10B 35-13 35-14 55-1
Financial Instruments—Credit Losses	326-10 326-20 326-30	Creates Topic 326 codification; note that some guidance was moved from existing codification for inclusion within 326 and these transfers are underlined. Note that AFS and HTM classifications are not applicable for statutory accounting purposes.	All
Contingencies—Loss Contingencies	450-20	Amendment conforms terminology to match CECL guidance and includes codification links to topic 326.	15-2 50-2A 60-2 60-3
Guarantees—Overall	460-10	Amendment conforms terminology to match CECL guidance and requires that guarantees within the scope of 326 must bifurcate the instruments and apply Topic 326 guidance to the contingent portion and Topic 460 to the non-contingent portion.	25-2 25-3 30-5 35-3 35-4 45-1 50-4 50-5 55-21 55-22

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Debt —Troubled Debt Restructurings by Debtors	470-60	Amendment conforms terminology to match CECL guidance.	15-3 15-12
Revenue from Contracts with Customers—Overall	606-10	Amendment conforms terminology to match CECL guidance and includes codification links to topic 326.	45-3 45-4 50-4 55-108 55-109 55-231 55-237 55-239
Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	805-20	Amendment conforms terminology to match CECL and guidance on recording PCD assets which are within the scope of CECL or are purchased with credit deterioration. Additionally, guidance was simplified for indemnification assets arising from government-assisted acquisitions of a financial institution.	30-2 30-4 thru 4B 30-10 30-12 30-26 35-4B
Consolidation—Overall	810-10	Amendment conforms terminology to match CECL guidance.	30-8C
Derivatives and Hedging—Overall	815-10	Amends guidance for new CECL language and supersedes OTTI guidance.	35-5
Derivatives and Hedging—Embedded Derivatives	815-15	Amends OTI guidance to instead direct reader to Topic 326.	25-5
Derivatives and Hedging—Fair Value Hedges	815-25	Amendments conforms terminology to match CECL guidance and includes codification links to topic 326.	35-10 thru 12 55-85 thru 90
Derivatives and Hedging—Cash Flow Hedges	815-30	Amendment conforms terminology to match CECL guidance.	35-42 35-43

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Fair Value Measurement—Overall	820-10	Amendment conforms terminology to match CECL guidance.	55-92
Financial Instruments—Overall	825-10	Amendment conforms terminology to match CECL guidance and supersedes old credit loss guidance.	05-2 25-4 35-1 thru 3 55-8 55-10
Foreign Currency Matters—Foreign Currency Transactions	830-20	Amendment conforms terminology to match CECL guidance and supersedes old AFS guidance for foreign currency debt securities.	35-6 35-7
Interest—Overall	835-10	Amendment supersedes interest income recognition on impaired or deteriorated credit quality loans.	60-2 60-3
Leases—Lessor	842-30	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance/terminology with credit loss guidance.	25-2 25-6 25-9 35-3 40-2
Leases—Leveraged Lease Arrangements	842-50	Amendment removes original OTTI reference and adds codification references to Topic 326.	50-2
Subsequent Events—Overall	855-10	Amendment conforms terminology to match CECL guidance and remove examples now subject to Topic 326.	55-1 55-2
Transfers and Servicing—Sales of Financial Assets	860-20	Amendment conforms terminology to match CECL guidance and adds reference links to Topic 326 for the sale of financial assets which are receivables, purchased financial asset with credit deterioration, or is a beneficial interest that meets the criteria in paragraph 325-40-30-1A.	30-2 35-3 35-9 50-5 55-19
Financial Services—Depository and	942-230	Amendment terminology in implementation illustration to match CECL guidance.	55-2 55-4

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Lending—Statement of Cash Flows			
Financial Services— Depository and Lending— Receivables	942-310	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance.	05-1 05-4 25-1 35-1 55-1
Financial Services— Insurance—Insurance Activities	944-20	Amendment removes impairment guidance/terminology.	55-37
Financial Services— Insurance—Separate Accounts	944-80	Amendment supersedes impairment and unrealized gain/loss guidance/terminology with credit loss guidance.	25-9 55-11 55-16
Financial Services— Insurance— Receivables	944-310	Amendment conforms terminology to match CECL guidance and adds requirement to assess credit losses on insurance receivables and references to Topic 326.	35-3 35-4 35-6 45-4 45-4A
Financial Services— Mortgage Banking— Receivables	948-310	Amendment conforms terminology to match CECL guidance and supersedes impairment guidance with Topic 326.	30-1 30-4 35-1 thru 3 35-5 35-5A 50-1
Health Care Entities— Income Statement	954-225	Amendment replaces impairment reference with credit loss language.	45-8
Health Care Entities— Receivables	954-310	Amendment replaces uncollectible accounts guidance with credit loss guidance.	30-1 35-1
Not-for-Profit Entities— Investments—Debt and Equity Securities	958-320	Amendment replaces impairment guidance with credit loss guidance.	55-5

ASU 2016-13 Financial Instruments—Credit Losses (Topic 326)			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Not-for-Profit Entities— Investments—Other	958-325	Amendment replaces impairment guidance with credit loss guidance.	30-1 35-1
Real Estate—Time- Sharing Activities— Receivables	978-310	Amendment replaces uncollectible accounts guidance with credit loss guidance.	35-5 35-6

ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Overall	326-10	Extends effective date of CECL from 2020 to 2021.	65-1
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	Add clarification that operating lease receivables are in scope of Topic 842.	15-3
Various	Various	Amend the transition dates of all pending content paragraphs that link to transition guidance paragraph 326-10-65-1 from 2020 to 2021.	Various

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments related to accrued interest receivables provide an entity with the ability to measure an allowance for credit losses on accrued interest receivables separately from the allowance for credit losses on the other components of the amortized cost basis and to make certain accounting policy elections and apply a practical expedient to operationalize the amendments in Update 2016-13.	30-5 30-5A 35-8A 45-5 50-3A thru 3D 30-1A 30-1B 35-13A 45-1 50-3A thru 4
Receivables—Overall & Investments—Debt Securities—Overall & Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Services—Mortgage Banking—Receivables	310-10 & 320-10 & 326-20 & 948-10	The amendments related to transfers between classifications or categories for nonmortgage loans and debt securities provide an entity with guidance on how to account for the allowance for credit losses or the valuation allowance when transferring loans and debt securities.	35-47 thru 48B 45-2 35-10 thru 10B 35-15 35-16 45-8B 55-24 55-25 35-7 30-4 35-2A 35-5A 45-2
Financial Instruments—Credit Losses—Measured at Amortized Cost &	326-20 & 326-30	The amendments clarify that an entity should consider expected recoveries when measuring the allowance for credit losses by superseding the guidance in paragraphs 326-20-35-8 through 35-9 that may have precluded an entity from	30-1 35-4 35-5 35-8 35-9

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Available-for-Sale Debt Securities		considering recoveries when estimating expected credit losses on financial assets measured at amortized cost basis. Additionally, the amendments clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by the entity.	50-13 55-52 35-12 35-13
Receivables—Troubled Debt Restructurings by Creditors	310-40	The amendment clarifies paragraph 310-40-55-14 by removing the incorrect cross-reference to paragraph 326-20-35-2 and, instead, properly cross-referencing paragraphs 326-20-35-4 through 35-5, which require that an entity use 41 the fair value	55-14
Investments—Equity Method and Joint Ventures—Overall	323-10	The amendment to paragraph 323-10-35-26 clarifies the guidance by including references to both Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, and Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities, to require the subsequent measurement of credit losses on financial assets after the guidance on equity method losses is applied.	35-24 35-26
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments clarify that reinsurance recoverables that result from insurance transactions that are within the scope of Topic 944, Financial Services—Insurance, are within the scope of Subtopic 326-20 even if those reinsurance recoverables are measured on a net present value basis in accordance with Topic 944.	05-1 15-2
Financial Instruments—Credit	326-20 &	The amendments clarify the Board’s intent for how an entity should determine the effective	30-4

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-30	interest rate and estimated expected future cash flows by removing the prohibition in the guidance and requiring that the projections used for determining the effective interest rate also be used in determining the estimated expected future cash flows. The amendments also clarify that if an entity projects future interest rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments, then the entity should adjust the effective interest rate to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments.	35-11
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-20 & 326-30	The amendments in paragraph 326-20-30-4A permit an entity to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows of a financial asset. The amendments also clarify that an entity should not adjust the effective interest rate used to discount expected cash flows for subsequent changes in expected prepayments if the financial asset is restructured in a troubled debt restructuring. Paragraph 326-30-35-7A was also amended to allow an entity to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows of a debt security classified as available-for-sale	30-4A 35-7A
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments clarify the guidance and align the measurement of credit losses using fair value of collateral when foreclosure is probable and when an entity elects the collateral-dependent	35-4 35-5

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		practical expedient by adding a requirement to adjust the fair value of the collateral for estimated costs to sell in paragraph 326- 20-35-4. Additionally, the amendments clarify the guidance that when an entity adjusts the fair value of the collateral for the estimated costs to sell, the estimated costs to sell should be undiscounted if the entity intends to sell rather than operate the collateral.	
Derivatives and Hedging—Hedging—General & Derivatives and Hedging—Fair Value Hedges	815-20 & 815-25	The amendments clarify that an entity may measure the change in fair value of a hedged item using an assumed term only for changes attributable to interest rate risk. They also clarify that an entity may measure the change in the fair value of the hedged item attributable to interest rate risk using an assumed term when the hedged item is designated in a hedge of both interest rate risk and foreign exchange risk. In addition, the amendments clarify that one or more separately designated partial term fair value hedging relationships of a single financial instrument can be outstanding at the same time.	25-12 35-13B 55-99
Derivatives and Hedging—Fair Value Hedges	815-25	The amendments clarify that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued. They also clarify that if an entity elects to amortize the basis adjustment during an outstanding partial-term hedge, the basis adjustment should be fully amortized by the hedged item's assumed maturity date in accordance with paragraph 815-25-35-13B.	35-9A

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Derivative and Hedging—Overall	815-10	The amendments clarify that an entity should disclose available-for-sale debt securities at their amortized cost and that fair value hedge basis adjustments related to foreign exchange risk should be excluded from the disclosures required by paragraph 815-10-50-4EE.	4EE
Derivatives and Hedging—Cash Flow Hedges	815-30	The amendment clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.	35-26
Derivative and Hedging—Overall & Derivatives and Hedging—Hedging—General	815-10 & 815-20	The amendments clarify that a not-for-profit entity that does not separately report earnings is not permitted to elect the amortization approach for amounts excluded from the assessment of effectiveness under fair value hedge accounting. The amendments also update the cross-references in paragraph 815-10-15-1 to further clarify the scope of Topic 815, Derivatives and Hedging, for entities that do not report earnings separately.	15-1 15-1 25-12
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify that a private company that is not a financial institution as described in paragraph 942-320-50-1 should document the analysis supporting a last-of-layer designation concurrently with hedge inception. The amendments also clarify that not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) qualify for the same 60 subsequent quarterly hedge effectiveness assessment timing relief for which certain private companies qualify in accordance with paragraph 815-20-25-142.	25-139 25-143

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify that the application of the first payments-received cash flow hedging technique to changes in overall cash flows on a group of variable interest payments continues to be permitted under Topic 815, Derivatives and Hedging.	55-33G
Derivatives and Hedging—Hedging—General	815-20	The amendments clarify various provisions to the amendments in Update 2017-12.	65-3 65-5
Investments—Debt Securities—Overall & Investments—Equity Securities—Overall	320-10 & 321-10	The amendments clarify the guidance in paragraphs 320-10-15-3 and 321-10-15-3, including adding health and welfare plans to the list of entities for which Topic 320, Investments—Debt Securities, does not apply.	15-3 15-3
Investments—Debt Securities—Overall & Financial Services—Depository and Lending—Investments—Debt and Equity Securities	320-10 & 942-320	The Board intended to eliminate all fair value disclosures for financial assets measured at amortized cost basis for entities other than public business entities through the amendments in Update 2016-01. The amendments clarify the guidance in paragraph 320-10-50-5 by eliminating the requirement for entities other than public business entities to disclose aggregate fair value of held-to maturity debt securities.	50-5 50-5A 50-3 50-3A
Investments—Equity Securities—Overall	321-10	The amendments clarify that all adjustments made under the measurement alternative upon the identified remeasurement events should be accounted for in accordance with Topic 820.	35-2 50-2B
Foreign Currency Matters—Overall & Financial Instruments—Overall	830-10 & 825-10	The amendments clarify that an entity is required to follow paragraph 830-10-45-18 for equity securities without readily determinable fair values accounted for under the measurement alternative in accordance with paragraph 321-10-35-2. Paragraph 830-10-45-18 requires remeasurement	45-18 65-5

ASU 2019-04 Codification Improvements to Topics 326, 815, and 825			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		at historical exchange rates. The amendments to paragraph 830-10-45-18(a)(1) and (a)(2) are not intended to change items that should be remeasured at historical exchange rates.	
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendments require an entity to present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column, as illustrated in Example 15.	50-6A 50-7 55-79
Financial Instruments—Credit Losses—Measured at Amortized Cost & Financial Instruments—Credit Losses—Overall	326-20 & 326-10	The amendments clarify that an entity should consider extension or renewal options (excluding those that are accounted for as a derivative in Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.	30-6 65-1 65-2

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendment intends to clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by an entity. In addition, the amendments clarify that when a method other than a discounted cash flow method is used to estimate credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount; however, an entity may include increases in expected cash flows after acquisition	30-13 and 30-13A 55-86 thru 90
Financial Instruments—Credit Losses—Overall	326-10	The Board did not intend to introduce significant operational complexities when measuring expected credit losses on preexisting troubled debt restructurings. As a result, the amendment allows entities an accounting policy election to calculate the prepayment-adjusted effective interest rate on preexisting troubled debt restructurings using the prepayment assumptions that exist as of the date that an entity adopts the amendments in Update 2016-13, instead of the prepayment-adjusted effective interest rate immediately before the restructuring date.	65-1
Investments—Debt and Equity Securities—Overall	320-10	The amendment provides a practical expedient that allows an entity to exclude accrued interest receivable balances from the disclosure requirements in paragraphs 326-20-50-4 through 50-22 and 326-30-50-4	50-2A 50-5C

ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		through 50-10. The amendments in this Update extend the disclosure relief for accrued interest receivable balances as permitted in Update 2019-04 to certain other Topics in the Codification.	
Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20	The amendment clarifies that an entity should reasonably expect the borrower to continually replenish collateral securing the financial asset(s) in accordance with the contractual terms of the financial asset to apply the practical 15 expedient. An entity is not required to consider remote scenarios in making this determination.	35-6
Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest & Financial Instruments—Credit Losses—Overall	805-20 & 326-10	The amendment clarifies paragraph 805-20-50-1 by removing the cross reference to Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, which was superseded by Update 2016-13. The amendment instead correctly cross-references the guidance for purchased financial assets with credit deterioration in Subtopic 326-20.	50-1 65-4

ASU 2020-03 Codification Improvements to Financial Instruments			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
Financial Instruments—Overall	825-10	Amendment clarifies that because financial assets and financial liabilities on which the fair value option have been elected are measured at fair value and not at amortized cost basis, all entities are subject to the fair value option disclosures in paragraphs 825-10-50-24 through 50-32.	50-23A 65-7
Fair Value Measurement—Overall	820-10	The amendments clarify the applicability of the portfolio exception in Subtopic 820-10, Fair Value Measurement—Overall, to nonfinancial items accounted for as derivatives under Topic 815, Derivatives and Hedging.	35-2A 35-18L
Financial Services— Depository and Lending— Investments—Debt and Equity Securities & Financial Instruments—Overall	942-320 & 825-10	The amendments on certain disclosures for depository and lending institutions clarify that the disclosure requirements in paragraphs 320-10-50-3 and 320-10-50-5 through 50-5C apply to the disclosure requirements in paragraphs 942-320-50-3 through 50-3A.	50-1 50-3 50-3A 65-5
Debt—Modifications and Extinguishments	470-50	The amendments clarify that paragraphs 470-50-40-17 through 40-18, which describe the accounting for fees between the debtor and creditor and third-party costs, respectively, directly related to exchanges or modifications of debt instruments, reference paragraph 470-50-40-21 for the accounting for modifications to or exchanges of line-of-credit or revolving-debt arrangements.	40-17 40-18 40-21
Fair Value Measurement—Overall	820-10	The amendment clarifies that the disclosure requirements in paragraph 820-10-50-2 do not	50-2

ASU 2020-03 Codification Improvements to Financial Instruments			
<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>
		apply to entities using the net asset value per share (or its equivalent) practical expedient.	
Financial Instruments— Credit Losses— Measured at Amortized Cost & Financial Instruments— Credit Losses—Overall	326-20 & 326-10	The amendments align the contractual term to measure expected credit losses for a net investment in a lease under Topic 326 to be consistent with the lease term determined under Topic 842.	30-6A 55-8 65-4
Transfers and Servicing—Sales of Financial Assets	860-20	The amendments relate to the interaction of the guidance in Topic 326 and Subtopic 860-20, Transfers and Servicing—Sales of Financial Assets. The amendments to Subtopic 860-20 clarify that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326.	25-13

**Revisions to the
As of March 2024 Accounting Practices and Procedures Manual**

On **February 20, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2023-28	SSAP No. 21R	Collateral Loan Reporting <i>SAP Clarification</i> Effective Year End 2024	Adopted revisions to SSAP No. 21R incorporate a collateral loan disclosure for year-end 2024 to detail admitted and nonadmitted collateral loans in accordance with the underlying collateral supporting the loan

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/02-20-24/adoptions/00 - adoptions toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2024/02-20-24/adoptions/00%20-%20options%20toc.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Collateral Loan Reporting

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to propose an expansion of reporting for collateral loans on Schedule BA to enable regulators the ability to quickly identify the type of collateral in support of admittance of collateral loans in scope of *SSAP No. 21R—Other Admitted Assets*. This agenda item has been drafted in response to comments that the current reporting detail on Schedule BA does not provide sufficient clarity on the type of collateral used in support of admittance of collateral loans. Furthermore, with the adoption of agenda item 2022-11, the statutory accounting guidance has been clarified that the collateral must reflect a qualifying investment, meaning that it would qualify for admittance if held directly by the insurer. This amendment further clarified that collateral that represents an investment in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiary, Controlled or Affiliated Entities* is required to be audited consistent with the admittance requirements of those SSAPs.

As detailed within, this agenda item proposes new disclosure requirements in SSAP No. 21R for collateral loans. The new disclosure requirement is proposed to be satisfied by an expansion of the reporting on Schedule BA, so that the collateral loans are separated by the type of collateral investment that secures the loan. Additionally, a new aggregated data-captured note is proposed to identify the admitted and nonadmitted collateral loans by the type of collateral that secures the loan.

Existing Authoritative Literature:

- **SSAP No. 21R—Other Admitted Assets - (Tracking shows the edits adopted on Oct. 23, 2023.)**

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of a qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. **Loan Impairment**—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;
- b. **Nonadmitted Asset**—In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, SSAP No. 26R—*Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of Appendix A-001—Investments of Reporting Entities which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and/or SSAP No. 97.

Effective Date and Transition

22. ____ This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4, requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

- **A/S Blank and Instructions** (*This reflects what is proposed to be adopted in 2023-12BWG.*)

Collateral Loans	
Unaffiliated.....	3199999
Affiliated.....	3299999

Collateral Loans

Include: Refer to SSAP No. 21R—Other Admitted Assets for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Agenda Item 2022-11: Collateral for Loans clarified guidance on the criteria for collateral in order for a collateral loan to qualify as an admitted asset.
- Blanks Agenda Item 2023-12BWG incorporates revisions as part of the bond project to capture debt securities that do not qualify as bonds on Schedule BA. The revisions within this blanks item incorporate minor revisions to the instructions for collateral loans.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A**Recommendation:**

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose this agenda item with proposed revisions to incorporate a new disclosure to SSAP No. 21R, for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. NAIC staff recommends that the Working Group direct a corresponding blanks proposal to allow for concurrent exposure.

Proposed Revisions to SSAP No. 21R: *(Only new edits are tracked. Prior adopted revisions are shown clean.)*

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of a qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets*;
- b. Nonadmitted Asset—In accordance with SSAP No. 20—*Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans and the collateral loans admitted and nonadmitted by qualifying investment type.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, SSAP No. 26R—*Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Proposed Schedule BA Reporting Changes:

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2R)Unaffiliated.....Affiliated.....Bonds (SSAP No. 26R)Unaffiliated.....Affiliated.....Asset-Backed Securities (SSAP No. 43R)Unaffiliated.....Affiliated.....Preferred Stocks (SSAP No. 32R)Unaffiliated.....Affiliated.....Common Stocks (SSAP No. 30R)Unaffiliated.....Affiliated.....Mortgage Loans (SSAP No. 37R)Unaffiliated.....Affiliated.....Real Estate (SSAP No. 40R)Unaffiliated.....Affiliated.....Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48R)Unaffiliated.....Affiliated.....Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)Unaffiliated.....Affiliated.....Other Qualifying Investment CategoryUnaffiliated.....Affiliated.....Collateral Does Not Qualify as an InvestmentUnaffiliated.....Affiliated.....

Collateral Loans

Include: Refer to SSAP No. 21R—Other Admitted Assets for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Classify the collateral loan in accordance with the type of collateral held, such that if the loan was to default and the collateral was to be claimed by the reporting entity, where it would be captured (investment type by SSAP) as a directly-held investment. If more than one form of collateral secures the loan, classification should occur based on the primary collateral source. The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets.

Proposed Data-Captured Disclosure:Aggregate Collateral Loans by Qualifying Investment Collateral:

<u>Collateral Type</u>	<u>Aggregate Collateral Loan</u>	<u>Admitted</u>	<u>Nonadmitted</u>
<u>Cash, Cash Equivalents & ST Investments</u>			
<u>Bonds</u>			
<u>Asset-Backed Securities</u>			
<u>Preferred Stocks</u>			
<u>Common Stocks</u>			
<u>Real Estate</u>			
<u>Mortgage Loans</u>			
<u>Joint Ventures, Partnerships, LLC</u>			
<u>Subsidiary, Affiliated and Controlled Entities</u>			
<u>Other Qualifying Investments</u>			
<u>Collateral Does not Qualify as an Investment</u>			
<u>Total</u>			

Pursuant to SSAP No. 21R, nonadmittance of a collateral loan is required when the fair value of the collateral is not sufficient to cover the collateral loan or if the collateral securing the loan is not a qualifying investment. This includes situations in which collateral in form of joint ventures, partnerships, LLCs or SCAs is not supported by an audit as required by SSAP No. 48 or SSAP No. 97.

The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets. All collateral loans secured by collateral that does not qualify as an investment are is required to be nonadmitted under SSAP No. 21R.

Staff Review Completed by: Julie Gann - NAIC Staff, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to incorporate a new disclosure to SSAP No. 21R for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. Comments are requested on whether any of the proposed reporting lines should be combined.

On February 20, 2023, the Statutory Accounting Principles (E) Working Group took the following two actions:

- 1) The Working Group **adopted** the exposed revisions to SSAP No. 21R incorporating a collateral loan disclosure for year-end 2024. With this adoption, the Working Group sponsored a blanks proposal to data-capture the disclosure. Adopted revisions to SSAP No. 21R are shown below:

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.

- 2) The Working Group exposed proposed reporting lines to Schedule BA for collateral loans with a comment deadline of April 19, 2024. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

February 20, 2024, Exposed Schedule BA Reporting Changes:

(Tracking shows changes from the prior exposure.)

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

~~Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2R)~~

~~Unaffiliated.....~~
~~Affiliated.....~~

~~Bonds and Asset-Backed Securities (SSAP No. 26R & SSAP No. 43R)~~

~~Unaffiliated.....~~
~~Affiliated.....~~

~~Asset-Backed Securities (SSAP No. 43R)~~

~~Unaffiliated.....~~
~~Affiliated.....~~

Preferred Stocks (SSAP No. 32R)

Unaffiliated.....
 Affiliated.....

Common Stocks (SSAP No. 30R)

Unaffiliated.....
 Affiliated.....

Mortgage Loans (SSAP No. 37R)

Unaffiliated.....
 Affiliated.....

Real Estate (SSAP No. 40R)

Unaffiliated.....
 Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48)

Fixed Income Investments (Unaffiliated)
Fixed Income Investments (Affiliated)

Common Stocks (Unaffiliated)
Common Stocks (Affiliated)

Real Estate (Unaffiliated)
Real Estate (Affiliated)

Mortgage Loans (Unaffiliated)
Mortgage Loans (Affiliated)

Other (Unaffiliated)
Other (Affiliated)

Unaffiliated.....
Affiliated.....

Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)

Unaffiliated.....
Affiliated.....

Other ~~Qualifying~~ Investment Category

Cash, Cash Equivalent and Short-Term Investments (Unaffiliated)
Cash, Cash Equivalent and Short-Term Investments (Affiliated)

Other Long-Term Invested Assets (Unaffiliated)
Other Long-Term Invested Assets (Affiliated)

Unaffiliated.....
Affiliated.....

Collateral Does Not Qualify as an Investment

Unaffiliated.....
Affiliated.....

Non-Collateral Loans

Related Party/Affiliated Loans
All Other Non-Collateral Loans

Unaffiliated.....
Affiliated.....

**Revisions to the
As of March 2024, Accounting Practices and Procedures Manual**

On **March 16, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2019-21	SSAP No. 21R	Principles-Based Bond Project & Residual Interests <i>New SAP Concept</i> Effective January 1, 2025	Adopted revisions provide guidance for debt securities that do not qualify as bonds under the principles-based bond definition, with a January 1, 2025, effective date. Adopted revisions prescribe accounting guidance (measurement method) for all residual interests regardless of legal form. This specific guidance is effective January 1, 2025, but can be early adopted for 2024.
2022-14 2022-14a 2022-14b 2022-14c	SSAP No. 93R SSAP No. 94R SSAP No. 34 SSAP No. 48	New Market Tax Credit Project <i>New SAP Concept</i> Effective January 1, 2025	Adopted revisions expand and amend guidance within SSAP No. 93 to include all tax credit investments regardless of structure and type of state or federal tax credit program. Revisions to SSAP No. 94R expand and amend guidance to include both purchased state and federal tax credits. Revisions in SSAP No. 34 and SSAP No. 48 include consistency revisions in response to the changes made to SSAP No. 93 and SSAP No. 94R.
2023-25	Appendix D	ASU 2023-03 – SEC Updates <i>SAP Clarification</i> Effective Immediately March 16, 2024	Adopted revisions reject ASU 2023-03 as not applicable for statutory accounting.
2023-27	Appendix D	ASU 2023-04 – SEC Updates, Crypto <i>SAP Clarification</i> Effective Immediately March 16, 2024	Adopted revisions reject ASU 2023-04 as not applicable for statutory accounting.
2023-29	Annual Statement Instructions	IMR Preferred Stock Revisions will be considered by the Blanks (E) Working Group for year-end 2024.	Adopted proposed revisions to the annual statement instructions which direct perpetual preferred stock (including SVO-Identified Preferred Stock ETFs), and mandatory convertible preferred stock through the AVR. This proposal did not result in SSAP revisions.

Ref #	SSAP/ Appendix	Title	Summary
2023-30	SSAP No. 97	SSAP No. 97 Admissibility Requirements <i>SAP Clarification</i> Effective Immediately March 16, 2024	Adopted revisions align the language in SSAP No. 97, paragraph 24, with the existing guidance provided in paragraphs 26 and 27.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/03-16-24 spring national meeting/adoptions/00 - adoptions 3.16.2024 toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2024/03-16-24%20spring%20national%20meeting/adoptions/00%20-%20adoptions%203.16.2024%20toc.docx)

Not for Distribution

Revisions to SSAP No. 21R—Other Admitted Assets

Bond Definition – Debt Securities that Do Not Qualify as Bonds

Residual Tranches or Interests/Loss Positions

Adopted March 16, 2024

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted new statutory accounting guidance for “Debt Securities that Do Not Qualify as Bonds” and for “Residual Tranches or Interests/Loss Positions” within *SSAP No. 21—Other Admitted Assets*. The new sections are shown below. (Existing guidance from SSAP No. 21, paragraph 22 under “Effective Date and Transition” is duplicated within and becomes paragraph 40 after the revisions.) The revisions are effective Jan. 1, 2025. Reporting entities may elect to adopt the residual guidance (detailed in paragraphs 28-37) for year-end 2024.

Debt Securities That Do Not Qualify as Bonds

20. The guidance within paragraphs 20-27 of this statement shall apply for any security, as defined in *SSAP No. 26R—Bonds*, whereby there is a fixed schedule for one or more future payments (referred to herein as debt securities), but for which the security does not qualify for bond reporting under SSAP No. 26R as an issuer credit obligation or an asset backed security. Investments in scope of this guidance are limited to:

- a. Debt securities for which the investment does not reflect a creditor relationship in substance.
- b. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement.
- c. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.

21. Debt securities as described in this statement meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The guidance in these paragraphs shall not be inferred to other securities or investment structures that are not otherwise addressed in statutory accounting, nor shall it be applied to any investments that are captured within other statutory accounting guidance.

22. Debt securities in scope of this standard that do not qualify as bonds under SSAP No. 26R and for which the primary source of repayment is derived through rights to underlying collateral, qualify as admitted assets if the underlying collateral primarily qualify as admitted invested assets. As detailed in paragraph 31, in the section pertaining to residual tranches, any residual tranches or first loss positions held from the same securitization that did not qualify as a bond under SSAP No. 26R also only qualify as admitted assets to the extent the underlying collateral primarily qualifies as admitted invested assets.

23. Debt securities in scope of this statement shall be initially reported at acquisition at cost, including brokerage and other related fees on *Schedule BA: Other Long-Term Invested Assets*.

24. Debt securities captured in scope of this statement shall be reported at the lower of amortized cost or fair value. Changes in measurement to reflect a lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses.

The Revisions Shown in this Document are Effective January 1, 2025

25. Debt securities that do not qualify as bonds in the scope of this statement shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities* for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

26. Investment income shall be recorded, with assessments for collectability and nonadmittance completed and recognized, pursuant to *SSAP No. 34—Investment Income Due and Accrued*.

27. Securities captured within this section shall be included in all invested asset disclosures, along with the following disclosures:

- a. Fair values in accordance with *SSAP No. 100R—Fair Value*.
- b. Concentrations of credit risk in accordance with *SSAP No. 27*;
- c. Basis at which the securities are stated;
- d. The adjustment methodology used for each type of security (prospective or retrospective);
- e. Descriptions of sources used to determine prepayment assumptions.
- f. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security.
- g. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:
 - i. The amortized cost basis, prior to any current-period other-than-temporary impairment.
 - ii. The other-than-temporary impairment recognized in earnings as a realized loss.
 - iii. The fair value of the security.
 - iv. The amortized cost basis after the current-period other-than-temporary impairment.
- h. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):
 - v. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and
 - vi. The aggregate related fair value of securities with unrealized losses.
- i. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been

The Revisions Shown in this Document are Effective January 1, 2025

in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100R.

- j. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.
- k. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable:
 - i. The aggregate carrying value of the investments not evaluated for impairment, and
 - ii. The circumstances that may have a significant adverse effect on the fair value.
- l. For securities sold, redeemed, or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.

Residual Tranches or Interests/Loss Positions

28. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

29. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined. Additionally, it would be expected that the equity position in an ABS Issuer, as defined in SSAP 26R, would be classified as a residual tranche.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

The Revisions Shown in this Document are Effective January 1, 2025

- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

30. Residual tranches or interests do not qualify for bond reporting. Residuals shall follow the accounting and admittance guidance within this statement and are required to be reported on Schedule BA: Other Long-Term Invested Assets.

31. As stated in paragraph 22, residuals are permitted to be admitted assets if debt securities from the same structure qualify (or would qualify) as admitted assets. If the debt security from a structure is (or would be) nonadmitted due to the requirements under paragraph 22, then any residual interests or first loss positions held from the same structure also do not qualify as admitted assets and shall be reported as nonadmitted assets.

32. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values if acquired along with debt tranches from the securitization). Subsequent to initial acquisition, residuals shall be reported at either 1) the lower of amortized cost or fair value under the Allowable Earned Yield method detailed in paragraphs 33-34, with temporary reductions in fair value reported as an unrealized loss, or 2) at the calculated practical expedient method detailed in paragraph 35.

33. For purposes of this statement for residuals only, amortized cost shall be defined as the cost to acquire the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments (OTTI). The Allowable Earned Yield shall be established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. The Allowable Earned Yield is not to be updated after acquisition.

34. Interest income shall be recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. To the extent that the Allowable Earned Yield, applied to the current amortized cost, exceeds the cash distributions received, such unrecognized interest income may be carried forward to future periods to be recognized when sufficient cash distributions are received. To the extent cash distributions exceed the Allowable Earned Yield (including any unrecognized interest carried forward), the amortized cost shall be reduced by the excess. As a result of this method, the amortized cost shall not be increased unless there is a subsequent investment (i.e., an additional purchase with additional consideration remitted).

35. Reporting entities may elect a practical expedient in lieu of the Allowable Earned Yield detailed in paragraphs 33-34 and calculate Book/Adjusted Carrying Value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero. Once the residual has a zero BACV, distributions received shall be recognized as interest income.

- a. Reporting entities applying the practical expedient shall continue to report residuals on Schedule BA, including those with a zero BACV. Any subsequent distributions shall be reported as interest income until the structure matures/terminates, is unwound, or no longer meets the definition of a residual.

The Revisions Shown in this Document are Effective January 1, 2025

- b. Reporting entities are required to apply the practical expedient to all residuals held.
 - c. Reporting entities that wish to discontinue use of the practical expedient approach and move towards the Allowable Earned Yield method are required to specify and disclose an explicit transition date, and only apply the Allowable Earned Yield method to residuals acquired after that date. Residuals held prior to the disclosed accounting method transition date shall continue to follow the practical expedient until those residuals mature/terminate or are unwound.
36. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis, with required assessment anytime that fair value is less than the reported value.
- a. For residuals measured using the Allowable Earned Yield method, as detailed in paragraphs 33-34, an OTTI shall be considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield, is less than amortized cost. Upon identification of an OTTI, the reporting entity shall recognize a realized loss equal to the difference between the amortized cost and the present value of expected cash flows, with the present value of expected cash flows becoming the new amortized cost to which the Allowable Earned Yield is applied. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraphs 33-34. Subsequent recoveries in cash flows shall not result in increases to the amortized cost.
 - b. For residuals measured under the practical expedient, as detailed in paragraph 35, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV. The reporting entity shall recognize a realized loss equal to the difference between the fair value and the BACV, with the fair value becoming the new BACV. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraph 35. Subsequent recoveries in cash flows shall not result in increases to the BACV.
37. Residuals recognized on Schedule BA as of December 31, 2024, and accounted for under a different SSAP, shall follow the following measurement transition guidance as of January 1, 2025:
- a. Reporting entity shall determine whether they will follow the Allowable Earned Yield method detailed in paragraphs 33-34, or the practical expedient detailed in paragraph 35, for all residuals.
 - b. Residuals previously accounted for under SSAP No. 26R or SSAP No. 43R shall prospectively apply the Allowable Earned Yield measurement method elected under this Statement using the amortized cost as of December 31, 2024 as the starting point in the calculation. Residuals that will follow the practical expedient shall be recognized on January 1, 2025 at the lower of amortized cost or fair value as of December 31, 2024, realizing any unrealized loss existing at that date.
 - c. Residuals reported under the equity method or fair value as of December 31, 2024 (as they were previously captured in scope of SSAP No. 30R, 32R or 48) with unrealized gains or losses recognized, shall recognize any unrealized position as realized, with the reported value as of December 31, 2024 becoming the January 1, 2025 cost basis for subsequent measurement under this statement.

Effective Date and Transition

~~22~~40. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance for structured settlements

The Revisions Shown in this Document are Effective January 1, 2025

when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4 requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

41. Revisions adopted March 16, 2024, to add guidance for “Debt Securities That Do Not Qualify as Bonds” and for “Residual Tranches or Interests/Loss Positions” are initially effective Jan. 1, 2025, to correspond with the effective date of the principles-based bond definition. The guidance for residual tranches is permitted for early application. Reporting entities that apply this guidance in 2024 shall continue to follow the transition guidance in paragraph 37 using the modified dates that correspond to the reporting entity’s application date.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/19-21-SSAPNo.21R-2-1-24.docx>

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: New Market Tax Credits

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: The New Market Tax Credits (NMTC) Program was established by Congress in December 2000 and permits individual and corporate taxpayers to receive a non-refundable tax credit against federal income taxes for making equity investments in financial intermediaries known as Community Development Entities (CDEs). CDEs that receive the tax credit allocation authority under the program are domestic corporations or partnerships that provide loans, investments, or financial counseling in low-income urban and rural communities. The tax credit provided to the investors total 39% of the total cost of the investment and is claimed over a seven-year period. The CDEs in turn use the capital raised to make investments in low-income communities. CDEs must apply annually to the CDFI Fund to compete for NMTC allocation authority. The NMTC program is currently subject to expiration but has been extended to Dec. 31, 2025. The NMTC Extension Act of 2021 (introduced February 2021) would make the NMTC program permanent, modify the credit to provide for an inflation adjustment to the limitation amount for the credit after 2021, and allow an offset against the alternative minimum tax for the credit.

The success of the federal NMTC program has led to states adopting their own NMTC legislation. Per one noted article, the majority of state NMTC programs follow the federal rules with some modifications that vary from state to state. State modifications have been noted to specifically target smaller businesses, simplifying the application process, prohibiting the use of real estate business, and capping the amount of tax credits that can be allocated to one project. The economic impact of the state NMTC programs is typically less than the impact of federal NMTC programs because the economic return to investors for state tax credits is generally lower than what they receive for federal credits. Some states require that state tax credits can only be used in conjunction with federal credits. Pairing federal and state programs is beneficial to the qualifying business as they keep more of the investment without an obligation to return as the investors receives more tax credits.

Overview of Federal Program:

- Federal government authorizes an annual credit authority for NMTCs (amount of tax credits available).
- The Community Development Fund Institutions (CDFI fund) is a division of the U.S. Treasury responsible for implementing the NMTC program. Since there are limited tax credits each year, the CDFI fund has a competitive application process for the right to grant tax credits to investors and to make qualified NMTC investments.
- The right to grant tax credits is referred to as “NMTC Allocation” and is awarded to Community Development Entities (CDEs) that invest in low-income communities. The CDEs offer the tax credits to cash investors, and then use the cash to make investments (typically loans to a qualifying project – a “Qualifying Active Low-Income Community Business” - QALICB) that further the mission and objectives of the NMTC program.

- The program specifies that the investor must provide cash as an equity investment (qualified equity investment – QEI) and it must stay invested in the CDE and the resulting NMTC qualifying project (QALICB) for a period of seven years.
 - The restrictions are specific that the investment is an equity investment as stock (other than nonqualified preferred) in an entity that is a corporation for federal tax purposes or any capital interest in an entity that is a partnership for federal tax purposes. (The investor is generally a 99.99% or 100% equity owner.)
- NMTC investments must remain in a qualified business for a seven-year period. Any principal amount repaid during that period must be reinvested by the CDE until the seven-year period expires. Most CDEs and investors avoid the reinvestment requirement and structure interest-only loans that prohibit principal repayment within the seven-year timeframe.
 - The 39% tax credit is provided as 5% of the investment in the first 3 years and then 6% of the investment for the next 4 years.
 - For tax purposes, the basis adjustment in the qualified equity investment is reduced by the amount of any new market tax credits on each credit allowance date.
 - Programs that cease to qualify are subject to tax credit recapture.
- Investors enter these transactions recognizing that the original investment amount will not be fully returned. Rather, a portion (or perhaps all) of the equity investment will be unpaid without an obligation to return from the borrowing business. NMTC investments with these terms have specific maturing terms / actions. One approach could be that an option (put/call) is held by the investor that gives them the right to sell its equity investment to the borrower for a nominal price.
- The designs are often complex and introduce leverage lenders to maximize tax credits to the equity investor:
 - Equity investor provides \$3M to acquire 100% equity interest in an investment fund.
 - Investment fund borrows \$7M from a leverage lender.
 - This results with a \$10M qualifying NMTC transaction, resulting with the equity investor receiving \$3.9M in tax credits over 7 years from an initial \$3M investment.
 - The investment fund provides two loans to the qualified low-income business (QALICB). The first loan is for the \$7M leverage loan, the second is for the \$3M equity investment.
 - Both loans only pay interest for the seven-year period to meet the NMTC terms.
 - At the conclusion of the 7 years, the project sponsor purchases the second loan via a ‘put/call’ agreement, converting the \$3M into a permanent subsidiary for the project.
 - The borrower / project sponsor refinances the \$7M loan to repay the leverage lender.
 - The ultimate result is that the equity investor received \$3.9M over 7 years in tax credits for \$3M.
- Example without leverage lender:
 - Investor provides a \$10M NMTC Investment
 - Investor receives \$3.9M in tax credits over seven years.
 - Investor receives \$7.4M of original investment at the end of the seven years.
 - Borrower keeps \$2.6M of the original investment to further their low-income qualifying activities.
 - Investor receives a net return of \$1.3M. (\$10M less \$3.9M tax credits less return of 7.4M principal.)

FASB Discussion

The FASB has a current Emerging Issues Task Force project to assess whether the proportional amortization method of accounting, which is used for Low-Income Housing Tax Credits (LIHTC), should be expanded to investments in tax credit structures beyond LIHTC. The proportional amortization method results in the tax credit investment being amortized in proportion to the allocation of tax credits in each period and allows the investment amortization and tax credits to be presented on a net basis within the income tax line item. Currently, investments in other tax credit structures are typically accounted for using the equity method or the cost method. Under the equity and cost methods, investment gains/losses and tax credits are presented on a gross basis on an entity's income statement. The FASB has received two requests asking that the proportional amortization method be made applicable to New Market Tax Credit Structures as well as other investment structures that are made primarily for the purpose of receiving tax credits and other tax benefits. The FASB added a project to the Emerging Issues Task Force agenda on Sept. 22, 2021. The FASB Task Force reached a consensus-for-exposure on June 16, 2022, that the proportional amortization method can be elected on a tax credit program by tax credit program basis. This proposed ASU was exposed in August 2022, with comments due Oct. 6, 2022. A final ASU is expected later in 2022 or early in 2023 (ASU 2023-02 was issued in March of 2023).

IRS Provisions – The NMTC is captured as a nonrefundable ‘general business credit’ and is limited to tax liability. If tax liability is not sufficient to take the credit, then the tax credit is subject to carryforward / carryback provisions. Per instructions from the *2021 Instructions for Form 3800 – General Business Credit*, general business credits that cannot be used because of a tax liability limit are first carried-back 1 year through an amended return. If there are unused credits after carrying back 1 year, the tax credit can be carried forward to each of the 20 tax years after the year of the credit.

Inflation Reduction Act Provisions – The Inflation Reduction Act was signed by President Biden on Aug. 16, 2022. Although there are several elements within the Act, it includes a 15% corporate minimum tax rate for corporations with at least \$1 billion in income and includes numerous investments in climate protection, clean energy production and tax credits aimed at reducing carbon emissions. Although the Act has been signed, several elements are pending further application guidance. From preliminary information, the act allows for general business credits, such as the low-income housing tax credit (LIHTC), new markets tax credit (NMTC), historic tax credit (HTC) and renewable energy tax credits (RETCs) to be taken against the minimum tax. **However, further monitoring of application / interpretation guidance that is still forthcoming is required to assess the actual application and impact of tax credits on companies subject to the minimum tax.**

Statutory Accounting Considerations:

- Although the design is an equity investment of stock or interest in a corporation or partnership, which would normally be subject to SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies*, the intent of NMTC investments is for tax credits and not equity returns. As such, this structure is closer to the existing low-income housing tax credits guidance in SSAP No. 93 than the partnership / LLC guidance in SSAP No. 48.
- Although SSAP No. 93—*Low Income Housing Tax Credit Property Investments* provides guidance for an equity investment, that provides tax credits with a limited (or zero) residual investment value, the guidance in SSAP No. 93 is specific to LIHTC programs.
- It has been identified that there are structures that have been designed to resemble fixed-income notes that do not pay regular cash interest, but rather provide NMTC tax credits as interest returns. These structures are in substance that same as other investments in NMTC, with an underlying equity interest in the CDE that generates tax credits. However, they have been structured with a guarantee for compensatory interest in the form of cash for the amount of the tax credit expected to have been received that year. These structures are also being considered within scope of this agenda item. Such structures have to meet specific criteria to qualify for tax credits under the IRS rules.

Existing Authoritative Literature:

SSAP Authoritative Guidance:

- **SSAP No. 93—Low Income Housing Tax Credit Property Investments**

This statement establishes accounting principles for investments in federal certain state sponsored Low Income Housing Tax Credit (LIHTC) properties owned through limited liability entities that are flow-through entities for tax purposes. The guidance requires LIHTC investments to be initially recorded at cost and carried at proportional amortized cost unless the investment is identified as impaired. Under the proportional amortization method, amortization of the LLC investment is recognized in the income statement as a component of net investment income/expense and the current tax credit is accounted for as a component of income tax expense:

- Federal tax credits are recognized in the income statement as an offset to federal taxes in the tax reporting year in which the tax credit is utilized in accordance with *SSAP No. 101—Income Taxes*.
- State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized.
- Tax benefits received, other than tax credits, shall be accounted for pursuant to SSAP No. 101.

SSAP No. 93 indicates that immediate recognition of the entire benefit of the tax credit to be received during the term of the investment in a low-income housing project is not appropriate. It also indicates that low-income housing tax credits shall not be recognized in the financial statements before their inclusion in the investor's tax return.

- **SSAP No. 94R—Transferable and Non-Transferable State Tax Credits**

This statement establishes accounting principles for investments transferable and non-transferable state tax credits, with an explicit exclusion for LIHTCs (or similar tax credits) captured in scope of SSAP No. 93.

Guidance for admittance of state tax credits under this statement varies based on whether it is transferable or non-transferable:

Transferable – Per the SSAP, all the following criteria must be met for admittance:

- 1) The holder of the transferable state tax credit may sell or otherwise transfer the transferable state tax credit to another entity, which can likewise sell or transfer the credit;
- 2) The transferable state tax credit will expire is not used by a predetermined date; and
- 3) The transferable state tax credit can be applied against either state income tax or state premium tax.

Non-Transferable – Per the SSAP, all the following criteria must be met for admittance:

- 1) Successive holder of a state tax credit must redeem the credit by April 15 of the subsequent year to the entity's acquisition of the state tax credit and is not permitted to carry-over, carry-back, obtain a refund, sell or assign the credit;
- 2) The non-transferable state tax credit will expire if not used by the predetermined date; and
- 3) The non-transferable state tax credits can be applied against either state income tax or state premium tax.

Review of Existing Statutory Accounting Guidance for NMTC and Overall Application:

- Existing statutory accounting guidance does not encompass federal NMTC (or other federal tax credits), as SSAP No. 93 is limited to LIHTC and SSAP No. 94 is specific to state tax credits.
- Provisions in SSAP No. 93 do not fully address earned (received) tax credits that carryforward for future use.
- The admittance criteria in SSAP No. 94 are applied to characteristics that perhaps may not be factors that would impact admittance:
 - A tax credit that does not expire would be precluded as an admitted asset under the guidance.
 - A non-transferable tax credit that can be carried-forward, carried-back, able to be refunded or that can be sold or assigned is precluded as an admitted asset under the guidance.

Statutory Accounting Reporting Guidance:

Guaranteed and non-guaranteed federal low-income housing tax credits have separate reporting lines on Schedule BA along with an “all other” low-income housing tax credit line. The guidance is specific that these lines are only for low-income tax credits (or tax credits for affordable housing) that are in the form of a partnership or limited liability company. Non-qualifying LIHTC are to be reported in the “All Other” category. With this current guidance, there is no explicit reporting provision for tax credits that are not captured in LIHTC.

Reporting Lines and Instructions:

Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated	3599999
Affiliated	3699999
Non-Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated	3799999
Affiliated	3899999
Guaranteed State Low Income Housing Tax Credit	
Unaffiliated	3999999
Affiliated	4099999
Non-Guaranteed State Low Income Housing Tax Credit	
Unaffiliated	4199999
Affiliated	4299999
All Other Low Income Housing Tax Credit	
Unaffiliated	4399999
Affiliated	4499999

Low Income Housing Tax Credit

- Include: All Low-Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company including those investments that have the following risk mitigation factors:
- A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.
 - B. Non-guaranteed Low Income Housing Tax Credit Investments.

- I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.
- II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.
- III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the “All Other” category.

Statutory Accounting RBC Impact:

Life: The RBC factors for LIHTC are captured as part of the real estate on LR007:

(17)	Federal Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 75	0.0014
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 76	0.0260
(19)	State Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 77	0.0014
(20)	State Non-Guaranteed Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 78	0.0260
(21)	All Other Low Income Housing Tax Credits	AVR Equity Component Column 1 Line 79	0.1500
(22)	Total Schedule BA Real Estate	Lines (16) + (17) + (18) + (19) + (20) + (21)	

P/C and Health: The RBC factors for LIHTC are captured as components of other long-term assets. The reporting lines and factors are the same as they are for life (as shown above).

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): NA

Recommendation:

NAIC staff recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Staff also recommends that the Working Group expose changes to SSAP No. 34—*Investment Income Due and Accrued* and SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies*, which detail miscellaneous changes which update the scope of each statement for the proposed updates to SSAP No. 93 and SSAP No. 94R. The following are key revisions to SSAP No. 93R and 94R are proposed for exposure:

- SSAP No. 93R—Investments in Tax Credit Structures – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
 - Various editorial changes to the admittance test described in paragraph 18 to clarify technical aspects of the assessment.
 - Addition of a Glossary of key terms at the end of the SSAP.
 - Revised guidance effective date to be 1/1/2025, applied prospectively without option to early adopt.

- Added a new paragraph to the Impairment of Tax Credit Investments section to provide guidance on tax credit programs which allocate variable amounts of tax credits.
- Clarified in footnote 4 that tax credit strips derived from tax equity investments are not an example of an investment structure exempt from the audit requirement.
- Added disclosures for unused tax credits allocated from tax credit investments as these tax credits would not be within the scope of SSAP No. 94R disclosures.
- SSAP No. 94R—State and Federal Tax Credits – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
 - Revised guidance effective date to be 1/1/2025 with early adoption permitted.
 - Added language to clarify that awarded tax credits (neither purchased nor allocated from an investment) are not within the scope of SSAP No. 94R.
 - Added commitment and contingency guidance to the Accounting and Disclosure sections.
- Other SSAPs – In response to the proposed revisions to SSAP Nos 93 and 94R, NAIC staff recommends the following:
 - SSAP No. 34—Investment Income Due and Accrued – Staff proposes revisions to clarify that tax credits earned or purchased are not within the scope of SSAP No. 34.
 - SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies – Staff proposes revisions which update paragraph 2 for the new tax credit investment language.

Interested parties' comment letter recommended revisions which would narrow the scope of the paragraph 18 admittance test to only tax credit investments which allocate non-transferable tax credit and prohibit the sale of ownership interests. NAIC staff did not revise the SSAP No. 93R draft for these recommendations but intends to continue working with industry to address their concerns that the new guidance may nonadmit previously admitted tax credit investments.

Additionally, NAIC staff requests comments on the annual statement reporting categories for tax credit investment RBC. The current RBC categories are LIHTC Investment specific and are mapped to the real estate grouping.

Staff Review Completed by: William Oden and Julie Gann - NAIC Staff, May 2023

Status:

December 13, 2022 - Fall National Meeting Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits. Although this agenda item is focusing on NMTC, it is recommended that consideration be given to guidance that does not name specific designs, such as NMTC or other specific tax credits, so that it can be applicable for all qualifying tax equity investments. This guidance will consider the proposed FASB guidance as well as admittance and impairment provisions, recognizing that tax credits cannot be used to provide direct payment to policyholders, but rather are utilized to impact a reporting entity's tax liability. This agenda item also recommends a review of SSAP No. 94—Transferable and Non-Transferable State Tax Credits to ensure the guidance properly reflects items that should be captured in scope and appropriate admittance provisions. With the proposal of a new or revised SSAP, this agenda item is proposed to be captured as a 'New SAP Concept' with a corresponding issue paper. Along with statutory accounting revisions, a resulting blanks proposal and a potential RBC referral are anticipated to update blanks reporting and RBC references accordingly. As detailed within, all Schedule BA reporting lines and RBC instructions (for both federal and state) only reference Low-Income Housing Tax Credits. The BA instructions also need to be updated as the concept for 'guaranteed' provisions from a CRP-rated entity seems to only be applicable to limited NMTC designs, as a guarantee may disqualify an entity from being able to use tax credits under IRS provisions.

On December 13, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a new SAP concept, and exposed a discussion document to expand current statutory accounting guidance for low-income housing tax credits to capture all tax equity investments that provide general federal business tax credit and state premium tax credits if they meet specified criteria.

On February 10, 2023, NAIC staff received Interested Parties' comment letter on the exposed discussion document which were presented to the Working Group:

Interested parties agree with having uniformity in accounting and reporting for equity investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. We are providing responses to the questions exposed in the Discussion Paper in this document. There are two key take aways from our responses:

1. Interested parties ask the Working Group to consider allowing for the reporting of both the amortization of the investments and the use of the tax credits themselves in the same income statement line similar to what is required under U.S. GAAP.
2. Interested parties have concerns regarding tax credit investments that are issued in debt form and requiring those investments to be reported on Schedule BA instead of Schedule D. Interested parties believe that tax credit investments issued in debt form are better suited for Schedule D reporting.

March 22, 2023 – Spring National Meeting Recommendation:

NAIC staff recommends that the Working Group direct NAIC staff to proceed with drafting revised statutory accounting guidance and a related issue paper to expand the guidance in SSAP No. 93 for tax credits, as well as to draft revisions to SSAP No. 94—Transferable and Non-Transferable State Tax Credits for future Working Group discussion. NAIC staff proposes to consider the feedback from interested parties on the discussion document as well as the revised FASB guidance, which is expected to be issued in the near future, in updating the proposed revised statutory accounting guidance for subsequent exposure consideration.

On March 22, 2023, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft statutory accounting guidance in the form of a new or revised SSAP that expands the current LIHTC guidance for equity investments that general federal business tax credit and state premium tax credits.

May 16, 2023 – Interim Meeting Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose the draft revisions to SSAP No. 93 and SSAP No. 94R, which intend to capture all tax equity investments that provide federal business tax credit and state premium tax credits if they meet specified criteria.

On May 16, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 93 and 94R. The revisions to SSAP No. 93 propose adoption with modification of *ASU 2023-02—Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* and expansion of the SSAP scope to include all tax credit programs and tax investment structures. The revisions to SSAP No. 94R expand the scope of the SSAP to include all state and federal tax credits whether purchased or allocated, and that tax received should be recorded at face value with losses realized immediately and gains deferred.

On June 20, 2023, NAIC staff received Interested Parties' comment letter on the exposed revisions to SSAP Nos. 93 and 94R. Interested Parties provided several comments on both SSAPs which are summarized below along with NAIC Staff responses.

The comments provided on SSAP No. 93 were:

1. Interested Parties noted that paragraph 3 does not provide specific direction for which SSAPs would be applicable for tax credit investment which do not fall within SSAP No. 93.
 - a. NAIC Staff agreed with the recommendation and updated paragraph 3 to provide readers with specific SSAPs which could apply to non-qualifying equity or debt structure tax credit investments.
2. Interested Parties noted that the current draft directed readers to refer to SSAP 94R for how to account for tax credits allocated from tax credit investments. They felt that this cross-reference was confusing and could potentially lead to conflicting interpretations.
 - a. To reduce confusion, NAIC Staff opted to remove the paragraph directing readers to SSAP 94R and instead pulled in the specific paragraphs from SSAP 94R which would be applicable to tax credits allocated from tax credit investments.
3. Interest Parties noted that they were unclear on whether the tax credits earned, or the tax credit investments were subject to the admittance criteria detailed in Paragraphs 18(a)-(c). Interested Parties feels that admissibility concerns are adequately addressed by the tax opinion and audit requirements. Additionally, if NAIC Staff's concern is the admittance of tax credits carried forward to a future period, then this should be adequately addressed by the admittance rules detailed in *SSAP No. 101-Income Taxes for Deferred Tax Assets*. Interested Parties suggested that paragraphs 18(a)-(c) be deleted in full.
 - a. NAIC Staff noted that the admittance rules detailed in paragraphs 18(a)-(c) do NOT provide guidance on the admittance of allocated tax credits. For tax credit investment structures to fall within the scope of SSAP 93, substantially all benefits must be from tax credits or other tax benefits which essentially means that balance of a tax credit investment represents a future stream of tax credits and tax benefit. As such, the admittance rules in paragraph 18(a)-(c) would require a company to assess its ability to utilize that future stream of tax credits to what amount of the tax credit investment would be non-admitted. If the company's projections determine it will be unable to substantially utilize the future stream of tax credits (i.e., the tax credit investment balance) then potentially all or a portion of the tax credit investment would be considered non-admitted as the company is unable to utilize the future stream of tax credits to offset tax liabilities.
4. Interested Parties noted that GAAP requires retrospective adoption of ASU 2023-02 and that this would result in GAAP vs. Statutory accounting differences.
 - a. NAIC Staff noted that prospective adoptions of accounting updates are often simpler to implement than retrospective adoptions. However, since this would lead to unintended variance between GAAP and Stat NAIC Staff has updated SSAP 93 to be adopted on the retrospective basis to conform with the GAAP adoption requirements.

The comments provided on SSAP No. 94R were:

1. Interest Parties requested that paragraph 1 of the scope of statement section be amended to clarify which types of tax credits are within scope of SSAP No. 94R. Interested Parties feel that the key difference between SSAP 94R and SSAP 93 is that the former is for purchased tax credits and the latter is for tax credits earned from investments.
 - a. NAIC Staff generally agree with the comments provided but opted to remove the term "certificate" from the requested changes. The intent of SSAP No. 94R is to provide guidance on all purchased state and federal tax credits, not just certificated tax credits. NAIC Staff also included language to clarify the scope of SSAP No. 94R for allocated tax credits, as detailed in the next bullet point.
2. Interested Parties noted that they do not believe allocated tax credits from SSAP No. 93 investments should be within the scope of SSAP No. 94R as the guidance was confusing and could potentially lead to conflicting interpretations. Additionally, Interested Parties believe that tax credits from investments vs. purchased tax credits are distinctly different assets. The only similarity in accounting for the tax credits relates to instances when the credits earned under a SSAP No. 93 investment cannot be utilized in the current year. Under that scenario, a DTA would be recorded, which would be subject to the admissibility rules under SSAP No. 101.
 - a. NAIC Staff elected to remove tax credits allocated from SSAP No. 93 investments from the scope of SSAP No. 94R to avoid confusion. However, NAIC Staff note that tax credits earned from

- investments bear many similarities to purchased tax credits. Irrespective of how the tax credit are acquired, they represent the same type of financial instruments which can be utilized as an offset to tax liabilities, sold, or redeemed for cash as a tax refund. Additionally, irrespective of how the tax credits are earned they are recorded at face value upon acquisition. The only significant difference is that tax credits purchased at a premium or discount may result in a recognized loss or deferred gain, respectively, whereas any premium or discount on an allocated tax credit is recognized as part of proportional amortization calculation.
- b. NAIC Staff amended the draft to exclude tax credits allocated from SSAP No. 93 investments in response to the Interested Party comments on SSAP No. 93. However, NAIC Staff did include language noting that allocated tax credits earned from tax credit investments NOT within the scope of SSAP No. 93 should refer to SSAP 94R for guidance on how to record allocated tax credits. NAIC staff noted that without this language there would be no guidance within Accounting Practices and Procedures Manual for allocated tax credits from investments which fall outside the scope of SSAP No. 93.
3. Interested Parties noted that most tax certificates reduce a reporting entity's tax liability and do not directly impact the income statement at the time they are used. In addition, interested parties believe that upon purchase, the tax credits should be reported as an other-than-invested asset since the asset represents a right to receive future benefits. As the tax credits become available for use, a reduction to the insurer's income tax payable or premium/state taxes payable should take place.
 - a. NAIC Staff disagrees with this proposed change as purchased federal tax credits would be reported as other-than-invested assets, versus allocated federal tax credits which would report as a deferred tax asset. This would result in the same type of asset being reported on two separate lines based on the manner in which it was acquired. As noted above, NAIC Staff's position is that allocated and purchased tax credits are substantially the same assets irrespective of the way in which they are acquired. Additionally, the Interested Parties also propose that if a tax credit cannot be utilized in the same period in which it was purchased it should be transferred to Deferred Tax Assets. NAIC Staff notes that this does not resolve the short-term reporting discrepancy noted previously and adds further complications to the accounting process by requiring a reporting line transfer if the asset is held for longer than a year.
 4. Interested Parties noted that the accounting for purchased tax credits in the SSAP No. 94R exposure is different from the current guidance in that the credits will be recorded at face value instead of at cost. This is not an issue perse but Interested Parties did want to point out this discrepancy as compared to the accounting treatment for other assets like bonds and mortgage loans.
 - a. NAIC Staff's position is that tax credits, whether received via purchase or allocation, do not represent investments, and has opted to propose accounting guidance that differs from bonds or mortgage loans. The position that tax credits do not represent investments was the main reason for the original SSAP No. 94R guidance which required state tax credits be recorded to Other Than Invested Assets and effectively required companies tax credits purchased at a discount at cost and effectively defer the gain off the balance sheet. NAIC Staff felt that it would be less confusing and provide a more accurate financial picture to record the tax credit at face value and defer any gains from discount purchases on the balance sheet.
 5. Interested Parties proposed changes to Exhibit B to reflect a pro-rata utilization of purchased tax credits in relation to the quarterly accrual of income tax liabilities. The main purpose of these changes were to reflect Interested Parties' proposed changes in item #2.
 - a. NAIC Staff made these changes to Exhibit B and believe that this method of recognizing tax credit utilization is applicable to exposed draft of SSAP No. 94R.

Outside of the changes made in response to Interested Parties' Comment Letter, both Exhibits in SSAP No. 93 were revised to provide example journal entries of the Proportional Amortization method. Additionally, the assumptions in Exhibit B were revised so it would provide a journal entry example for a residual sale at the end of the proportional amortization period. A new footnote was also added to SSAP No. 94R on page 2 based verbal comments received

from the public. The new footnote provides clarification on what processes constitute a purchase vs an allocation of tax credits.

August 13, 2023 - Summer National Meeting Recommendation:

NAIC staff recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Additionally, NAIC staff recognizes that revisions to the annual statement Schedule BA reporting lines will need to be considered, as well as how those reporting lines flow through to the AVR. NAIC staff recommends that the Working Group direct staff to work with interested parties throughout the interim to discuss to allow subsequent (or interim) exposure.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R. Additionally, the Working Group directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

On September 29, 2023, NAIC received Interested Parties' comment letter on the exposed revisions to SSAP No. 93 and 94R. Interested Parties provided several comments on both SSAPs which are summarized below along with NAIC Staff responses (effective October 11, 2023). The comments provided on SSAP No. 93 are below and have been summarized for brevity and clarity:

- 1) Interested Parties noted that SSAP 93 Paragraph 18 requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. However, Interested Parties suggest that this admittance criteria only be applicable to investments which do not allocate transferable or refundable tax credit and if the reporting entity is contractually restricted from selling its ownership interest. Additionally, Interested Parties suggest deleting paragraphs 18a and 18b as admissibility is adequately addressed through the impairment analysis required in paragraph 25; mainly that since both the tax credits and investment are saleable there is not a significant concern about the reporting entity's ability to utilize these investments and their tax credit returns for policyholder liabilities.
 - i. NAIC staff noted that Interested Parties' argument is twofold, first is that the usage of the investment fair value as a carve out in paragraphs 18a and 18b are confusing due to the requirement to test for impairment based on fair value. NAIC staff amended paragraph 18a to clarify that the carve out allows for admittance of the fair value of unallocated transferable/certificated tax credits rather than the fair value of the tax credit investment. The tax credit investment balance includes other tax benefits which cannot be sold apart from the investment ownership. The intent of paragraph 18a is to allow a reporting entity to at least admit the fair value of the tax credits which can be sold, which is potentially higher than the admitted amount calculated in paragraph 18.
 - ii. The second part of Interested Parties' argument is that since these investments may be sold, the admittance assessment of the reporting entity's ability to utilize the tax credits is not needed unless the reporting entity contractually restricted from the selling the investment. As part of this comment, it was noted that these investments may be actively managed and are readily saleable. NAIC staff noted that acquiring tax credit investments with the intent of re-sale puts an insurance company in a similar position as a syndicator in which tax credit investments are developed or acquired for the purpose of sale. SSAP 93 was revised under the assumption that tax credit investments are acquired for the purpose of obtaining returns through the receipt of tax credits and other tax benefits rather than through the sale of the tax credit investment. NAIC staff does not believe the paragraph 18 admittance criteria should be amended to provide a carve out for actively managed tax credit investments as it is not feasible to delineate between tax credit investments purchased for sale vs. purchased for generation of tax benefits without introducing some kind of

available-for-sale and held-to-maturity framework which is not compatible with statutory accounting concepts. NAIC staff noted that restrictions which prevent investors from selling their ownership represent a minority of tax credit programs. As such, limiting the scope of paragraph 18 to only tax credit investments which cannot be sold would effectively carve out the majority of tax credit investment structures from its scope. Additionally, the assertion that these investments are readily saleable does not change the fact that the balance sheet value of a tax credit investment is predicated on the assumption that the company can use the tax credits and benefits and if they company cannot use these tax credits then the investment returns have no value. Until the investment has been sold, its ability to satisfy future policyholder obligations is beholden to the company's ability to utilize the generated tax credits and benefits. Interested Parties noted that there are other investments which do not have as stringent admittance criteria as have been proposed in paragraph 18. NAIC staff note that other investments generate returns primarily through the receipt of fungible cash income or by providing a claim to the entity's earnings and assets (bonds, stocks, joint ventures, partnerships and LLCs). In comparison, the main purpose of a tax credit investment is to provide returns in the form of tax credits and other tax benefits, and this purpose is further borne out by the commonly used partnership flip structure for tax credit investments and that once the tax credits have been fully allocated the residual value of a tax credit investment is typically nominal.

- iii. Additionally, the requirement to assess tax credit investments by looking at the company's ability to realize future tax credits is not a new concept. Under existing OTTI guidance companies are required to record OTTI if the company determines it is probable that future tax benefits will not be received as expected (SSAP No. 93 paragraph 17, sentence 1). Per SSAP No. 93 paragraph 17, to determine if OTTI has occurred companies are required to assess whether the investment will continue to issue the tax credits as anticipated (see sentence 5) AND whether the company will be able to realize/utilize the future tax benefits to be received (see sentences 2 and 3). As part of the re-write of SSAP No. 93 Staff moved the requirement to assess the company's ability to utilize future tax credits out of impairment to admissibility. As currently revised, the impairment test specifically addresses the functionality of the investment whereas the paragraph 18 admittance test specifically addresses the ability of the company to realize/utilize the future tax benefits. This change intended to simplify the impairment analysis by focusing on investment functionality, but also because Staff felt that the company's ability to utilize/realize future tax benefits was more accurately characterized as an admittance concern rather than an impairment of the investment itself.

- 2) Interested Parties suggested a number of editorial changes to affect clearer guidance in paragraphs 18 and 18a. These included clarifying that the paragraph 18 assessment of unallocated tax credit utilization should be performed over the life of the tax credits rather than the life of the investments, including its carryforward periods. Interested Parties also suggested clarifying in paragraph 18 that tax planning strategies are to be used when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. In paragraph 18a Interested Parties suggested removing the sentence detailing what to do if fair value is not non-determinable.

- i. NAIC staff agreed with substantially all the editorial clarifications suggested by Interested Parties and updated accordingly.

- 3) Interested Parties suggested adding a definitions section to the guidance regarding the following terminology:

"unallocated tax credits" - the portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.

“current portion” - the credits to be allocated within one year of the reporting period.

- i. NAIC staff agreed with the suggestion by Interested Parties to add definitions and updated accordingly with some minor modifications. NAIC staff also added some additional definitions to provide clarifications on other terms used in SSAP 93.
- 4) Interested Parties suggested that the new SSAP 93 be applied prospectively effective 1/1/2025, but no early adoption.
- i. NAIC staff agreed with the changes suggested by Interested Parties and updated accordingly.

The comments provided on SSAP No. 94R are below and have been summarized for brevity:

- 5) Interested parties suggested that the revised SSAP 94R also be applied prospectively effective 1/1/2025 with early adoption permitted. Additionally, Interested Parties suggested a clarification of the scope of SSAP 94R by adding the following language to paragraph 1:

“This statement establishes statutory accounting principles for state and federal tax credits that are purchased by the reporting entity without being an bond or equity investor in the entity from which the tax credit were purchased.”

- i. NAIC staff agrees with prospective application of SSAP 94R with an effective date of 1/1/2025, however we have elected to not include the changes to the scope of SSAP 94R. The reasoning is that this guidance intends to exclude tax credits allocated from SSAP 93 investments, which does not specifically identify which tax credit investment structures are within scope of the guidance. However, NAIC staff did make other adjustments to the scope paragraph to better clarify that tax credits from SSAP No. 93 investments are not within scope of SSAP 94R.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed revisions made to SSAP Nos. 34, 48R, 93, and 94R as part of the new market tax credit project. Revisions to SSAP No. 93 include a glossary of key terms, impairment guidance on variable tax credit allocations, disclosures on unused tax credits, and editorial changes to paragraph 18. Revisions to SSAP No. 94R include guidance clarifying that awarded tax credits are not within scope and commitment/contingency language. The exposure includes new revisions to SSAP Nos. 34 and 48 which clarified that tax credits are not within the scope of investment income guidance and updated for new SSAP No. 93 language, respectively. Additionally, the Working Group requested comments from regulators and industry on new RBC reporting categories.

On January 29, 2024, the Statutory Accounting Principles (E) Working Group exposed, through an evote, further revisions made to SSAP Nos. 93R and 94R as part of the New Market Tax Credit project. Revisions to SSAP No. 93 and 94R included minor consistency and clarifying revisions. More substantial revisions were made to SSAP No. 93 in response to concerns raised by interested parties over the administrative burden of the paragraph 18 admittance tests (now referred to as the Prospective Utilization Assessment). The Prospective Utilization Assessment was revised to remove the initial assessment of the current portion of unallocated tax credits and replaced with language that required companies to perform the Prospective Utilization Assessment only if certain conditions exist.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 93, updated for the corrections to example 2, and SSAP No. 34, SSAP No. 48, and SSAP No. 94R to expand and amend statutory guidance to include all tax credit investments regardless of structure and type of state or federal tax credit program, and all state and federal purchased tax credits. The effective date of the revisions is January 1, 2025.

The Working Group also directed staff to:

1. Sponsor a blanks proposal on the annual statement reporting categories for tax credit investment RBC by using the suggestion from the interested parties comment letter to maintain the same categories but without reference to LIHTC (bullet 1) and to also update/clarify the instructions accordingly.
2. Send a referral to the Life Risk-Based Capital (E) Working Group to inform them of the planned reporting line changes, which may indicate review of the RBC charges as different categories of tax credits will be reported in the form.
3. To draft an Issue Paper to document the discussions and revisions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/22-14-NMTC.docx>

Not for Distribution

Note: The issue paper will include the final revisions made to SSAP No. 93—Low-Income Housing Tax Credit Property Investments shown as tracked changes. ASC references will be removed from the final document.

Spring National Meeting Adoption: Revisions to SSAP No. 93 made after the exposure on January 31, 2024, have been shown as tracked changes highlighted in grey. This document represents the final adopted version of SSAP No. 93R.

Statements of Statutory Accounting Principles No. 93 - Revised

Investments in Tax Credit Structures

STATUS

Type of Issue.....	Common Area
Issued	June 13, 2005; Conceptually revised March 16, 2024
Effective Date	January 1, 2006; Conceptual revisions detailed in Issue Paper No. xxx effective January 1, 2025
Affects.....	No other pronouncements
Affected by	No other pronouncements
Interpreted by	INT 06-07
Relevant Appendix A Guidance	None

STATUS	1
SCOPE OF STATEMENT.....	2
SUMMARY CONCLUSION	2
Accounting	3
Application of Proportional Amortization Method.....	4
Admittance of Tax Credit Investments	4
Future Contributions and Additional Tax Credits.....	7
Impairment of Tax Credit Investments	7
Disclosures.....	8
Relevant Literature.....	9
Effective Date and Transition	10
Glossary	10
REFERENCES.....	11
Relevant Issue Papers	11
EXHIBIT A – APPLICATION OF PROPORTIONAL AMORTIZATION METHOD.....	12

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for qualifying tax credit investments¹ in programs made primarily for the purpose of receiving allowable general business federal tax credits and/or state tax credits, including state premium tax credit programs. Although these investments are often in the form of equity, this statement shall be applied to all investments (regardless of the structure of the investment) that qualify pursuant to paragraph 2.

2. A reporting entity that invests in projects or programs that generate general business federal tax credits, corresponding state tax credits or state premium tax credits that meet the following conditions at the time of initial investment are required to capture the investment in scope of this statement:

- a. It is probable that the tax credits allocable to the investor will be available.
- b. Reporting entity investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying projects.
- c. Substantially all the projected benefits are from tax credits and other tax benefits, determined on a discounted basis using a discount rate that is consistent with the cash flow assumptions utilized by the reporting entity for the purpose of deciding to invest in the project.
- d. The reporting entity's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.

3. Tax credit investments that do not meet the conditions in paragraph 2 shall be captured within the statutory accounting statement that addresses the underlying investment structure. Equity structured tax credit investments would generally fall within SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Debt structured tax credit investments should be assessed in accordance with SSAP No. 26R—Bonds to determine eligibility for reporting as a bond. ~~Investments in tax credit structures that do not meet the conditions in paragraph 2 shall be captured within the statutory accounting statement applicable to the investment held.~~

4. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors, to make venture capital investments in “qualified” businesses, are not within the scope of this statement. Although associated with tax credits, the reporting entity is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the reporting entity will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with *Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* and specific statutory accounting guidance addressing CAPCOs.

SUMMARY CONCLUSION

5. Investments in tax credit structures are generally acquired to obtain a positive yield through tax credits and other tax benefits. The value of the investment is primarily based on the value of the remaining stream of tax credits and deductible expenses available to the reporting entity investor. The primary purpose of investing in these tax credit structures is to generate tax credits which benefit reporting entities. most

¹ The scope of *ASC 323-740—Investments—Equity Method and Joint Ventures—Income Taxes—Proportional Amortization Method* only extends to income tax equity investments, whereas this statement is intended to capture all tax credit investments which meet the criteria in paragraphs 2.a-2.d, regardless of structure. This includes, but is not limited to, tax equity investments and tax credit debt investments.

commonly through a reduction in tax liability or, when ~~transferability is permitted~~ by IRS or state tax provisions, through the sale of ~~the-certificated/transferable~~ tax credits.

6. Investments in tax credit structures held by reporting entities meet the definition of an asset as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement.

Accounting

7. This guidance addresses the methodology for measuring an investment that is accounted for using the proportional amortization method. At initial recognition, investments in scope of this statement shall be recorded at cost.

8. Subsequent to initial recognition, the investment shall be carried at proportional amortized cost. Under the proportional amortization method, the reporting entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the investor. The amortization amount shall be calculated as follows (ASC 323-740-35-2):

- a. The initial investment balance less any expected residual value of the investment, multiplied by;
- b. The percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the reporting entity over the amortization timeframe (life of the investment) ~~the life of the investment~~.

9. Reporting entities shall recognize tax credits in the period they are allocated to the investor for tax purposes. Unless all tax credits are allocated to the reporting entity at the date of initial investment, immediate recognition of the entire benefit of the tax credits to be received during the term of the investment project that generates tax credits and other tax benefits is not permitted. Tax credits shall not be recognized in the financial statements before the year in which the tax credits arise ~~arises~~ are allocated. (ASC 323-740-25-5)

10. Any expected residual value of the investment shall be excluded from the proportional amortization calculation. Non-tax related benefits received from the investment shall be included as a component of net investment income when realized or realizable. Gains or losses on the sale of the investment, if any, shall be included as a capital gain or loss at the time of the sale. (ASC 323-740-35-5) Determination of gain or loss will depend on the reported value (e.g., residual value at the end of the amortization timeframe) compared to the amount received in exchange for the investment. Liquidation of the investment commonly occurs at the end of the tax credit timeframe through a put or call agreement, often reflecting a nominal residual value that was established at the time of acquisition. The liquidation amount from such agreements shall reflect the expected residual value when available.

11. At the end of the amortization timeframe ~~(life of the investment)~~, if the reporting entity retains the investment, the investment shall be subsequently measured and assessed within the statutory accounting statement applicable to the investment held. Retained investments will remain on Schedule BA until disposal and cannot exceed the initial expected residual value.

12. Exhibit A illustrates the application of accounting guidance in two examples that generate tax credits and tax benefits using the proportional amortization method. The first example illustrates the application of a standard project. The second example illustrates the application of accounting guidance in a project that has expected residual value and generates non-tax related benefits in addition to tax credits and other tax benefits using the proportional amortization method. (ASC 323-740-35-3)

Application of Proportional Amortization Method

13. Under the proportional amortized cost method, the amortization of the investment is to be recognized in the income statement as an expense component of the net investment income calculation. Non-tax related benefits received from operations, or sale of the investment should be accounted for in accordance with paragraph 10.

14. Tax credits and other tax benefits, not to include amortization of the investment, shall be reflected as follows:

- a. ~~Tax credits allocated are to be recorded, and assessed for admittance, in accordance with SSAP No. 94R Transferable and Non-Transferable Tax Credits.~~ Tax credits shall be recognized in the period that they are allocated to the reporting entity for tax purposes:
 - i. Federal tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101—*Income Taxes*. Federal tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101.
 - ii. State tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested assets (not to be reported net).
 - iii. Use of tax credits carried forward in a ~~Tax credits carried forward to a~~ future period shall be reflected as an offset to the corresponding income or premium tax in the tax reporting year in which the tax credit is utilized.
 - iv. Tax credits allocated from tax credit investments, as defined within this SSAP, and held by reporting entities meet the definition of assets as specified in SSAP No. 4 and are admitted assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits ~~are~~ is subject to SSAP No. 101.
- b. Federal tax benefits other than tax credits (e.g., tax benefits from investment depreciation) shall be recognized in the year allocated pursuant to SSAP No. 101—*Income Taxes*. When utilized, the federal tax benefits are recognized as a component of income tax expense.
- c. State tax benefits other than tax credits shall be recognized in the year allocated ~~shall be recognized in the year allocated~~ gross of any related state tax liabilities pursuant to SSAP No. 101. When utilized, the state tax benefits are recognized as a component of taxes, licenses, and fees.

Admittance ~~Requirements~~ of Tax Credit Investments

15. Although investments in tax credit programs do not represent investments that can be ~~directly readily~~ liquidated for policyholder claims, the reduction of tax liability or ~~sale~~transfer of ~~allocated~~ tax credits represents a benefit that supports admittance of these investments, but only if the tax credits will be received and can be utilized by the reporting entity. Investments in tax credit programs that will not result in any of the anticipated tax credits or that will result in tax credits which cannot be utilized or ~~sold~~transferred by the reporting entity shall be considered impaired and should refer to paragraphs 27 and 28.

16. Reporting entities shall, at initial investment, obtain a clean² fund level tax opinion³ on the validity of the credits and structure of the underlying program and investment fund. Investments not supported by an initial tax opinion shall be nonadmitted. If the program is a permitted syndicated program with a yield guarantee, the opinion must verify that the investment and guarantee have~~es~~ been properly structured under IRS or state tax provisions ~~rules~~ and the guarantee does not disqualify the reporting entity from obtaining ~~federal general business~~the tax credits.

17. Reporting entities shall annually obtain U.S. GAAP or U.S. tax basis audited financial statements on the investment fund. In the event audited U.S. GAAP or U.S. tax basis financial statements are not obtained or the audit receives an opinion other than unqualified, the asset shall be nonadmitted. If the audited financial statements are in-process but not completed as of the annual statement filing deadline, the reporting entity may admit the investment based on the results of the immediately preceding prior year audited financial statements. A lag in reporting shall be consistent from period to period.

- a. Other tax credit investments – If the reporting entity has a tax credit investment which by virtue of its structure cannot be audited, the investment is exempt from the annual audit requirement. One example of this type of investments would be tax credit debt investments⁴ which do not involve any amount of equity ownership as a component of the investment. This type of tax credit debt investment is exempt from the annual audit requirement, but the reporting entity is still required to obtain a clean tax opinion, in accordance with paragraph 16, to support admittance at initial investment.

Prospective Utilization Assessment

18. The prospective utilization assessment, as detailed below in paragraphs 19-21, must be performed annually by the reporting entity if any of the following circumstances exist in either the current or prior reporting period:

- a. Reporting entity records a valuation allowance against a deferred tax asset (DTA) balance.
- b. Reporting entity becomes aware of other facts and circumstances which indicate that it will, more likely than not, be unable to substantially utilize the unallocated tax credits. Such instances include, but are not limited to:
 - i. If the reporting entity holds an investment which allocates state premium tax credits and intends to decrease premium volume in that state, it may affect whether or not the unallocated tax credits in that state can be utilized.
 - ii. If the reporting entity holds an investment allocating state income tax credits and records a valuation allowance in its U.S. GAAP financial statements against state DTA balances, including the same state as the tax credit investment, it cannot ignore the circumstances that led to the valuation allowance, even though statutory accounting does not permit state DTAs.

² While not quantified or defined in either the Internal Revenue Code or state regulations, common industry standards consider a “should” opinion to be the minimum degree of confidence associated with a clean tax opinion. For the purposes of this statement, a “should” opinion must represent a probability of success no less 70%. Any tax credit investment which receives a tax opinion with a degree of confidence less than “should” is to be nonadmitted.

³ A fund level tax opinion for the purposes of this statement is defined as a full IRS Circular 230 tax opinion which covers from the fund level through to the underlying assets generating the tax credit benefits. The fund level is defined as the entity, or level, at which the investor comes directly into the investment without any intermediaries.

⁴ Common examples of tax credit debt investments are Tax Credit Strips derived from tax credit bonds, Qualified Tax Credit Bonds, and Build America Tax Credit Bonds. Tax opinions received on these tax credit investments are also referred to as “bond counsels.” Tax Credit Strips derived from tax equity investments would not qualify for the paragraph 17.a carve out as the source of the stripped tax credits is auditable.

19. Prospective Utilization Assessment – ~~A~~ If any of the circumstances detailed in paragraph 18 exist, the reporting entity is required to ~~first~~ assess the future utilization of the investment's ~~current portion of~~ unallocated tax credits against ~~the~~ estimated tax liabilities ~~for both the tax year in which the tax credits can be initially utilized as well as any applicable carryback periods.~~ Based on this assessment, if the reporting entity ~~does not expect to substantially utilize the current portion of unallocated investment tax credits, the reporting entity shall perform an expanded assessment to~~ and determine the extent to which it will be able to utilize the investment's unallocated tax credits over the life of the ~~investment~~ tax credits. If assessment projections identify that the investment's unallocated tax credits ~~from investments in tax credit programs~~ will exceed what can be utilized under IRS or state tax provisions ~~(current and other applicable tax periods),~~ the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized within current, carryback, and carryforward periods. ~~Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized within the carryforward periods then the entire investment shall be nonadmitted.~~ In making this assessment, the reporting entity is not permitted to assume increased operations (e.g., expanded product sales) beyond those allowed under prudent and feasible tax-planning strategies ~~actual experience~~ to conclude that additional federal or state tax liability will exist that would allow additional utilization of tax credits. A reporting entity ~~can~~ may subsequently admit a previously nonadmitted tax credit investment, based on subsequent assessments in which the reporting entity determines that they will be able to utilize the unallocated tax credits.

18.20. Additional Admittance to Prospective Utilization Assessment – If the tax credit investment allocates tax credits with the following features, the reporting entity may perform a secondary assessment to determine if additional amounts of the tax credit investment nonadmitted under paragraph 19 can be admitted:

- a. Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions ~~are~~ shall admitted up to the lesser of the proportional amortized cost, or fair value of the unallocated tax credits. ~~If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.~~
- b. Tax credit investments which allocate tax credits eligible for direct payment ~~are~~ shall admitted up to the lesser of the proportional amortized cost, or the estimated proceeds from unallocated tax credits.
- c. ~~For all other tax credits, if a reporting entity does not expect to fully utilize investment tax credits in the upcoming tax year or for a carryback year, the reporting entity shall perform an assessment to determine the extent it will be able to utilize the tax credits over the life of the investment. If assessment projections identify that the tax credits from investments in tax credit programs will exceed what can be utilized under IRS or state tax provisions (current and other applicable tax periods), the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized. Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized then the entire investment shall be nonadmitted. In making this assessment, the reporting entity is not permitted to assume increased operations (e.g., expanded product sales) beyond actual experience to conclude that additional federal or state tax liability will exist that would allow additional utilization of tax credits. A reporting entity can subsequently admit a previously nonadmitted tax credit investment, based on subsequent assessments in which the reporting entity determines that they will be able to utilize the tax credits.~~

19.21. For tax credit investments which have an amortization timeframe greater than the tax credit allocation timeframe (as demonstrated in ~~both examples within~~ Exhibit A), the reporting entity would still,

if required, perform the prospective utilization assessment ~~same assessment detailed in paragraph 18~~ but on the reporting entity's ability to utilize the remaining stream of anticipated tax benefits.

Future Contributions and Additional Tax Credits

~~20-22.~~ Many tax credit investments require future contributions by the investor, that may be contingent on a variety of conditions, such as receiving representations, contract performance, meeting occupancy requirements, etc. A liability shall be recognized for delayed ~~equity~~ contributions which result in additional tax credits that are unconditional and legally binding, and a liability shall also be recognized for ~~equity~~ contributions which result in additional tax credits that are contingent upon a future event when that contingent event becomes probable pursuant to the loss contingency guidance in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. (ASC 323-740-25-3) Liabilities or loss contingencies recognized for future contributions which result in additional tax credits shall be reported as 'Payable for Securities' until remitted or until the obligation is otherwise eliminated.

~~21-23.~~ If a commitment to provide future contributions is not required to be recognized pursuant to paragraph 22, the commitment shall be disclosed in the notes to the financial statements with other commitments.

~~22-24.~~ Additional contributions that do not result in additional tax credits for the reporting entity investor shall be immediately expensed as a component of net investment income.

~~23-25.~~ If additional contributions result in additional tax credits for the reporting entity, the proportional amortization method for the tax credit investment shall be adjusted, on a prospective basis, to reflect the increased cost with the revised expected ~~income~~-tax credits and ~~income~~-other tax benefits.

~~26.~~ In the event a reporting entity obtains additional tax credits without the reporting entity making additional contributions, the reporting entity shall not adjust the book/adjusted carrying value of the tax credit investment. (The proportional amortization method shall not be adjusted to reflect the expected additional tax credits.) Rather, the tax credit shall be recognized when allocated pursuant to paragraph 14.

Impairment of Tax Credit Investments

~~24-27.~~ Reporting entities with investments in tax credit programs shall complete and document an impairment analysis at each reporting period. For this analysis, the reporting entity shall compare the current book/-adjusted carrying value to the fair value of the investment. (~~In lieu of~~ If fair value is not determinable, an entity can compare book/-adjusted carrying value to the present value of future tax credits and other tax benefits discounted at a risk-free rate of return.) If book/-adjusted carrying value is higher, the difference between book/-adjusted carrying value and fair value shall be recognized as an other-than-temporary impairment^(INT 06-07) to the tax credit investment. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in fair value ~~(discounted value-present value)~~.

~~25-28.~~ An other-than-temporary impairment shall also be considered to have occurred if a previously allocated tax credit has been recaptured or if it is probable that future tax credits will not be allocated as expected. If a project no longer qualifies for tax credits, the entire investment, less any residual established at initial recognition, shall be written off as other-than-temporarily impaired. If the reporting entity experiences a tax credit recapture, the reporting entity shall assess whether future tax credits and other benefits will qualify for use by the reporting entity. If future credits will not be generated or will be subject to future recapture, then the reporting entity shall write-off the investment as other-than-temporarily impaired so that the resulting investment value only reflects expected qualifying tax credits and other benefits expected to be allocated. This will result in a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries or revision to tax credit expectations.

~~26~~²⁹. Certain tax credit programs allocate variable amounts of tax credits (for example, clean energy production tax credit programs) which will result in regular differences between actual allocated tax credits and estimated tax credit allocations as calculated upon acquisition of the investment. Variable tax credits allocated in excess of estimates should be accounted for in accordance with paragraph 26. If the allocated variable tax credits are less than estimates by more than 10% or consistently allocate less than the estimated amounts over multiple allocation periods, then the reporting entity must either recognize an other-than-temporary impairment or specifically address within its impairment analysis the reason why consistently diminished tax credit returns do not represent an impairment event. Note that if the company determines it is probable that the total amount of anticipated variable tax credits will not be received, it would still be considered an other-than-temporary impairment in accordance with paragraph 28.

Disclosures

~~27~~³⁰. A reporting entity shall disclose information that enables users of its financial statements to understand the following information about its ~~tax~~ investments in projects that generate tax credits and other tax benefits from tax programs captured in scope of this statement: (ASC 323-740-50-1)

- a. The nature of its investments in projects that generate tax credits and other tax benefits.
- b. The effect of the recognition and measurement of its investments in projects that generate tax credits and other tax benefits and the related tax credits on its financial position and results of operations.

~~28~~³¹. To meet the objective of paragraph 30, a reporting entity shall disclose the following information about its ~~tax~~ investments in projects that generate tax credits and other tax benefits from a tax credit program in scope of this statement:

- a. The amount of tax credits and other tax benefits recognized during the reporting period(s).
- b. The balance of the investments recognized in the statement of financial position for the reporting period(s) presented.
- c. The amount of investment amortization and non-income tax related activity recognized as a component of net investment income, and other returns allocated that were recognized outside of income tax expense.
- d. An aggregate schedule of tax credits expected to be generated each year for the subsequent five years and thereafter, disaggregated by transferable/certificated and non-transferable.
- e. Any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of contributions that are contingent commitments related to tax credit investments and the year(s) that contingent commitments are expected to be paid shall be disclosed.

~~29~~³². The following disclosures shall be included if applicable to tax credit investments:

- a. If the underlying ~~property~~ project is currently subject to any regulatory reviews and the status of such review. (Example: Investigations by the housing authority.)
- b. Significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project for investments in scope. (ASC 323-740-50-1A)

~~30~~³³. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:

- a. A description of the impaired assets and the facts and circumstances leading to the impairment; and
- b. The amount of the impairment and how fair value was determined.

34. The following disclosures pertain only to those tax credits allocated from tax credit investments and are unused as of the reporting period(s). For purposes of this disclosure, total unused tax credits represent the entire amount of tax credits available:

- a. Carrying value of tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related tax liabilities by jurisdiction and in total.
- b. Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable.
- c. Method of estimating utilization of remaining tax credits or other projected recovery of the current carrying value.
- d. Impairment amount recognized in the reporting period(s), if any.
- e. Identify tax credits by transferable/certificated and non-transferable classifications and identify the admitted and nonadmitted portions of each classification.

~~34.~~35. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

~~32.~~36. This statement adopts with modification *Accounting Standards Update (ASU) 2023-02, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. The ASU is modified for the following statutory concepts:

- a. This statement is applicable to all federal and state tax credit programs earned through any tax credit investment structure that meets the requirements in paragraph 2. Under the ASU, use of the proportional amortization method is an election and only pertains to income tax equity investment structures in which the reporting entity does not exercise significant influence. With this statement, the U.S. GAAP election to use the proportional amortization method is rejected and use of proportional amortization for investments within the scope of this statement is required. The guidance is expanded for state premium tax credits.
- b. Investments that meet the criteria of this statement are required to use a proportional amortization method as prescribed in this statement. This method requires the tax credits and benefits to be recognized in proportion to the percentage of actual tax credits and other tax benefits allocated to the reporting entity in the current period divided by the total estimated tax credits and other tax benefits expected to be allocated by the reporting entity over the life of the investment. This statement requires a gross presentation on the financial statements. Under the ASU, a practical expedient is allowed for the calculation of proportional amortization but has been rejected with this statement.
- c. Federal tax credits shall be recognized in the income statement as an offset to federal income taxes in the tax reporting year in which the tax credit is utilized in accordance with SSAP No. 101. State tax credits shall be recognized in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized.

- d. Tax benefits allocated, other than tax credits, shall be accounted for pursuant to SSAP No. 101. Amortization shall be reported as a component of net investment income.
- e. Reporting entities shall follow the guidance in paragraphs 22 and 23 regarding the recognition of contingent commitments from SSAP No. 5R to equity contributions.
- f. This statement has specific impairment and nonadmittance requirements.
- g. For statutory accounting purposes, deferred taxes are not reported as a component of income from continuing operations in the income statement; rather deferred taxes are recognized as a separate component of gains and losses in unassigned funds (surplus).
- h. Disclosures should be followed as indicated in the disclosures section in this statement.
- ~~h.i.~~ The examples detailed in Exhibit A were modified to better illustrate the statutory accounting method for tax credit investments.

Effective Date and Transition

~~33.~~37. This statement is effective for reporting periods beginning on or after January 1, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*. The guidance previously in paragraph 3 of this statement superseded paragraph 1 of SSAP No. 48. In 2011, this guidance was moved to SSAP No. 48 and deleted from this statement. The original guidance included in this standard is retained for historical purposes in Issue Paper No. 125. The guidance from ASU 2014-01 is effective for reporting periods beginning on or after January 1, 2015, with early adoption permitted.

38. In March 2024, new SAP concept revisions, as detailed in Issue Paper No. XXX, were adopted. These revisions, effective January 1, 2025, expanded the scope of SSAP No. 93 to include all federal and state tax credit investment structures and provide new guidance on the accounting, recognition, and reporting of tax credit investment structures. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credit investment structures to reflect the guidance in the conceptual revisions. Additionally, all tax credit investment structures which fall within the scope of this statement not currently reported on Schedule BA are to be transferred to Schedule BA as of the effective date.

Glossary

39. The following definitions are provided for the purposes of this statement.

- a. Unallocated tax credits – The portion of tax credits expected to be earned and allocated to the reporting entity through the tax credit investment structure.
- ~~i. Current portion – The tax credits to be allocated within one year of the reporting period.~~
- b. Transferable/Certificated – The tax credits are certified for sale (certificated tax credits) or saleable through the execution of a state or federal transfer form (transferable tax credits).
- c. More Likely Than Not – Refers to a likelihood of more than 50%.

REFERENCES

Relevant Issue Papers

- Issue Paper No. 125—Accounting for Low-Income Housing Tax Credit Property Investments
- Issue Paper No. XX—XXX

Not for Distribution

EXHIBIT A – APPLICATION OF PROPORTIONAL AMORTIZATION METHOD***Example 1: ~~Application of Proportional Amortization Method for Qualifying Investment~~ Qualifying Tax Credit Investment Structure***

~~This example is based on paragraph 323-740-55-5 of the Accounting Standards Codification which illustrates the application of a standard project. The amount and timing of amortization in the proportional amortization method is consistent with the statutory modifications; therefore, the table incorporated in this exhibit is based on the proportional amortization table. The statutory income statement requires a gross presentation on the income statement, with proportional amortization of the initial cost of the investment in investment income and the tax credits and benefits included in income tax expense.~~

Terms:**~~Date of Investment: January 1, 20X1~~****~~Purchase Price of Investment: \$100,000~~**

On January 1, 20X1, ABC Insurance Company purchases a 5% equity stake in a tax credit investment structure for \$100,000. The allocated tax credits are transferable, and ABC anticipates that all tax credits received will be fully utilized prior to expiration of the tax credit carryover period.

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.
2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).
3. The investor made a \$100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.
4. The partnership finances the project cost of \$4,000,000 with 50% equity and 50% debt.
5. The annual tax credit allocation (equal to 4% of the project's original cost) will be received for a period of 10 years.
6. The investor's tax rate is 40%.
7. For simplicity, the project will operate with break-even pretax cash flows including debt service during the first 15 years of operations.
8. The project's taxable loss will be equal to depreciation expense. The cumulative book loss (and thus the cumulative depreciation expense) recognized by the investor is limited to the \$100,000 investment.
9. It is assumed that all requirements are met to retain allocable tax credits so there will be no recapture of tax credits.
10. The investor expects that the estimated residual value of the investment will be zero.

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)
	100,000					
1	90,909	9,091	8,000	7,273	2,909	10,909
2	81,818	9,091	8,000	7,273	2,909	10,909
3	72,727	9,091	8,000	7,273	2,909	10,909
4	63,636	9,091	8,000	7,273	2,909	10,909
5	54,545	9,091	8,000	7,273	2,909	10,909
6	45,454	9,091	8,000	7,273	2,909	10,909
7	36,363	9,091	8,000	7,273	2,909	10,909
8	27,272	9,091	8,000	7,273	2,909	10,909
9	18,181	9,091	8,000	7,273	2,909	10,909
10	9,090	9,091	8,000	7,273	2,909	10,909
11	6,666	2,424		7,273	2,909	2,909
12	4,242	2,424		7,273	2,909	2,909
13	1,818	2,424		7,273	2,909	2,909
14	0	1,818		5,451	2,183	2,183
15	0					0
Total		100,000	80,000	100,000	40,000	120,000

- (1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).
- (2) Initial investment of \$100,000 x (total tax benefits allocated during the year in Column (6) / total anticipated tax benefits over the life of the investment of \$120,000).
- (3) Annual 4% tax credit on \$200,000 tax basis of the underlying assets.
- (4) Depreciation (on \$200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of \$100,000.
- (5) Column (4) x 40% tax rate.
- (6) Column (3) + Column (5).

Initial Year

<u>Tax credit investment</u>	<u>100,000</u>	
<u>Cash</u>		<u>100,000</u>
<u>To record the purchase of tax credit investment</u>		

Years 1-10

<u>Amortization expense</u>	<u>9,091</u>	
<u>Tax credit investment</u>		<u>9,091</u>
<u>Federal tax credits</u>	<u>8,000</u>	
<u>Income tax expense</u>		<u>8,000</u>
<u>To record annual receipt of allocated tax credits and proportional amortization of investment.</u>		

<u>Income taxes payable</u>	<u>8,000</u>	
<u>Federal tax credits</u>		<u>8,000</u>
<u>To record annual utilization of allocated tax credits.</u>		
<u>Year 11-13</u>		
<u>Amortization expense</u>	<u>2,424</u>	
<u>Tax credit investment</u>		<u>2,424</u>
<u>To record annual proportional amortization of tax credit investment.</u>		
<u>Year 14</u>		
<u>Amortization expense</u>	<u>1,818</u>	
<u>Tax credit investment</u>		<u>1,818</u>
<u>To record annual proportional amortization of tax credit investment.</u>		

Example 2: Qualifying Tax Equity Credit Investments Structure with Non-Income Tax Related Benefits

~~This example is based on paragraphs 323-740-55-11 through 323-740-55-14 of the Accounting Standards Codification and illustrates a tax equity investment that generates non-income tax related benefits in addition to tax credits and other income tax benefits.~~

~~The amount and timing of amortization in the proportional amortization method is consistent with the statutory modifications; therefore, the table incorporated in this exhibit is based on the proportional amortization table. The statutory income statement requires a gross presentation on the income statement, with proportional amortization of the initial cost of the investment in investment income and the tax credits and benefits included in income tax expense.~~

Terms:

~~Date of Investment: January 1, 20X1~~

~~Purchase Price of Investment: \$100,000~~

On January 1, 20X1, T&A Insurance Company purchased a 5% equity stake in a tax credit investment structure for \$100,000. The allocated tax credits are non-transferable, and T&A anticipates that all tax credits received will be fully utilized prior to expiration of the tax credit carryover period.

Assumptions:

1. All cash flows (except initial investment) occur at the end of each year.
2. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5 year life (the same method is used for simplicity).
3. The investor made a \$100,000 investment for a 5% limited partnership interest in the project at the beginning of the first year of eligibility for the tax credit.
4. The partnership will receive production tax credits based on the energy the project produces. The credits will be allocated over a four-year period.
5. The tax equity investor will receive cash proceeds based on 2% of the project's cash generated during the life of the ~~project~~investment.
6. The investor's tax rate is 40%.
7. All requirements are met to retain allocable income tax credits such that there will be no recapture of income tax credits.
- ~~8. The investor expects that the estimated residual value of the investment will be zero.~~
- ~~9.8.~~ All of the conditions are met to require use of the proportional amortization method.
9. After 10 years, the tax equity investor has a right to require that the project sponsor purchase the tax equity investor's equity interest for a nominal amount. It is assumed that the Put option will be exercised and has a contractually agreed upon residual value of \$1,000.
10. In Years 1-3 the investor is able to utilize all allocated tax credits in the same period they were received. In Year 4, the investor is only able to utilize half of that year's allocated tax credit and defers the remainder for utilization in Year 5.

Proportional Amortization Method with Statutory Modifications

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)	Non-Tax Related Cash Returns (7)
	100,000						
1	~~79,399~~ 79,605	20,395	20,000	8,300	3,320	23,320	58
2	~~58,799~~ 59,210	20,395	20,000	8,300	3,320	23,320	58
3	~~38,198~~ 38,815	20,395	20,000	8,300	3,320	23,320	58
4	~~17,597~~ 18,420	20,395	20,000	8,300	3,320	23,320	58
5	~~14,664~~ 15,516	2,904		8,300	3,320	3,320	58
6	~~11,731~~ 12,612	2,904		8,300	3,320	3,320	58
7	~~8,799~~ 9,708	2,904		8,300	3,320	3,320	58
8	~~5,866~~ 6,804	2,904		8,300	3,320	3,320	58
9	~~2,933~~ 3,900	2,904		8,300	3,320	3,320	58
10	~~0~~ 1,000	2,900		8,300	3,320	3,320	58
Total	~~100,000~~ 1,000	~~100,990~~ 99,000	80,000	83,000	33,200	113,200	580

- (1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).
- (2) Initial investment, ~~less residual value of \$1,000~~ of \$~~100,990~~ 99,000 x (total tax benefits allocated during the year in Column (6)) / total anticipated tax benefits over the life of the investment of \$113,200).
- (3) These tax credits have been generated through the production of electricity, which generates production tax credits. The tax equity investor is not receiving renewable energy credits or carbon offsets.
- (4) Depreciation /other tax losses passed on to the investor.
- (5) Column (4) x 40% tax rate.
- (6) Column (3) + Column (5).
- (7) Non-income-tax-related benefits recognized in current-period pre-tax earnings when allocated. This represents the cash proceeds allocated by the tax equity investor based on the cash generated from the project.

Initial Year

Tax credit investment	100,000	
Cash		100,000
<i>To record the purchase of tax credit investment</i>		

Years 1-3

Amortization expense	20,395	
Tax credit investment		20,395
Federal tax credits	20,000	
Income tax expense		20,000
Cash	58	
Investment Income		58

To record annual receipt of allocated tax credits, proportional amortization of investment, and receipt of non-tax cash returns.

Income taxes payable	20,000	
Federal tax credits		20,000

To record annual utilization of allocated tax credits.

Year 4

Amortization expense	20,395	
Tax credit investment		20,395
Federal tax credits	20,000	
Income tax expense		20,000
Cash	58	
Investment Income		58

To record annual receipt of allocated tax credits, proportional amortization of investment, and receipt of non-tax cash returns.

Income taxes payable	10,000	
Federal tax credits		10,000
Income tax expense	10,000	
Deferred tax expense		10,000

To record the portion of allocated tax credits utilized in the current year and defer the remainder. (Federal tax credit account should be mapped to the DTA reporting line as any balance remaining at year-end would be a DTA)

Year 5

Amortization expense	2,904	
Tax credit investment		2,904
Cash	58	
Investment Income		58

To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.

Income taxes payable	10,000	
Federal tax credits		10,000
Deferred tax expense	10,000	
Income tax expense		10,000

To record utilization of deferred tax credit.

Years 6-9

Amortization expense	2,904	
Tax credit investment		2,904
Cash	58	
Investment Income		58

To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.

Year 10

<u>Amortization expense</u>	<u>2,900</u>	
<u>Tax credit investment</u>		<u>2,900</u>
<u>Cash</u>	<u>58</u>	
<u>Investment Income</u>		<u>58</u>
<u>To record annual proportional amortization of tax credit investment and receipt of non-tax cash returns.</u>		
<u>Cash</u>	<u>1,000</u>	
<u>Tax credit investment</u>		<u>1,000</u>
<u>To record sale of interest in tax credit investment at stated residual value.</u>		

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Adoptions/22-14a - SSAP No 93R - Investments in Tax Credit Structures.docx>

Spring National Meeting Adoption: Revisions to SSAP No. 94R made after the exposure on January 31, 2024, have been shown as tracked changes highlighted in grey. This document represents the final adopted version of SSAP No. 94R.

Statements of Statutory Accounting Principles No. 94 - Revised

~~Transferable and Non-Transferable~~ State and Federal Tax Credits

STATUS

Type of Issue	Common Area
.....	
Issued	June 12, 2006; Substantively revised December 7, 2011; <u>Conceptually revised - March 16, 2024.</u>
.....	
Effective Date	December 31, 2006; Substantive revisions detailed in Issue Paper No. 145 effective December 31, 2011; <u>Conceptual revisions detailed in Issue Paper No. XXX effective XXX.</u>
.....	
Affects	No other pronouncements
.....	
Affected by	No other pronouncements
.....	
Interpreted by	No other pronouncements
.....	
Relevant Appendix A Guidance	None
.....	

STATUS	1
SCOPE OF STATEMENT	2
SUMMARY CONCLUSION	2
Accounting	4
Admittance	5
Impairment	5
Disclosures	5
Effective Date and Transition	6
REFERENCES	6
Relevant Issue Papers	6
EXHIBIT A – ACCOUNTING FOR TRANSFERABLE TAX CREDITS	7
EXHIBIT B – ACCOUNTING FOR NON-TRANSFERABLE TAX CREDITS	8

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for ~~transferable and non-transferable~~ state ~~and federal~~ tax credits ~~that are purchased¹ by the reporting entity without being an investor in the entity from which the tax credit were earned/purchased.~~ Tax credits allocated from investments NOT within the scope of *SSAP 93R—Investments in Tax Credit Structures* should refer to this statement for tax credit accounting guidance. ~~Additionally, Tax credits that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).~~ Tax credits which have been awarded² to the reporting entity are not within the scope of this statement and should refer to *SSAP No. 101—Income Taxes*.
2. ~~Tax credits allocated from, and investments in, Low Income Housing Tax Credits credit structures,~~ as discussed in *SSAP No. 93R SSAP No. 93R—Low Income Housing Tax Credit Property Investments*~~Investments in Tax Credit Structures,~~ which involve investments in projects or programs that generate general business federal tax credits or state tax credits, are not within the scope of this statement. ~~However, the tax credits received from tax credit investments are within the scope of this statement.~~
3. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors ~~(insurance companies)~~, in order to make venture capital investments in “qualified” businesses, are not within the scope of this statement. Although associated with tax credits, the insurance company is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the ~~insurance company~~ investors will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the ~~insurance company~~ investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO) and specific statutory accounting guidance addressing CAPCOs.

SUMMARY CONCLUSION

4. Both state and federal governments have enacted laws that create programs by which tax credits are granted to entities under certain specified conditions. The terms of these tax credits vary based on the issuing jurisdiction and from program to program.~~The criteria in paragraphs 5 and 6 are for transferable state tax credits (i.e., credits which may be sold or assigned). The criteria in paragraphs 7 and 8 are for non-transferable state tax credits (i.e., those which cannot be sold or assigned to other parties).~~
5. ~~Some states have enacted laws that create programs by which transferable state tax credits are granted to entities under certain specified conditions (e.g., an entity makes an investment in a particular industry). The terms of these state tax credits vary from state to state and, within a state, from program to program. However, many of these transferable state tax credit programs share the following four characteristics:~~
 - a. ~~The tax credit is nonrefundable;~~

¹ The process to purchase a tax credit typically involves the acquisition of a tax credit certificate (certificated tax credits) or the execution of a state or federal transfer form (transferable tax credits). Tax credits which have been received through other means are indicative of tax credits allocated from an investment (For example, if the tax credits are received through a schedule K-1) and may be within scope of SSAP No. 93.

² For the purposes of this statement, awarded tax credits are tax credits issued to the reporting entity which were neither purchased nor allocated from an investment structure. A common example of an awarded tax credit are Job Creation tax credits which are a type of performance-based tax credit program.

~~Transferable and Non-Transferable~~ State and Federal ~~State~~ Tax Credits

SSAP No. 94R

- ~~b. The holder of the transferable state tax credit may sell or otherwise transfer the transferable state tax credit to another entity, which can likewise resell or transfer the credit;~~
- ~~c. The transferable state tax credit will expire if not used by a predetermined date; and~~
- ~~d. The transferable state tax credit can be applied against either state income tax or state premium tax.~~

~~6. For purposes of this statement, such programs will be referred to as “transferable state tax credits.” The criteria in paragraphs 5.b., 5.c. and 5.d. must be present in order for the transferable state tax credit to receive the accounting treatment described in this statement. When a reporting entity purchases a transferable state tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e. limited partnership).~~

Non-Transferable State Tax Credits

~~7. If the original or subsequent holder of the transferable tax credit is not able to transfer the tax credit, then the admissibility criteria in paragraph 8 for non-transferable tax credits apply. These non-transferable state tax credits share the following characteristics:~~

- ~~a. The tax credit is nonrefundable;~~
- ~~b. The successive holder of a state tax credit must redeem the credit by April 15 of the subsequent year to the entity’s acquisition of the state tax credit and is not permitted to carry over, carry back, obtain a refund, sell or assign the credit;~~
- ~~c. The non-transferable state tax credit will expire if not used by the predetermined date; and~~
- ~~d. The non-transferable state tax credit can be applied against either state income tax or state premium tax.~~

~~5. The criteria in paragraphs 7.b., 7.c. and 7.d. must be present in order for the non-transferable state tax credit to receive the accounting treatment described in this statement.~~ For the purposes of this statement, “tax credits” must be issued by either a federal or state governmental entity and must be refundable³ or can be applied against income tax or premium tax in accordance with permitted IRS or state tax provisions. Tax credits which may be sold or otherwise transferred to another entity are referred to as “transferable tax credits” whereas all other tax credits are referred to as “non-transferable.”

~~6. When a reporting entity purchases a transferable or certificated tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e., limited partnership).~~ Direct payment elections are non-revocable and supersede the transferability of tax credits, as such, once the election has been made the tax credit would be considered a non-transferable tax credit.

~~Transferable and non-transferable state tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in SSAP No. 4—Assets and Nonadmitted Assets and~~

³ Direct payment tax credits are synonymous with refundable tax credits, as such the terms are used interchangeably within this statement.

~~are admissible assets to the extent that they comply with the requirements of this statement. If the criteria in paragraphs 6 or 8 are not met, the tax credits are nonadmitted.~~

Acquisition Accounting

7. All tax credits within the scope of the statement must be recognized in the period they are allocated to or purchased by the reporting entity for tax purposes and must be recorded at face value upon receipt. ~~Transferable and non-transferable state tax credits are recorded at cost at the date of acquisition.~~ Tax credits acquired at a premium or discount to their face value must record the gain/loss as follows:

- a. Tax credits acquired at a discount must defer the gain as a miscellaneous liability upon receipt of the tax credit.
- b. Tax credits acquired at a premium must realize the loss within the income statement upon receipt of the tax credit.

8. Deferred g~~Gains on transferable and nontransferable~~ tax credits are deferred until the value of the ~~state~~ tax credits utilized exceeds the initial acquisition cost of the tax credits, or until the ~~state~~ tax credits are transferred to other entities or the direct payment election is utilized and the payment(s) or refund ~~is greater than~~ exceed the initial carrying acquisition value cost.

Balance Sheet Treatment

9. Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:

- a. Federal tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101–Income Taxes. Federal tax credits that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall be reported ~~net of~~ as a deferred tax asset (DTA) in accordance with SSAP No. 101.
- b. State tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax-reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other-than-invested-assets (not to be reported net).

10. Use of carried forward tax credits in a future period shall be reflected as an offset to the corresponding income or premiums tax in the tax reporting year in which the tax credit is utilized.

~~8. Transferable and non-transferable state tax credits shall be established gross of any related state tax liabilities and reported in the category of other than-invested assets (not reported net).~~

~~9. As transferable and non-transferable state tax credits are redeemed, the carrying value of the tax credits is reduced dollar for dollar by the amount of state tax credits applied toward the reporting entity's applicable state tax liability.~~

~~Income Statement Treatment~~

~~10. Gains on transferable and non-transferable state tax credits are deferred until the value of the state tax credits utilized exceeds the cost of the state tax credits or until the state tax credits are sold to other entities and the payment received is greater than the book value.~~

~~11. Losses on transferable and non-transferable state tax credits are recognized when known.~~

11. Gains and losses on transferable and non-transferable state tax credits are reflected in other income when realized.

12. A tax credit asset is considered purchased or allocated once the tax credit is received and available for use. If the reporting entity determines a commitment to purchase tax credits has met the definition of a liability, then the asset would be reported in other-than-invested assets as tax credits receivable.

Admittance

13. ~~Transferable and non-transferable~~ Tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in SSAP No. 4—Assets and Nonadmitted Assets and are admissible assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits ~~are~~ is subject to SSAP No. 101.

Impairment

~~12.14.~~ An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the book/-adjusted carrying value ~~amount~~ of the ~~transferable or non-transferable state~~ tax credits. State tax credits should be evaluated for impairment at each reporting date.

~~13.15.~~ When there is a decline in the realizability of a ~~transferable or non-transferable state~~ tax credit owned by the reporting entity that is other-than-temporary^(INT 06-07), the asset shall be written down to the expected realizable amount and the amount of the write down shall be accounted for as a realized loss. The expected realizable value is the new cost basis.

~~14.16.~~ The new cost basis shall not be changed for subsequent recoveries in realizability.

Disclosures

~~15.17.~~ The following disclosures shall be made in the financial statements for the reporting period(s) presented. For purposes of this disclosure, total unused ~~transferable and non-transferable state~~ tax credits represent the entire amount of ~~transferable and non-transferable state~~ tax credits available:

- a. Carrying value of ~~transferable and non-transferable state~~ tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related ~~state~~ tax liabilities by state jurisdiction and in total.;
- b. Total unused ~~transferable and non-transferable state~~ tax credits by state jurisdiction, disaggregated by transferable/certificated and non-transferable.;
- c. Method of estimating utilization of remaining ~~transferable and non-transferable state~~ tax credits or other projected recovery of the current carrying value.
- d. Impairment amount recognized in the reporting period(s), if any.

- e. Identify ~~state~~-tax credits by transferable/certificated and non-transferable classifications, and identify the admitted and ~~N~~onadmitted portions of each classification.

~~16.~~18. Any commitment or contingent commitment to purchase tax credits shall be disclosed.

Effective Date and Transition

19. This statement is effective for reporting periods ending on or after December 31, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. Substantive revisions to 1) revising the title; 2) incorporating the criteria for non-transferable state tax credits as described in paragraphs 7 and 8; 3) adding a disclosure; and 4) updating terminology throughout the document as appropriate, are effective for reporting periods ending on or after December 31, 2011.

20. In March 2024, new SAP concept revisions, as detailed in Issue Paper No. XXX, were adopted. These revisions, effective January 1, 2025, with early adoption permitted, expanded the scope of SSAP No. 94R to include all purchased, and certain allocated, state and federal income or premium tax credits and provide new guidance on the accounting, recognition, and reporting for state and federal tax credits within the scope of this statement. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credits within the scope of this statement to reflect the guidance in the conceptual revisions. For unutilized tax credits which were carried forward from prior to the effective date:

- a. Federal tax credits in other-than-invested assets are to be transferred and reported ~~net of~~ as a ~~deferred tax asset (DTA)~~ in accordance with SSAP No. 101.
- ~~a.~~b. Tax credits previously recorded at acquisition cost should be adjusted to reflect the face value of the acquired tax credits with the corresponding loss immediately recognized or the gain deferred.

REFERENCES

Relevant Issue Papers

- Issue Paper No. 126—Accounting for Transferable State Tax Credits
- Issue Paper No. 145—Accounting for Transferable and Non-Transferable State Tax Credits
- Issue Paper No. XXX—XXX

EXHIBIT A – ACCOUNTING FOR TRANSFERABLE ~~STATE~~ TAX CREDITS

On 1/1/X1 SAM Insurance Company purchased transferable state tax credits for a cost of \$100,000. The transferable state tax credits are redeemable for \$160,000 and expire at the end of 12/31/X4. SAM initially expects to utilize the tax credits before expiration in their state of domicile in the amount of \$40,000 per year. In year X4, SAM sells the remaining \$30,000 in transferable state tax credits for \$20,000.

1/1/x1	Transferable state tax credits	~~100~~ 160,000	
	<u>Deferred gains on acquired tax credits</u>		<u>60,000</u>
	Cash		100,000
	<i>To record the purchase of the tax credits</i>		
6/30/x1	Premium tax expense	40,000	
	Premium taxes payable to domiciliary state		40,000
	<i>To record premium tax expense and accrue the liability in Year 1.</i>		
10/1/x1	Premium tax payable	40,000	
	Transferable state tax credits		40,000
	<i>To record the use of tax credits in Year 1. The reporting entity expects to be able to utilize remaining tax credits before expiration.</i>		
6/30/x2	Premium tax expense	60,000	
	Premium taxes payable to domiciliary state		60,000
	<i>To record premium tax expense and accrue the liability in Year 2.</i>		
9/30/x2	Premium tax payable	60,000	
	Transferable state tax credits		60,000
	<i>To record the use of taxes credits in Year 2. The reporting entity expects to be able to utilize remaining tax credits before expiration.</i>		
6/30/x3	Premium tax expense	30,000	
	Premium taxes payable to domiciliary state		30,000
	<i>To record premium tax expense and accrue the liability in Year 3.</i>		
9/30/x3	Premium tax payable	30,000	
	<u>Transferable state tax credits</u>		30,000
	<u>Deferred gains on acquired tax credits</u>	<u>30,000</u>	
	<u>Other income</u>		<u>30,000</u>
	<i>To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. The Company intends to sell the remaining tax credits in year 4.</i>		
6/30/x4	Cash	20,000	
	<u>Other income</u>	<u>10,000</u>	
	<u>Transferable state tax credits</u>		<u>30,000</u>
	<u>Deferred gains on acquired tax credits</u>	<u>30,000</u>	
	Other income		~~20~~ 30,000
	<i>To record the sale of the remaining tax credits.</i>		

EXHIBIT B – ACCOUNTING FOR NON-TRANSFERABLE ~~STATE~~ TAX CREDITS

On 7/1/X1 LJW Insurance Company purchased non-transferable ~~state~~-federal tax credits for a cost of \$100,000. The ~~state~~-federal tax credits are redeemable for \$110,000, ~~are not transferable~~ and expire on, April 15, 20x2. LJW expects to utilize the tax credits before expiration ~~in their state of domicile~~ in the amount of \$110,000. Tax credits are utilized pro-rata, approximately \$36,666 every quarter, from acquisition date to expiration date. The illustration below assumes that LJW Insurance Company's quarterly income tax liability equals the amount of credits that were purchased.

7/1/x1	~~State~~ - <u>Federal</u> tax credits	110,000	
	<u>Deferred gains on acquired tax credits</u>		<u>10,000</u>
	Cash		100,000
	<i>To record the purchase of the tax credits</i>		
9/30/x1	~~Premium~~ - <u>Income</u> tax expense	~~200,000~~ <u>36,666</u>	
	<u>Income</u> ~~Premium~~ taxes payable to ~~domiciliary state~~		~~200,000~~ <u>36,666</u>
	<i>To record <u>quarterly premium tax expense and accrue the income tax liability.</u></i>		
<u>10/1/x1</u>	<u>Income taxes payable</u>	<u>36,666</u>	
	<u>Federal tax credits</u>		<u>36,666</u>
	<i>To record the use of tax credits in the quarter.</i>		
<u>12/31/x1</u>	<u>Income tax expense</u>	<u>36,666</u>	
	<u>Income taxes payable</u>		<u>36,666</u>
	<i>To record quarterly income tax liability.</i>		
<u>1/1/x2</u>	<u>Income taxes payable</u>	<u>36,666</u>	
	<u>Federal tax credits</u>		<u>36,666</u>
	<i>To record the use of tax credits in the quarter.</i>		
<u>3/31/x2</u>	<u>Income tax expense</u>	<u>36,668</u>	
	<u>Income taxes payable</u>		<u>36,668</u>
	<i>To record quarterly income tax liability.</i>		
<u>3/15/x2</u>	~~Premium tax payable~~	~~110,000~~	
<u>4/1/x2</u>	<u>Income taxes payable</u>	<u>36,668</u>	
	<u>Deferred gains on acquired tax credits</u>	<u>10,000</u>	
	<u>Other Income</u>		<u>10,000</u>
	<u>Federal tax credits</u>		<u>36,668</u>
	~~Other Income~~		~~10,000~~
	~~Federal tax credits~~		~~100~~ <u>110,000</u>
	<i>To record the use of ~~premium~~ tax credits <u>in the quarter</u> in excess of cost and recognize a gain on premium tax credits in other income. (The additional \$90,000 of premium taxes payable would still be due.)</i>		

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/22-14b-SSAPNo94R-StateandFederalTaxCredits.docx>

Other SSAPs

Spring National Meeting Adoption: This document represents the final adopted version of the revisions to SSAP No. 34 and SSAP No. 48R. The changes shown to SSAP No. 48R have not been amended to reflect the proposed formatting changes proposed in agenda item #2024-08: Consistency Revisions for Residuals.

Proposed revisions to **SSAP No. 34—Investment Income Due and Accrued**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investment income due and accrued. This statement does not address the accounting for tax credits allocated or purchased, which are discussed in SSAP No. 93R—Investments in Tax Credit Structures and SSAP No. 94R—State and Federal Tax Credits.

Proposed revisions to **SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*, whether or not it is considered to be controlled by or affiliated with the reporting entity. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in *SSAP No. 40R—Real Estate Investments*, are excluded from this statement. This statement does not address the accounting for investments in joint ventures, partnerships, and and limited liability companies that invest in tax credit programs that and are in the scope of ~~hold an equity interest in either a tax syndication structure or tax equity fund invest in Low-Income Housing Tax Credit Properties as discussed in~~ *SSAP No. 93R—Low Income Housing Tax Credit Property Investments* Investments in Tax Credit Structures.

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: *ASU 2023-03—Amendments to SEC Paragraphs*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

In July of 2023 FASB issued *ASU 2023-03, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022, EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*, which amends SEC paragraphs from the Accounting Standards Codification based on the issuance of SEC Staff Accounting Bulletin (SAB) 120, the March 24, 2022 EITF meeting SEC staff announcement, and SAB Topic 6.B “Accounting Series Release No. 280 — General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. This ASU updates various aspects of SEC guidance on stock compensation and equity-based payments.

Existing Authoritative Literature:

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-03, Amendments to SEC Paragraphs as not applicable to statutory accounting*. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are not applicable for statutory accounting purposes.

Staff Review Completed by: William Oden – October 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-03—Amendments to SEC Paragraphs as not applicable for statutory accounting*.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-03, Amendments to SEC Paragraphs* as not applicable to statutory accounting.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Adoptions/23-25 - ASU 2023-03 - SEC Updates.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2024/03-16-24%20Spring%20National%20Meeting/Adoptions/23-25%20-%20ASU%2023-03%20-%20SEC%20Updates.docx)

Not for Distribution

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: *ASU 2023-04—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

In August of 2023 FASB issued *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*, which amends SEC paragraphs from the Accounting Standards Codification for the issuance of SEC Staff Accounting Bulletin (SAB) 121 which provides guidance on accounting for obligations to safeguard Crypto-Assets an entity holds for its platform users.

Existing Authoritative Literature:

Historically, SEC guidance from ASUs have been rejected as not applicable for statutory accounting in Appendix D. Regardless, all ASUs are reviewed for statutory accounting purposes to determine if the guidance should be considered for statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

In May 2021, the Working Group issued INT 21-01: Accounting for Cryptocurrencies, which provided guidance for the statutory accounting treatment of cryptocurrencies. INT 21-01 establishes that directly held cryptocurrencies have not been identified in the Accounting Practices and Procedures Manual (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the Accounting Practices and Procedures Manual as an admitted asset.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-04, Amendments to SEC Paragraphs* as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are generally not applicable for statutory accounting purposes.

Staff Review Completed by: Jake Stultz – October 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-04—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121* as not applicable for statutory accounting.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121* as not applicable to statutory accounting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-27-ASU2023-04-SECUpdates-Crypto.docx>

Not for Distribution

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: IMR / AVR Preferred Stock

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☐
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to update guidance for the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR) in the Annual Statement (A/S) Instructions for perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs. The existing IMR/AVR guidance is based on measurement of preferred stock based on NAIC designation. However, statutory accounting revisions effective in 2021 revised the measurement method for perpetual preferred stock to always reflect fair value, not to exceed any currently effective call price, regardless of NAIC designation. Furthermore, with dedicated reporting lines established to separate redeemable and perpetual preferred stock, the reporting of NAIC designations was revised and no longer references an “RP” or “P.” These revisions were incorporated as perpetual preferred stock is more akin to an equity instrument, as it is not required to be redeemed by the issuing entity or at the option of the investor. At the time of this measurement method change, corresponding revisions to the IMR/AVR instructions were not reflected. As such, the existing IMR/AVR guidance directs realized gains/loss treatment for all preferred stock based on the NAIC designation during the holding period and refers to the prior designation classifications.

This agenda item proposes to clarify that realized gains and losses on perpetual preferred stock shall not be added to the IMR, regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting realized gains/losses to the AVR. This agenda item does not propose to change the concepts for redeemable preferred stock, which is more akin to a debt instrument, but proposes to clarify the guidance so application based on the type of structure is clear. Separate reporting of perpetual preferred stock and redeemable preferred stock is already included on Schedule D-2-1: Preferred Stock.

For the revisions proposed in this agenda item, the guidance for redeemable preferred stock will not be revised and will continue to classify realized gains/losses between the IMR and AVR based on NAIC designation. This guidance indicates that if the designation was a 4-6 at any time during the holding period, the realized gain or loss would go to AVR as non-interest related gains or losses. This agenda item does not intend to confirm that the allocation approach for redeemable preferred stock is appropriate and is strictly focused on ensuring that the current annual statement instructions for IMR/AVR corresponds with the current accounting and reporting guidance for perpetual preferred stocks. As detailed in the recommendation, discussion on whether use of NAIC designation for redeemable preferred stock is appropriate is proposed to occur as part of the long-term IMR project.

Existing Authoritative Literature:

- **SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies, excluding separate accounts. Separate account AVR/IMR reporting is addressed in *SSAP No. 56—Separate Accounts*.

SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all

invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

3. The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for loan-backed and structured securities), or if not specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

Effective Date and Transition

4. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*.

• A/S Instructions – Life, Accident and Health / Fraternal Companies

(This reflects 2023 guidance. Agenda item 2023-15 proposes revisions to address specific allocations to the IMR that may not reflect interest-related losses.)

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$ _____ Transferred into the Reserve Net of Taxes of \$ _____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in SSAP No. 43R—*Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is **NOT** different from its NAIC designation at the beginning of the holding period by more than one NAIC designation. Exclude any such gains (losses) exempt from the IMR.

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines). Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where:

- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on any preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with SSAP No. 26R—*Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with SSAP No. 43R—*Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that

occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- **Security Sold at a Gain Without Prior OTTI** – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as non-interest-related gains (losses).

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from preferred stock that had an NAIC/SVO designation of RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock’s current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Agenda item 2019-04: SSAP No. 32 – Investment Classification Project, resulted with revisions to update the preferred stock accounting and reporting guidance. These revisions resulted with all perpetual preferred stock being reported at fair value, not to exceed any currently effective call price, with unrealized gains and losses accounted for in accordance with SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve*.
- Agenda Item 2023-14: SSAP No. 7—*Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7.
- Agenda Item 2023-15: IMR/AVR Specific Allocations considers revisions to the A/S instructions to address guidance that prescribes specific allocation to the IMR. These revisions were exposed in August 2023.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification and expose this agenda item with proposed revisions to the A/S instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation. This agenda item proposes new guidance that corresponds to the accounting and reporting differences for redeemable and perpetual preferred stock, with all perpetual preferred stock being treated as an equity instrument similar to common stock. With this approach, all unrealized gains or losses on perpetual preferred stock will reverse to realized gains or losses in the AVR formula. The revisions also clarify that SVO-Identified Preferred Stock ETFs shall be treated as perpetual preferred stock (equities) as that is consistent with the guidance in SSAP No. 32R—*Preferred Stock*.

(Note: This item is proposed as a SAP Clarification as the revisions to SSAP No. 32R to revise the measurement method for perpetual preferred stock was a new SAP Concept. The revisions proposed in this agenda item simply update the IMR/AVR A/S instructions to correspond to those adopted changes.)

As discussed in the introduction, this agenda item does not propose to alter the current process of using NAIC designations for redeemable preferred stock in determining whether realized gains or losses should be allocated to IMR or AVR. However, it should not be perceived that this agenda item confirms retention of this existing approach. Discussion on the approach to allocate gains/losses incurred from redeemable preferred stock is recommended for review as part of the long-term project on IMR/AVR. Any comments received on this dynamic will be addressed as part of that project. As detailed in the A/S instructions, for preferred stock, the determination for AVR is based on whether the preferred stock was an NAIC 4-6 at any time during the holding period and not based on a change in NAIC designation.

Staff Note: Shaded guidance reflects sections that have proposed revisions that were exposed in agenda item 2023-15: IMR/AVR Specific Allocations. These changes are accepted only for ease of readability and to prevent confusion on the proposed revisions related to this agenda item. Whether the revisions from agenda item 2023-15 are adopted will depend on the discussion and action by the Working Group. With the exception of the added 'redeemable' in the first shaded paragraph, all of the edits proposed in this agenda item are in separate paragraphs from agenda item 2023-15.

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$ _____ Transferred into the Reserve Net of Taxes of \$ _____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in SSAP No. 43R—*Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and [redeemable preferred stocks](#) where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines) ~~and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines)~~. Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. [\(Investments on the SVO-Identified Preferred Stock List are captured as perpetual preferred stock and treated as equity investments, with gains and losses excluded from IMR.\)](#)

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not

be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on ~~any redeemable~~ preferred stock that had an NAIC/SVO designation of ~~4-6 RP4, RP5 or RP6 or P4, P5 or P6~~ at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and ~~redeemable~~ preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For ~~redeemable~~ preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ~~Bond~~ ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified ~~Bond ETFs Funds~~ designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with SSAP No. 26R—Bonds, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments whose NAIC/SVO designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with SSAP No. 26R—*Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with SSAP No. 43R—*Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- **Other-Than-Temporary Impairment** – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- **Security Sold at a Loss Without Prior OTTI** – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- **Security Sold at a Loss with Prior OTTI** – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain with Prior OTTI** – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not

adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from [redeemable](#) preferred stock that had an NAIC/SVO designation of [4-6 RP4, RP5 or RP6 or P4, P5 or P6](#) at any time during the holding period should be reported as [non-interest-related gains \(losses\)](#) in the AVR.

However, for a convertible bond or [redeemable](#) preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock’s current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith

and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

Staff Review Completed by: Julie Gann - NAIC Staff, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions, as illustrated above, to the annual statement instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation, and clarify that perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs shall reported as equities through AVR.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the proposed revisions to the annual statement instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation, and clarify that perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs, as well as all mandatorily convertible preferred stock (regardless of redeemable or perpetual) shall reported through the AVR. The adopted revisions are shown below. (Revisions from the exposure pertain to inclusion of guidance for mandatorily convertible preferred stock.) The proposed revisions will be considered by the Blanks (E) Working Group for year-end 2024. This agenda item did not result in SAP revisions.

Adopted Revisions:

Staff Note: Shaded guidance reflects sections with revisions discussed under agenda item 2023-15: IMR/AVR Specific Allocations. Agenda item 2023-15 should be reviewed for the adopted revisions to those sections. With the exception of the added 'redeemable' in the first shaded paragraph, all of the edits in this agenda item are in separate paragraphs from agenda item 2023-15.

Interest Maintenance Reserve (IMR)

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of \$ _____ Transferred into the Reserve Net of Taxes of \$ _____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in SSAP No. 43R—*Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and [redeemable](#) preferred stocks where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, are different from its NAIC designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from those debt instruments shall NOT be reported in the IMR and shall be reported in the AVR

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (hereafter subject to bond IMR guidelines) ~~and the SVO Identified Preferred Stock ETF List (hereafter subject to preferred stock IMR guidelines).~~ Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. [\(Mandatory convertible preferred stocks \(regardless of if redeemable or perpetual\) and investments on the SVO-Identified Preferred Stock List are captured as perpetual preferred stock and treated as equity investments, with gains and losses excluded from IMR.\)](#)

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on

a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on ~~any redeemable~~ preferred stock that had an NAIC/SVO designation of ~~4-6 RP4, RP5 or RP6 or P4, P5 or P6~~ at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and ~~redeemable~~ preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For ~~redeemable~~ preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For SVO Identified ~~Bond~~ ETFs, the holding period is defined as one calendar year to expected maturity. For SVO Identified ~~Bond ETFs Funds~~ designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

In accordance with SSAP No. 26R—*Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

Asset Valuation Reserve (AVR)

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stocks (regardless of if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments whose NAIC/SVO designation at the end of the holding period, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation or NAIC designation category shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with SSAP No. 26R—*Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with SSAP No. 43R—*Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- **Other-Than-Temporary Impairment** – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.
- **Security Sold at a Loss Without Prior OTTI** – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.
- **Security Sold at a Loss with Prior OTTI** – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain with Prior OTTI** – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.
- **Security Sold at a Gain Without Prior OTTI** – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of “6” at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from redeemable preferred stock that had an NAIC/SVO designation of 4-6 RP4, RP5 or RP6 or P4, P5 or P6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

However, for a convertible bond or redeemable preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

The following guidance pertains to instruments in Scope of SSAP No. 86—*Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.
- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to SSAP No. 86—*Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-29-IMRPreferredStock.docx>

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Admissibility Requirements of Investments in Downstream Holding Companies

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item is the result of regulator comments received on the existing guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 24, and is intended to update the language in paragraph 24 on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. The current SSAP No. 97, paragraph 24 guidance states “if the downstream noninsurance holding company does not meet the requirements of paragraph 26, **audited GAAP financial statements, as described in paragraph 23, are required for the downstream noninsurance holding company and its SCA and non-SCA investments** in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.”

The issue with the existing paragraph 24 guidance is that as it summarizes other guidance it could be perceived as contradicting guidance provided in paragraph 27 related to the “look through” process. This process allows admitting audited investments in entities owned by an **unaudited downstream noninsurance holding company** SCA entity.

Existing Authoritative Literature:

***SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* (bolding added for emphasis)**

Admissibility Requirements of Investments in Downstream Holding Companies

23. To meet the admissibility requirements of this statement, unless the limited exception to the audited financial statements requirement discussed in paragraphs 26 and 27 applies, an annual audit of the financial statements of SCA entities, including the downstream holding company valued under paragraphs 8.b.i through 8.b.iv. must be obtained. The requirement for audited financial statements may be met by utilizing any one of the following methods:

- a. Audited US GAAP financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA’s domiciliary state.) The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities and non-SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet shall then be adjusted for GAAP to SAP differences for paragraph 8.b.i., 8.b.ii. and 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or

- b. Audited foreign GAAP-basis financial statements of the downstream SCA holding company. (Consolidated or combined financial statements are allowed encompassing one or more downstream holding companies, including such holding companies that directly own U.S. insurance entities, provided that the statutory financial statements of such U.S. insurance entities are audited. Annual consolidated or combined audits are allowed for insurance entities if completed in accordance with the Model Regulation Requiring Annual Audited Reports as adopted by the SCA's domiciliary state.) The audited foreign GAAP basis financial statements shall include an audited footnote disclosure within the financial statements that reconciles each consolidated entity's net income and equity on a foreign basis of accounting to a U.S. GAAP basis. The audited financial statements of the downstream holding company shall include as other financial information, consolidating or combining balance sheet schedule(s) showing the equity of all relevant SCA entities non-SCA SSAP No. 48 entities, and any required intercompany eliminations. The consolidating or combining balance sheet schedule shall separately present those entities owned directly by the downstream holding company. The consolidating or combining balance sheet shall then be adjusted for GAAP to SAP differences of the insurance entities and paragraph 8.b.ii. and paragraph 8.b.iv. entities owned directly or indirectly by the downstream holding company. The adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level reporting entity; or
- c. Individual audits of the downstream holding company and the downstream holding company's investments in individual SCA entities.

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required for the downstream noninsurance holding company and its SCA and non-SCA investments in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.

25. A purchased downstream holding company is valued in accordance with the provisions of paragraphs 22-25 and the provisions of SSAP No. 68.

Limited Exceptions to the Audit Requirements for Downstream Noninsurance Holding Companies

26. This statement requires that investments in SCA entities be recorded using one of the valuation methods described in paragraph 8 in order to be admitted assets. Each of the paragraph 8.b. valuation methods require the financial statements of SCA entities, including downstream noninsurance holding companies, to be audited in order for the investments in SCA entities to be admitted assets. Likewise, SSAP No. 48 requires the financial statements of joint ventures, partnerships, and/or limited liability companies in which the downstream noninsurance holding company has a minor ownership interest or otherwise lacks control, i.e., ownership interest is less than 10% to be audited (U.S. GAAP) in order to be admitted assets. **There is a limited exception to the requirement to have audited financial statements of a downstream noninsurance holding company, provided that the entities owned by the downstream noninsurance holding company (paragraph 8.b.iii. entity) have audited financial statements as described in paragraphs 26 and 27.**

27. The process of admitting audited investments in entities owned by an unaudited downstream noninsurance holding company SCA entity will be known as a "look through." In order to admit the investments in audited SCAs or the audited non-SCA SSAP No. 48 entities owned by an unaudited downstream noninsurance holding company, a reporting entity may apply the look through approach, provided all of the following conditions are met:

- a. The downstream noninsurance holding company is an 8.b.iii entity, and

- b. The downstream noninsurance holding company does not own any other assets which are material to the downstream holding company other than the audited SCA entities and/or audited non-SCA SSAP No. 48 entities, and
- d. The downstream noninsurance holding company is not subject to liabilities, commitments, contingencies, guarantees or obligations which are material to the downstream noninsurance holding company.

If an investment in a downstream noninsurance holding company meets the requirements set forth above, the reporting entity can admit the individual audited SCA entities and/or audited non-SCA SSAP No. 48 entities; however, unaudited immaterial assets of the downstream noninsurance holding company are to be carried at the lesser of the paragraph 8 valuation or nonadmitted (e.g. some equity method investments are required to be carried at a negative value due to either statutory adjustments or to parental obligations to keep funding the subsidiary). If a holding company structure has more than one downstream noninsurance holding company, each downstream non-insurance holding company may be looked through, provided each downstream non-insurance holding company meets all of the conditions in paragraph 27.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* to revise paragraph 24 language to better align it with the existing guidance provided in paragraphs 26 and 27.

Proposed edits to SSAP No. 97:

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required. ~~for the downstream noninsurance holding company and its SCA and non-SCA investments~~ in order for the investment in the downstream noninsurance holding company or individual SCAs to be classified as an admitted asset.

Staff Review Completed by: Jason Farr— NAIC Staff, November 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed consistency revisions to *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* to revise paragraph 24 language to better align it with the existing guidance provided in paragraphs 26 and 27.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to SSAP No. 97, paragraph 24 with modification to remove the previously exposed revision “or individual SCAs” language as suggested by interested parties as not necessary. The adopted revisions better align it with the existing guidance provided in paragraphs 26 and 27.

Adopted edits to SSAP No. 97:

24. If the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required. ~~for the downstream~~

~~noninsurance holding company and its SCA and non-SCA investments~~ in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Adoptions/23-30 - SSAP 97 Admissibility Requirements.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/03-16-24SpringNationalMeeting/Adoptions/23-30-SSAP97AdmissibilityRequirements.docx)

Not for Distribution

**Revisions to the
As of March 2024 Accounting Practices and Procedures Manual**

On **May 15, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2023-16	Schedule BA	Schedule BA Categories <i>SAP Clarification</i> No SSAP revisions	Adopted agenda item summarizing key revisions in the modified blanks proposal 2023-12BWG sponsored by the SAPWG, which is proposed to be effective January 1, 2025. This agenda item did not result in any SSAP revisions.
2024-13	SSAP No. 107	Update SSAP No. 107 Disclosures <i>SAP Clarification</i> Effective Year End 2024	Adopted revisions to SSAP No. 107 remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll-forward illustration in Exhibit B was revised to remove the portion for the transitional reinsurance program and the risk corridors program.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/nationalmeetings/a.nationalmeetingmaterials/2024/05-15-24/adoptions/00 - adoptions.toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/nationalmeetings/a.nationalmeetingmaterials/2024/05-15-24/adoptions/00-adoptions.toc.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Schedule BA Reporting Categories

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity's classification as to the underlying asset characteristics:

- Bonds/Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

** Bond /fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Existing Authoritative Literature:

A/S Instructions – Life, Accident and Health/Fraternal Companies

Reporting Categories on Schedule BA:

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....0799999

Affiliated.....0899999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....0999999

Affiliated.....1099999

Mortgage Loans

Unaffiliated.....1199999

Affiliated.....	1299999
Other Fixed Income Instruments	
Unaffiliated.....	1399999
Affiliated.....	1499999

Joint Venture, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics of:

Fixed Income Instruments

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....	1599999
Affiliated.....	1699999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....	1799999
Affiliated.....	1899999

Common Stocks

Unaffiliated.....	1999999
Affiliated.....	2099999

Real Estate

Unaffiliated.....	2199999
Affiliated.....	2299999

Mortgage Loans

Unaffiliated.....	2399999
Affiliated.....	2499999

Other

Unaffiliated.....	2599999
Affiliated.....	2699999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments

Unaffiliated.....	4699999
Affiliated.....	4799999

Common Stock

Unaffiliated.....	4899999
Affiliated.....	4999999

Preferred Stock

Unaffiliated.....	5099999
Affiliated.....	5199999

Real Estate

Unaffiliated.....	5299999
Affiliated.....	5399999

Mortgage Loans

Unaffiliated.....	5499999
Affiliated.....	5599999

Other

Unaffiliated.....	5699999
Affiliated.....	5799999

Schedule BA Classification Instructions/Guidance:**Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:**Fixed Income Instruments**

Include: Leveraged Buy-out Fund.

A fund investing in the "Z" strip of Collateralized Mortgage Obligations.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captures securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Bond Project: Under the principle-based bond definition project, revisions are proposed to combine the non-registered provide funds within the reporting category for joint ventures, partnerships and limited

liability companies as those items would also be in scope of SSAP No. 48. With that change the category of “fixed income instruments” would be retained.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): NA

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification/potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- Fixed-Income Instruments
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

As detailed in the current A/S instructions, descriptions are included for non-registered private funds, joint ventures, partnerships, and limited liability companies, whereas references to the SSAP the underlying assets would be captured in are included for residual interests.

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within ‘Activity to Date,’ revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

Staff Review Completed by: Julie Gann - NAIC Staff, May 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions, as detailed below, to further define the investments captured on Schedule BA along with the continued proposed to combine non-registered private funds within the proposed reporting lines for joint ventures, partnerships, or limited liability companies. The Working Group also requested additional regulator and industry feedback on whether more specificity is needed since the existing Schedule BA descriptions are fairly broad.

Proposed Interested Parties' Edits to the Schedule BA Instructions from Separate Attachment:**Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:**Fixed Income Instruments**

Include: [Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans](#) ~~Leveraged Buy-out Fund.~~

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds [or other underlying equity investments](#).

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital

factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities* Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

Fixed Income Instruments

Include: ~~Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans, if held individually, would be reported on Schedule D—Part 1—Long-Term Bonds.~~

Common Stocks

Include: Investments with underlying collateral which are securities that represent a subordinate equity ownership, ~~if held individually, would be reported on Schedule D—Part 2—Section 2—Common Stocks~~

Preferred Stocks

Include: Investments with underlying collateral which is a security that represents ownership of a corporation and gives the holder a claim prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation, ~~if held individually, would be reported on Schedule D—Part 2—Section 1—Preferred Stocks~~

Real Estate

Include: Investments with underlying collateral which is defined as directly-owned real estate properties and single real estate property investments that are directly and wholly-owned through a limited liability company, ~~if held individually, would be reported on Schedule A—Real Estate Owned~~

Mortgage Loans

Include: Investments with underlying collateral which is secured by a mortgage on real estate, ~~if held individually, would be reported on Schedule B—Mortgage Loans~~

Other

Include: Items that do not qualify for inclusion in the above subcategories.

On February 20, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG. After the discussion, the Working Group exposed this agenda item and directed a modified SAPWG-sponsored blanks proposal (2023-12BWG) to recommend for exposure during the February 21, 2024, Banks (E) Working Group conference call. (This agenda item does not propose any SSAP revisions.)

The following key modifications are reflected in the modified Schedule BA blanks proposal and for documentation within this agenda item:

- 1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an “Any Other Class of Asset.”
- 2) The Schedule BA reporting category for investments in “Joint Ventures, Partnerships and Limited Liability Companies” has been clarified to identify that investments captured within this reporting category shall be in scope of SSAP No. 48. With this clarification, the revisions proposed by industry to clarify the “underlying characteristics of bonds” subcategory to include “collateral that has contractual principal and/or interest payments, excluding mortgage loans,” as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the SSAP No. 48 restriction has been included to reference structured settlement payment rights in scope of *SSAP No. 21R—Other Admitted Assets* that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the “non-registered private fund” reporting category as those items shall be reported in the “joint ventures, partnerships and limited liabilities companies” reporting category if in scope of SSAP No. 48.
- 3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning Jan. 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

On May 15, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG, which is proposed to be effective on January 1, 2025. After the discussion, the Working Group adopted this agenda item, resulting in no SSAP revisions, the adoption is to communicate support for the adoption of 2023-12BWG with the following three additional modifications to the blanks proposal:

- 1) Rename “Fixed Income Instruments” to “Bonds”:

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of *SSAP No. 21R – Other Admitted Assets*. The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization

tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock 4) an investment in common stock, or 5) any other investment structure.

Fixed Income Instruments Bonds

Include: Investments with underlying collateral which, if held individually, would be reported as issuer credit obligations on Schedule D – Part 1 – ~~Long-Term Bonds~~ Section 1, or as asset-backed securities on Schedule D – Part 1 – Section 2. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, auto loans, aircraft leases or train car leases.

2) Clarify Guidance for Schedule BA, Column 26 – Maturity Date

Column 26 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not be limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

~~Use only for securities included in the following subtotal lines.
State the date the mortgage loan matures.~~

3) Correct Joint Venture, Partnerships and LLCs Reporting Line. (Change from exposure is shaded.)

As Exposed: Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests with Underlying Assets Having the Characteristics of:~~

With Correction: Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests with Underlying Assets Having the Characteristics of:~~

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Update SSAP No. 107 Disclosures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

This agenda item recommends updates to disclosure requirements in *Statement of Statutory Accounting Principles No. 107—Risk-Sharing Provisions of the Affordable Care Act* to remove disclosures related to transitional reinsurance and for the risk corridors programs which have expired.

In December 2014, the NAIC Statutory Accounting Principles (E) Working Group (SAPWG) issued SSAP No. 107 to provide accounting and disclosure guidance for the three risk-sharing provision programs of the Affordable Care Act (the “3Rs programs”). SSAP No. 107 covers the three risk sharing programs that were initially part of the Affordable Care Act, a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program. Since that time, the 3Rs programs have changed significantly. Most notably, the temporary transitional reinsurance and risk corridors programs terminated at the end of 2016.

SSAP No. 107 introduced significant financial statement disclosure requirements for the 3Rs programs. The disclosures are required by SSAP No. 107, paragraphs 60-62. Exhibit B of SSAP No. 107 illustrates the roll-forward disclosure required by paragraph 61. These disclosure requirements are currently satisfied through detailed data tables included in Footnote 24E of the quarterly and annual financial statements.

Despite the passage of time and the termination of two of the 3Rs programs, the disclosure requirements outlined in SSAP No. 107 and the disclosure instructions for footnote 24E have not been updated or modified since inception. As a result, companies originally subject to the 3Rs programs are still required by SSAP No. 107 to include several tables in Footnote 24E, even though the majority of the information disclosed is either zero or blank because two of the programs were terminated several years ago. This agenda item proposal removal of the disclosures for the expired programs and also removal of the related roll-forward illustration in Exhibit B of SSAP No. 107 for the expired programs.

Existing Authoritative Literature:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act
Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements by program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. through 60.c. Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

- a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)
- ii. Risk adjustment user fees payable for ACA Risk Adjustment
- iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)
- iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
- v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- b. ACA Transitional Reinsurance Program
 - i. Amounts recoverable for claims paid due to ACA Reinsurance
 - ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)
 - iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance
 - iv. Liabilities for contributions payable due to ACA Reinsurance - not reported as ceded premium
 - v. Ceded reinsurance premiums payable due to ACA Reinsurance
 - vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance
 - vii. Ceded reinsurance premiums due to ACA Reinsurance
 - viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments
 - ix. ACA Reinsurance Contributions – not reported as ceded premium
- c. ACA Temporary Risk Corridors Program
 - i. Accrued retrospective premium due from ACA Risk Corridors
 - ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors
 - iii. Effect of ACA Risk Corridors on net premium income (paid/received)
 - iv. Effect of ACA Risk Corridors on change in reserves for rate credits

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll-forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

Exhibit B of SSAP No. 107 illustrates the roll forward required by the SSAP No. 107, paragraph 61 of the disclosures.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

Convergence with International Financial Reporting Standards (IFRS):Not Applicable

Sponsor Recommendation

We are respectfully requesting SAPWG to re-evaluate and amend the disclosure requirements of SSAP No. 107 and request BWG to update the quarterly and annual financial statement instructions for Footnote 24E to eliminate certain tables, or portions of tables, that are no longer applicable. Specifically, we are requesting elimination of the portions of each table related to the transitional reinsurance and risk corridors programs that are no longer valid.

Sherry Gillespie, Senior Director - Regulatory Finance
UnitedHealthcare
2884 School Ln, Green Bay, WI 54313
February 1, 2024

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* as illustrated below. The revisions will remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll-forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. NAIC staff recommends that the Working Group direct a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

NAIC staff is aware that some states have federal waivers to operate reinsurance programs, but not all of the federal reinsurance waivers operate the same as the original transition program. To the extent the Working Group decides that new disclosures are needed for these reinsurance waiver programs, a future disclosure can be developed separately.

Staff Review Completed by: Robin Marcotte - NAIC Staff

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* which would remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll-forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. The Working Group also directed NAIC staff to prepare a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

Proposed Revisions:***SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures***

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by~~ for the permanent risk adjustment program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.e.~~ Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)
- ii. Risk adjustment user fees payable for ACA Risk Adjustment
- iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)
- iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
- v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)

~~b. ACA Transitional Reinsurance Program~~

- ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
- ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra liability)~~
- ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~
- ~~iv. Liabilities for contributions payable due to ACA Reinsurance not reported as ceded premium~~
- ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
- ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance~~
- ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
- ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~
- ~~ix. ACA Reinsurance Contributions not reported as ceded premium~~

- e. ~~ACA Temporary Risk Corridors Program~~
 - i. ~~Accrued retrospective premium due from ACA Risk Corridors~~
 - ii. ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
 - iii. ~~Effect of ACA Risk Corridors on net premium income (paid/received)~~
 - iv. ~~Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions [for the risk adjustment program](#) specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll-forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk ~~corridors~~ [adjustment](#) balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

EXHIBIT B – ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION

Receivables are reflected gross of any nonadmission for this illustration.

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1 – 3 + 7)	Cumulative Balance from Prior Years (Col 2 – 4 + 8)
	1	2	3	4	5	6	7	8	9	10	11
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable	4,000,000		3,000,000		1,000,000		-800,000		A	200,000	0
2. Premium adjustments (payable)		8,000,000		9,000,000		-1,000,000		1,000,000	B		0
3. Subtotal ACA Permanent Risk Adjustment Program	4,000,000	8,000,000	3,000,000	9,000,000	1,000,000	-1,000,000	-800,000	1,000,000		200,000	0
b. Transitional ACA Reinsurance Program											
1. Amounts recoverable for claims paid	22,000,000		15,000,000		7,000,000		-7,000,000		C	0	
2. Amounts recoverable for claims unpaid (contra liability)	8,000,000		9,000,000		-1,000,000		990,000		D	-10,000	
3. Amounts receivable relating to uninsured plans	3,000,000		2,800,000		200,000		-100,000		E	100,000	
4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium		90,000		75,000		15,000		-14,000	F		1,000
5. Ceded reinsurance premiums payable		100		200		-100		100	G		0
6. Liability for amounts held under uninsured plans		125,000		15,000		110,000		90,000	H		200,000
7. Subtotal ACA Transitional Reinsurance Program	33,000,000	215,100	26,800,000	90,200	6,200,000	124,900	-6,110,000	76,100		90,000	201,000
e. Temporary ACA Risk Corridors Program											
1. Accrued retrospective premium	12,000,000		14,000,000		-2,000,000		1,750,000		I	-250,000	
2. Reserve for rate credits or policy experience rating refunds		150,000		250,000		-100,000		100,000	J		0
3. Subtotal ACA Risk Corridors Program	12,000,000	150,000	14,000,000	250,000	-2,000,000	-100,000	1,750,000	100,000		-250,000	0
d. Total for ACA Risk-Sharing Provisions	49,000,000	8,365,100	43,800,000	9,340,200	5,200,000	-975,100	-5,160,000	1,176,100		40,000	201,000

Explanation of adjustments:

- A. Adjusted due to federal audit.
- B. Adjusted because of revised participant count.
- C. Adjusted due to poor experience of other participants in the reinsurance pool.
- D. Revised risk score information in the state of substantially impacted risk scores.

On May 15, 2024, the Statutory Accounting Principles (E) Working Group incorporated additional revisions into what was exposed which also deleted SSAP No. 107, paragraph 62 as recommended by interested parties. The adopted revisions, which are effective for year-end 2024 reporting, are reflected below. Similar revisions will be recommended to the Blanks (E) Working Group proposal 2024-10BWG in the May meeting. The deletion of SSAP No. 107, paragraph 62 will also result in the deletion of Note 24E/F (2) and 24E/F (3) tables on the proposal 2024-10BWG.

Adopted SSAP No. 107 revisions:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by~~ for the permanent risk adjustment program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.e.~~ Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

- a. ACA Permanent Risk Adjustment Program
 - i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)—
 - ii. Risk adjustment user fees payable for ACA Risk Adjustment—
 - iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)—
 - iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
 - v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- ~~b. ACA Transitional Reinsurance Program~~
 - ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
 - ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)~~
 - ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance—~~
 - ~~iv. Liabilities for contributions payable due to ACA Reinsurance — not reported as ceded premium~~
 - ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
 - ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance—~~
 - ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
 - ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~
 - ~~ix. ACA Reinsurance Contributions — not reported as ceded premium~~

~~c. ACA Temporary Risk Corridors Program~~

- ~~i. Accrued retrospective premium due from ACA Risk Corridors~~
- ~~ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
- ~~iii. Effect of ACA Risk Corridors on net premium income (paid/received)~~
- ~~iv. Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions [for the risk adjustment program](#) specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll-forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

~~62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:~~

- ~~a. Estimated amount to be filed or final amounts filed with federal agency~~
- ~~b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)~~
- ~~c. Amounts received from federal agency~~
- ~~d. Asset balance gross of nonadmission~~
- ~~e. Nonadmitted amounts~~
- ~~f. Net admitted assets~~

EXHIBIT B – ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION

Receivables are reflected gross of any nonadmission for this illustration.

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1 – 3 + 7)	Cumulative Balance from Prior Years (Col 2 – 4 + 8)
	1	2	3	4	5	6	7	8	9	10	11
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable	4,000,000		3,000,000		1,000,000		-800,000		A	200,000	0
2. Premium adjustments (payable)		8,000,000		9,000,000		-1,000,000		1,000,000	B		0
3. Subtotal ACA Permanent Risk Adjustment Program	4,000,000	8,000,000	3,000,000	9,000,000	1,000,000	-1,000,000	-800,000	1,000,000		200,000	0
b. Transitional ACA Reinsurance Program											
1. Amounts recoverable for claims paid	22,000,000		15,000,000		7,000,000		-7,000,000		C	0	
2. Amounts recoverable for claims unpaid (contra liability)	8,000,000		9,000,000		-1,000,000		990,000		D	-10,000	
3. Amounts receivable relating to uninsured plans	3,000,000		2,800,000		200,000		-100,000		E	100,000	
4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium		90,000		75,000		15,000		-14,000	F		1,000
5. Ceded reinsurance premiums payable		100		200		-100		100	G		0
6. Liability for amounts held under uninsured plans		125,000		15,000		110,000		90,000	H		200,000
7. Subtotal ACA Transitional Reinsurance Program	33,000,000	215,100	26,800,000	90,200	6,200,000	124,900	-6,110,000	76,100		90,000	201,000
e. Temporary ACA Risk Corridors Program											
1. Accrued retrospective premium	12,000,000		14,000,000		-2,000,000		1,750,000		I	-250,000	
2. Reserve for rate credits or policy experience rating refunds		150,000		250,000		-100,000		100,000	J		0
3. Subtotal ACA Risk Corridors Program	12,000,000	150,000	14,000,000	250,000	-2,000,000	-100,000	1,750,000	100,000		-250,000	0
d. Total for ACA Risk-Sharing Provisions	49,000,000	8,365,100	43,800,000	9,340,200	5,200,000	-975,100	-5,160,000	1,176,100		40,000	201,000

Explanation of adjustments:

- A. Adjusted due to federal audit.
- B. Adjusted because of revised participant count.
- C. Adjusted due to poor experience of other participants in the reinsurance pool.
- D. Revised risk score information in the state of substantially impacted risk scores.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/05-15-24/Adoptions/24-13-UpdateSSAPNo107Disclosures.docx>

**Revisions to the
As of March 2024, Accounting Practices and Procedures Manual**

On **August 13, 2024**, the Statutory Accounting Principles (E) Working Group adopted the following revisions to the *As of March 2024 Accounting Practices and Procedures Manual*. Documents associated with these revisions are linked to the reference items in bold text.

Ref #	SSAP/ Appendix	Title	Summary
2019-21	Issue Paper No. 169	Principles-Based Bond Definition <i>New SAP Concept</i> Issue Papers are Not Authoritative	Adopted Issue Paper No. 169 documents the discussions and decisions related to the principles-based bond project. The adopted SSAPs impacted by the principles-based bond definition are effective January 1, 2025, and should be used as the source of authoritative guidance.
2022-12	SSAP No. 25 SSAP No. 63 INT 03-02	Review of <i>INT 03-02: Modification to an Existing Intercompany Pooling Arrangement</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2024)	Adopted revisions to SSAP No. 25 and SSAP No. 63 address transfers of assets when modifying intercompany pooling agreements. This agenda item also nullifies INT 03-02.
2023-26	SSAP No. 15 SSAP No. 86	<i>ASU 2023-06, Disclosure Improvements</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2024)	Adopted revisions in SSAP No. 15 and SSAP No. 86 adopt, with modification, certain disclosures from ASU 2023-06. The ASU 2023-06 disclosures originally recommended for inclusion in SSAP No. 103R are to be added to agenda item 2024-04: Conforming Repurchase Agreements for further consideration as part of the larger project looking at statutory guidance for repurchase agreements and secured lending.
2024-02	SSAP No. 19 SSAP No. 73	<i>ASU 2023-01, Leases (Topic 842), Common Control Arrangements</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2024)	Adopted revisions in SSAP No. 19 and SSAP No. 73 adopt, with modification, ASU 2023-01.

Ref #	SSAP/ Appendix	Title	Summary
2024-03	SSAP No. 20 INT 21-01	ASU 2023-08, <i>Accounting for and Disclosure of Crypto Assets</i> <i>SAP Clarification</i> Effective Immediately (August 13, 2024)	Adopted revisions in SSAP No. 20 adopt, with modification, ASU 2023-08 and nullify INT 21-01: <i>Accounting for Cryptocurrencies</i> .
2024-08	SSAP No. 21	Residual Consistency Revisions <i>SAP Clarification</i> Effective January 1, 2025	Adopted revisions result with identified SSAPs referring to SSAP No. 21 for the formal residual definition and for accounting and reporting guidance.
2024-09	SSAP No. 2	SSAP No. 2 Clarification <i>SAP Clarification</i> Effective January 1, 2025	Adopted revisions eliminate lingering references implying that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.
2024-14EP	Various	Spring 2024 Editorial Revisions Effective Immediately (August 13, 2024)	Adopted editorial revisions to the <i>Accounting Practices and Procedures Manual</i> remove “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Manual.

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2024/08-13-24 summer national meeting/adoptions/00 - adoptions 8.13.2024 toc.docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2024/08-13-24%20summer%20national%20meeting/adoptions/00%20-%20adoptions%208.13.2024%20toc.docx)

Statutory Issue Paper No. 169

Principles-Based Bond Definition

STATUS

Adopted –August 13, 2024

Original SSAP: SSAP No. 26 and SSAP No. 43

Current Authoritative Guidance: SSAP No. 21, SSAP No. 26 and SSAP No. 43

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper details the new statutory accounting concept revisions to *SSAP No. 26—Bonds* (SSAP No. 26), *SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 43) and *SSAP No. 21—Other Admitted Assets* (SSAP No. 21) pursuant to the Statutory Accounting Principles (E) Working Group's (Working Group) Investment Classification Project as well as in response to expanding investment structures that have been reported on Schedule D-1: Long-Term Bonds. The revisions and discussions detailed within reflects a comprehensive review, referred to as the "Principles-Based Bond Project," to establish principal concepts for determining whether a debt security qualifies for reporting as a bond. Although SSAP No. 26 was previously revised pursuant to the Investment Classification Project in 2017, it was identified that some entities were classifying securities issued from special purpose vehicles (SPVs) in scope of SSAP No. 26 instead of SSAP No. 43. As the focus of this Principles-Based Bond Project is on the substance of investments, regardless of whether they include an SPV for issuance, this project includes all debt securities and encompasses both SSAP No. 26 and SSAP No. 43.

SUMMARY CONCLUSION

2. Investments eligible for reporting as bonds on Schedule D-1¹ shall comply with the principles-based definition of a bond or be specifically noted in scope of SSAP No. 26 or SSAP No. 43. Revisions to reflect the principles-based bond definition have been incorporated to SSAP No. 26, with SSAP No. 43 revised for accounting and reporting guidance for investments that qualify as asset-backed securities under the SSAP No. 26 bond definition. SSAP No. 21 has been revised to detail accounting and reporting guidance for debt securities that do not qualify as bonds under SSAP No. 26 and to provide guidance for the accounting and reporting of residual interests. Lastly, various revisions to other SSAPs have been incorporated to update guidance and/or references to the bond guidance. The final adopted SSAPs and other revisions are shown in the exhibits to this issue paper.

DISCUSSION

3. The discussion of this issue originally began in August 2019 with agenda item 2019-21: SSAP No. 43 – Equity Investments. This agenda item was drafted to consider clarification to SSAP No. 43 particularly with regards to collateralized fund obligations and similar structures that reflect underlying equity interests. In response to the discussion of comment letters in January 2020, this project was expanded to include a

¹ Pursuant to reporting changes adopted in response to the principles-based bond definition, issuer credit obligations (ICO) in scope of *SSAP No. 26—Bonds* will be reported on *Schedule D-1-1: Bonds* and asset-backed security (ABS) investments that qualify as bonds under SSAP No. 26 but follow *SSAP No. 43—Asset-Backed Securities* for accounting and reporting will be reported on *Schedule D-1-2: Asset-Backed Securities*. Throughout this issue paper, these bond investments (both ICO and ABS) are collectively referred to as bonds reported on Schedule D-1.

comprehensive review of SSAP No. 43 under the Working Group's Investment Classification Project, with NAIC staff directed to prepare a discussion document for subsequent review.

4. A preliminary discussion document was exposed for comment on March 18, 2020. Although there were no proposed recommendations in that exposed document, it captured the following:

- a. History of the definition / scope development of SSAP No. 43. (This history has been retained in this issue paper, beginning with paragraph 124.)
- b. Definitions of asset backed securities (ABS) from the Code of Federal Regulations (CFR), the Securities Exchange Act of 1934 and NAIC Model 280, Investments of Insurers Model Act (Defined Limits Version).
- c. Potential options for the accounting and reporting of ABS based on whether they were considered traditional securitizations in accordance with the Code of Federal Regulations (CFR) (17 CFR 229.1101(c)) definition of an ABS or non-traditional securitizations that did not comply with the CFR definition.

5. In response to this initial exposure, a detailed comment letter dated July 31, 2020, was received from interested parties. Although a variety of elements were noted, two key issues were the primary focus:

- a. Separation between SSAP No. 26 and SSAP No. 43: Pursuant to the comments, it was identified that many insurers had different interpretations of the adopted 2010 revisions that separated investments between SSAP No. 26 and SSAP No. 43 due to the presence of a "trust" or an "SPV" structure. As such, investment designs that had been identified as concerning due to the underlying investments in the SPV (e.g., equity-driven investments) believed by some to be limited to SSAP No. 43 were, under some interpretations, eligible to be captured in scope of SSAP No. 26.
- b. Defining an asset backed security: The comments received focused heavily on whether the 17 CFR definition captured securities within the 1933 or 1934 Securities Act. The proposed use of the 17 CFR definition, which is the ABS definition used by the SEC as a nationally recognized statistical ratings organization (NRSRO) registered for asset-backed securities, was intended to allow consistency in ABS items permitted for NRSRO designations. Furthermore, it was only the first "broad brush" in determining whether an investment would be initially captured in scope of SSAP No. 43. Regardless, based on the comments received, which noted variations between the 1933 and 1934 Securities Act, differences of assessments based on whether an entity is the issuer or acquirer, the legal scrutiny that may be required in determining whether an investment complies with the definition, as well as a recommendation for independent principles for determining an investment as an asset backed security, it was identified that further discussion should occur before utilizing the CFR definition of an asset-backed security.

6. After considering the interested parties' July 31, 2020, comments, the Working Group directed that a small group of industry work with Iowa representatives and NAIC staff to define what should be considered a bond for reporting on Schedule D-1. It was identified that some investment designs, which have been previously captured on Schedule D-1 or are proposed for inclusion on that schedule, may be well-performing assets, but are not bonds and should not be captured on Schedule D-1. It was also noted that regulators are not anticipating these sorts of investment structures when reviewing D-1 and assessing investment risk. These small group discussions began December 1, 2020, and continued until the bond proposal was initially exposed for public comment on May 20, 2021.

7. After considering the comment letters from the May 2021 exposure, on August 26, 2021, the Working Group affirmed the direction of the principle-based bond concepts and directed NAIC staff to

utilize those concepts in proposing statutory accounting revisions. With this explicit direction, it was noted that all elements of the principles-based bond proposal, and the reflection of those concepts in statutory accounting guidance, is subject to continued discussion and deliberation. Revised guidance for Schedule D-1 investment classification will not be considered authoritative statutory guidance until the specific effective date detailed in adopted authoritative SSAP. With the direction to proceed with the development of statutory guidance to reflect the principle-based concepts, the Working Group directed that NAIC staff continue to work with the small group of regulators and industry to discuss concepts, review proposed language and consider innovating investment designs. (During this meeting, the small group was repurposed and referred to as the “study” group with additional regulators participating.)

8. From September 2021 through January 2022, the study group of regulators and industry met to continue discussions on the bond proposal definition. Key elements discussed during this timeframe included 1) the requirement for a credit enhancement that puts the holder of an ABS in a different economic position from holding the underlying collateral directly, 2) the contractual stapling restriction, and 3) guidance for when a debt instrument is issued from an SPV that owns a portfolio of equity interests. Revisions from these discussions, as well as other aspects to clarify the definition and an initial issue paper were presented to the Statutory Accounting Principles (E) Working Group on March 2, 2022, and exposed. Subsequently, the full Working Group discussed and exposed revisions to the draft guidance until adoption.

9. This issue paper intends to provide information on discussions that occurred when considering the principles-based bond definition and the statutory accounting revisions to specify the types of investments that shall be reported on Schedule D-1: Long-Term Bonds. A summary of the exposure periods and adoption actions are detailed below:

- a. On March 2, 2022, this issue paper, along with the principles-based bond definition, was exposed, with comments due May 6, 2022. The Working Group heard comments on July 18, 2022, and directed limited edits to be reflected while also deciding not to incorporate revisions for a number of industry-proposed comments.
- b. On August 10, 2022, this issue paper, along with the principles-based bond definition, and proposed revisions to SSAP No. 26 and SSAP No. 43 was exposed, with comments due October 7, 2022. Comments were received from Interested Parties, Fermat Capital and the industry Lease-Backed Securities Working Group. After considering comments, the Working Group incorporated certain revisions.
- c. On November 16, 2022, after considering comments from the August 2022 exposure, the Working Group exposed revisions to SSAP No. 26 and SSAP No. 43. The Working Group also exposed revisions to other SSAPs that will be impacted with the bond project revisions. These edits included revisions to detail the short-term and cash equivalent restriction for ABS in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* as well as guidance for debt securities that do not qualify as bonds in SSAP No. 21. This guidance was exposed until February 10, 2023.
- d. On March 22, 2023, during the 2023 Spring National Meeting, the Working Group considered comments received and exposed updated guidance, with a comment period ending June 9, 2023, to reflect most of the interested party comments.
- e. On August 13, 2023, during the 2023 Summer National Meeting, the Working Group adopted the exposed revisions to SSAP No. 26, SSAP No. 43 and the document detailing revisions to other SSAPs with an effective date of January 1, 2025. With this action, it was noted that no comments had been received on these exposed items. Also on August 13, 2023, the Working Group considered comments on the exposed SSAP No. 21 on the guidance for non-bond debt securities that do not qualify as bonds and on residual interests and exposed a revised SSAP No. 21 until September 29, 2023.

- f. On December 1, 2023, during the 2023 Fall National Meeting, the Working Group considered comments received on SSAP No. 21, predominantly focused on the accounting and measurement of residual interests and exposed an updated SSAP No. 21 until January 22, 2024.
- g. On February 20, 2024, the Working Group received a revised SSAP No. 21 that was updated to reflect interested parties' comments during the interim. The Working Group exposed the revised SSAP No. 21 for a shortened comment period ending March 7, 2024, to allow for possible adoption consideration during the 2024 Spring National Meeting.
- h. On March 16, 2024, during the 2024 Spring National Meeting, the Working Group adopted new statutory accounting guidance within SSAP No. 21 for "Debt Securities That Do Not Qualify as Bonds" and for "Residual Tranches or Interests/Loss Positions." The new sections are effective January 1, 2025, but reporting entities may elect to adopt the residual guidance for year-end 2024. With this action, all planned statutory accounting guidance for the principles-based bond definition was adopted.

Discussion of Principles-Based Bond Concepts

10. Pursuant to the "small group" discussions comprised of industry, Iowa regulators and NAIC staff, the broad principle-based bond concepts discussed on August 26, 2021, reflected the following key concepts:

- a. Definition of a bond requires a security structure, representing a creditor relationship, that is considered an Issuer Credit Obligation (ICO) or an Asset Backed Security (ABS).
- b. The assessment of whether a security represents a creditor relationship requires consideration of the substance, rather than the legal form of the document, as well as consideration of other investments owned in the investee and other contractual arrangements. A security that possesses equity-like characteristics or that represents an ownership interest in the issuer in substance does not represent a creditor relationship.
- c. An ABS is a bond issued by an entity created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owned by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity.
- d. There are two defining characteristics that must be present for a security to meet the definition of an ABS: 1) The holder of a debt instrument issued by an ABS issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly, and 2) When the assets owned by the ABS are non-financial assets, the assets are expected to generate a meaningful level of cash flows towards repayment of the bond other than through the sale or refinancing of the non-financial assets.

11. Various discussions and components were addressed in the establishment of these broad concepts and throughout the development of the principles-based bond definition. Specific elements and discussion points are detailed within this issue paper.

Security Structure Representing a Creditor Relationship

12. Similar to long-standing guidance in defining a bond, the principles-based bond concepts only permit security structures to be considered eligible for Schedule D-1 reporting. Although the concepts continue reference to the adopted security definition from U.S. GAAP, the guidance is expanded to require

that the evaluation of the structure under the security definition considers the substance of the instrument rather than solely its legal form.

13. The consideration of whether a structure reflects a “security” is a key factor in determining the appropriate SSAP for accounting and reporting. A structure with one or more future payments that qualifies as a security has historically been captured as a bond, with measurement and risk-based capital (RBC) charges based on the NAIC designation. Under the prior SSAP guidance, bond securities did not require additional provisions for admittance and would likely only be subject to nonadmittance based on state investment limits. This treatment is distinctly different than a “non-security” structure considered to be a loan under SSAP No. 20—*Nonadmitted Assets* or SSAP No. 21. For these structures, the ability to admit the loan under the SSAP provisions is contingent on the nature of the loan and qualifying collateral or related party assessments. (State investment limits may have additional loan-to-value requirements that impact admittance.) Loans (other than mortgage loans) are captured on Schedule BA: Other Long-Term Invested Assets and are likely limited by state investment limits along with other invested assets reported on Schedule BA. Although the RBC charge for admitted collateral loans is lower than other Schedule BA investments, the RBC charge is still higher than Schedule D-1 investments with most NAIC designations.

14. Over time, since the codification of statutory accounting principles, various industry comments have been received questioning the difference between loans and securities (e.g., bonds), particularly with the different reporting outcomes. This discussion was also revisited as part of the principles-based bond proposal, and it was concluded that structures must meet the security definition to be captured as a bond on Schedule D-1. Although industry requested “loans with recourse” to be added to the bond scope paragraph as well as an explicit reference to “loans” as a type of investment captured in the bond definition, these proposals were not supported for inclusion. This discussion highlighted that the security definition is not a high threshold to meet, and direct loans should not be reflected as bonds if they do not qualify as securities. With this discussion it was noted that an investment could meet the definition of a bond regardless of the legal form (paper) it was written on and/or how it was described (such as a bond, note, obligation, etc.). Although an instrument could be described as a “loan,” if it meets the security definition requirements and other principle concepts, it shall be captured as a bond. The same concept would be true for instruments named as a “bond” but that do not meet the security or other principle-based bond requirements, as they would not be permitted for reporting as a bond on Schedule D-1.

15. The statutory accounting guidance in SSAP No. 26 and SSAP No. 37—*Mortgage Loans* adopts the U.S. GAAP definition of a security as it is used in FASB Codification Topic 320 and 860:

- a. Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:
 - i. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
 - ii. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
 - iii. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

16. The “security/non-security” discussion highlighted that the naming convention of an investment (as a “note,” “bond,” “obligation,” “loan,” or other such term) does not determine the correct underlying SSAP or reporting location. Non-security structures (other than mortgage loans) shall be captured as collateral or non-collateral loans pursuant to SSAP No. 20 or SSAP No. 21 as applicable. To prevent incorrect assumptions that all loans could be captured as issuer credit obligations, the group agreed not to

include explicit reference to loan structures within the principles-based bond concepts and instead refer to the substance of the investment structure. Additionally, the following existing guidance was noted as support for this conclusion and to further highlight that the naming convention does not override the structural design of an investment when it comes to reporting or the application of statutory accounting principles.

- a. Existing guidance in SSAP No. 21 states that if an instrument meets the definition of a bond, but has supporting collateral, then the investment is not classified as a collateral loan. This concept was affirmed as part of the principles-based bond discussion, noting that investments that qualify for bond reporting on Schedule D-1 shall not be classified as collateral loans regardless of whether there is collateral backing the investment.
- b. Guidance in *SSAP No. 25—Affiliates and Other Related Parties* applies to all transactions, regardless of the SSAP that governs the underlying accounting and reporting. As such, the provisions in SSAP No. 25 that require assessment of “loans or advances (including debt, public or private)” are intended to apply to all forms of lending from a reporting entity to a related party. As such, this guidance applies regardless of the naming convention of the agreement (e.g., loan, bond, note, obligation, etc.). Investments reported as bonds on Schedule D-1 that reflect related party transactions shall only be admitted if the requirements in SSAP No. 25 are met. In addition to having a specific due date and written agreements, these requirements include specific assessments based on whether the arrangement is with a parent or principal owner or to other related parties.

17. After determining whether a structure represents a security, the next component for the principle-based bond definition is assessing whether the security represents a creditor relationship. Although the reference to a “creditor relationship” may seem very similar to prior guidance in SSAP No. 26, that prior guidance did not explicitly detail the intended meaning of a “creditor relationship” but simply identified that such structures have a fixed schedule for one or more future payments. This prior guidance resulted with interpretations that structures qualified as “bonds” strictly on legal form. With the focus of the principles-based definition, it is explicit that the assessment of whether a security represents a creditor relationship requires consideration of the substance, rather than just the legal form, along with consideration of other investments owned in the investee and other contractual arrangements.

18. Original regulator concerns with the historical guidance and reporting were in part due to the identification of investments with underlying equity interests that were structured to resemble bond instruments. Discussions that occurred as part of the principles-based bond project identified that there is a significant incentive for insurers to characterize equity exposures, which would traditionally be captured on Schedule BA, as bonds due to the favorable capital treatment. Transferring or acquiring them as debt issued by an SPV (such as through a collateralized fund obligation (CFO) structure) is a mechanism to reclassify these equity instruments and characterize them as bonds. These discussions noted that the lack of historical safeguards in existing SSAPs also provides significant opportunity for these reclassifications.

19. Equity investments differ from other types of financial assets in that they generally do not have contractual pre-determined principal or interest payments. Distributions are typically at the discretion of whichever decision maker has control of the entity. However, certain types of entities have greater likelihood and predictability of cash flows than others. For example, private equity and debt funds are often designed to have finite lives that begin with a capital raising and investment phase, and once the portfolio is built and seasoned, investments are monetized, returns are realized, and distributed to investors. Therefore, while there can be variability in timing and amounts of cash flows, distributions can be expected with some level of predictability compared to other types of equity investments (e.g., publicly traded companies). Private debt funds are more predictable still given that the underlying investments of the fund have contractual cash flows. If a large, diversified pool of seasoned funds are securitized, (often in the form of a CFO), there can be a level of predictable cash flows that is suited to support a bond, when coupled with the overcollateralization, liquidity facilities, and other protections that are built into the structure.

20. Regulator concerns arise when features that facilitate the production of predictable cash flows are not present. In such situations, when there are not predictable cash flows equipped to service the debt, repayment may rely on sale or refinancing of the underlying equity investments at maturity in order to satisfy the debt. In that case, equity valuation risk may be the primary risk for the non-payment of the issued debt. If repayment predominantly relies on a point-in-time equity valuation (such as at maturity), then the substance of the risk is not consistent with what is expected of a bond reported on Schedule D-1.

21. Although the full disallowance of equity-backed debt would prevent these regulator concerns, there is a position that there are CFO securitizations (or other investments) of well-diversified, seasoned funds for which there is compelling evidence that there will be sufficient cash distributions to amortize the debt and structure protections that minimize the residual equity exposure. The approach to allow such CFO securitizations/investments to be reported as bonds only works when there are appropriate safeguarding principles established, which require a relatively high standard of proof.

22. An investment for which the primary non-payment risk is equity devaluation is not consistent with the substance-intent for what is expected to be reported as a bond on Schedule D-1 under the principles-based definition. Allowing such investments to be reported as bonds on Schedule D-1 could result with the regulatory arbitrage that regulators are concerned about without any real mitigants. This could ultimately result in a situation where industry has taken on significantly more equity risk than they have historically, all while characterizing the investment as a bond exposure. As such, it was noted as critical that appropriate safeguards be incorporated into the principles-based bond definition to address this concern. This is why the guidance reflects a rebuttable presumption that equity-backed ABS do not qualify to be reported as bonds on Schedule D-1 unless a documented analysis supporting the predictability of cash flows is completed that demonstrates bond-like cashflows that supports different treatment from that presumption.

23. The principles-based bond definition is clear that a security that possesses equity-like characteristics or that represents an ownership interest in the issuer in substance does not represent a creditor relationship. Examples of equity investments, equity holdings and equity-like interests include any security ultimately reflecting an ownership or membership interest in an entity (such as common stock, preferred stock, private equity holdings, investments in joint ventures, partnerships, and LLCs) as well as any structure that reflects the performance of an entity (such as dividends or capital gains). Furthermore, examples of equity instruments also include any debt instrument where the risk/reward profile is substantially similar to an equity interest.

24. With the prohibition of equity-like structures or items that represent ownership interests, there is a rebuttable presumption that debt instruments collateralized by equity interests do not qualify as bonds because they do not reflect a creditor relationship in substance. Notwithstanding this rebuttable presumption, it is possible for such a debt instrument to represent a creditor relationship if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer.

25. With the establishment of the principles-based bond definition, this rebuttable presumption was specifically discussed, and it was concluded that the determination of whether debt instruments collateralized by equity interests qualify as bonds inherently requires significant judgment and analysis. Unlike debt instruments collateralized with contractual cash flows, or debt instruments collateralized by cash-generating non-financial assets, debt instruments collateralized by equity interests may be dependent on cash flow distributions that are not contractually required to be made, predetermined, and/or may not be controlled by the issuer of the debt. In some instances, sale or refinancing of the underlying equity interests may be the only means of generating cash flows to service the debt instruments. If this is the situation, then it is expected that compensating factors from other characteristics of the structure will be present that supports classifying the investment as a bond. For example, if the source of cash flows is driven from the sale or refinancing, then an appropriate, compensating level of overcollateralization would be required to overcome the presumption that the structure does not qualify as a bond.

26. For debt instruments that are collateralized by equity interests, various factors should be considered in determining whether debt collateralized by equity interests qualify as bonds. Additionally, to overcome the presumption that the structure does not qualify as a bond, it is presumed that reporting entities will have sufficient documentation supporting this conclusion. Factors to consider include, but are not limited to, the following:

- a. Number and diversification of the underlying equity interests
- b. Characteristics of the equity interests
- c. Liquidity facilities
- d. Overcollateralization
- e. Waiting period for the distributions / paydowns to begin
- f. Capitalization of interest
- g. Covenants (e.g., loan-to-value trigger provisions)
- h. Reliance on ongoing sponsor commitments
- i. Source(s) of expected cash flows to service the debt (i.e., dividend distributions from the underlying collateral vs. sale of the underlying collateral)

27. The assessment of equity-backed securities should be looked at, not only in form, but in substance. For example, a common arrangement exists where debt is issued from a feeder fund, and the feeder fund has an equity interest in another fund which predominantly holds debt instruments. The fund passes those fixed-income cash flows through the structure to the ultimate feeder fund debt holder(s), in a way that produces substantially the same risk profile to the debt holders as a collateralized loan obligation (CLO). Accordingly, such an arrangement may have its substance aligned with a debt investment rather than a single equity investment, despite the direct holding being a fund investment. This conclusion would be supported if the terms of the structure ensure that the underlying fixed-income cash flows are passed through. Factors that add additional uncertainty as to the timing and/or amount of the pass-through of cash flows from the underlying debt instruments may call into question a conclusion that a feeder fund structure is a debt-backed structure in substance. For example, discretion of an underlying fund manager to withhold distribution of the underlying cash flows passed through from underlying debt instruments may create uncertainties as to the timing and/or amount of cash flows in such a manner that is more characteristic of an equity investment. Likewise, a feeder fund structure that is not expected to provide for regular cash interest payments would also call into question the substance as a debt-backed investment. Features that are customary to CLOs and other asset-backed securities would not ordinarily call the investment's substance into question on its own. For example, a waterfall structure dictating the pass-through and order of payments or retaining sufficient funds for covering contractual underlying fund level payments (e.g., investment management fees, legal costs, and other customary fund level expenses) are common to CLOs and other ABS, as are customary payment in kind (PIK) features designed to address temporary liquidity issues where the PIK then gets prioritized in the waterfall structure. These customary features do not constitute manager discretion that would call into question a conclusion that a feeder fund structure is a debt-backed structure in substance.

28. Conversely, if the feeder fund debt ultimately relies on equity interests for repayment (the final fund holds equity interests that generate the pass-through cash flows), the held debt instrument from the feeder fund would have to meet the requirements of paragraph 26 while looking at the substance of equity interests supporting the debt. Regardless of the underlying collateral, feeder fund arrangements would have to meet the other relevant parts of the standard (e.g., have a substantive credit enhancement, etc.) to qualify for bond reporting. Investments that resemble feeder fund structures will require entity review to determine the

underlying source of cash flows and identify the uncertainties or vulnerabilities that could impact the cash flows that will be passed through to the reporting entity holder. Ultimately, the conclusion that a structure represents a feeder fund shall not automatically qualify the structure for bond classification but shall not automatically preclude bond classification. Substance over form should be the determining factor in these and similar situations.

Determination of Issuer Credit Obligation or Asset Backed Security (ABS)

29. Security structures that qualify as creditor relationships are divided between ICO and ABS. The initial distinction between ICO and an ABS is a key factor with the principle-based bond concepts. Given their differing characteristics, investments that qualify as ICO are not required to complete assessments for qualifying credit enhancements or meaningful cash flow generation. As such, it is critical to ensure that structures which should be considered ABS or that reflect non-qualifying Schedule D-1 structures, are not classified as ICO to avoid those detailed assessments.

30. Determining whether an investment reflects an ICO or an ABS focuses on the issuer and the primary source of repayment of the instrument. An ICO represents a bond structure where the repayment is supported primarily² by the general creditworthiness of an operating entity or entities. The support for this structure consists of direct or indirect recourse to an operating entity or entities. An “operating entity” can be any sort of business entity, not-for-profit organization, or other provider of goods or services, but cannot be a natural person or an Asset Backed Security (ABS) Issuer. An ABS is a bond issued by an entity (an ABS Issuer) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owed by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity.

31. The prior assessments to divide structures between SSAP No. 26 and SSAP No. 43 seemed to focus primarily on legal form (issued by trust/SPV that held pledged assets) or on the basis of prepayment risk within the structure (meaning, that the expected timing of cash flows may vary, impacting the effective interest rate). Under the principle-based bond definition, neither of these components shall be used as a determinant in concluding whether a structure represents an ICO or an ABS.

- a. The prior guidance which focused on the use of an SPV relied more on legal form than the substance of the transaction. Although it is common that many ABS Issuers are in the form of a trust or SPV, the presence or lack of a trust or SPV is not a definitive criterion in determining that a security meets the definition of bond intended as a Schedule D-1 investment, or that it is limited to a classification as an ABS. A key component of the principles-based bond definition is that it will not be possible for insurers to classify a non-qualifying investment as a bond simply by moving it to a debt-issuing SPV that resembles a creditor relationship with a future payment obligation. Furthermore, the guidance does not preclude the use of SPVs in ICO structures. Such structures are commonly utilized in project finance arrangements to separate business operations that support specific debt instruments, or to facilitate efficient marketing of an specific ICO design (e.g., funding agreement backed notes). Although packaging investments together in an SPV, with an

² To clarify the phrase “supported primarily by the general creditworthiness of an operating entity,” this means that the full repayment is expected to come from cash flows generated by the operating entity, not from collateral, although secondary recourse to collateral may be present. If it is expected that a majority of repayment will come from operating entity cash flows, but it is expected that some cash flows will come from collateral, this investment does not qualify as an issuer credit obligation and shall be assessed as an asset-backed security. The expectation must be that full repayment will be generated from operating entity cash flows. For asset-backed securities, the expectation is that the source of cash flows will come from collateral, even though there may be secondary recourse to an operating entity.

SPV-issued note may currently result with better RBC charges due to the current ability to report such items as bonds, structures that simply reflect a pass-through of cash flows or performance from the underlying collateral and provide no economic difference than if holding the underlying collateral items directly shall not be characterized as bonds under the principles-based bond definition.

- b. With regards to the prior interpretation that SSAP classification was based on the presence of prepayment risk, which was not an interpretation based on any explicit guidance to that effect, under the principles-based bond definition, the presence or absence of prepayment risk will continue to play no role in SSAP classification. Classification is based on whether the investment has the substance of an ICO or ABS. This distinction aligns the accounting and measurement with the characteristics of the bond structure. As ABS rely on the cash flows of underlying collateral, the measurement method described in SSAP No. 43, which requires a quarterly review of underlying cash flow assumptions, is appropriate regardless of whether variations in timing of cash flows impact the effective yield. This methodology captures variations in both timing and amount of the underlying cash flows.

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an ICO, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to “traditional bond” structures previously included in SSAP No. 26, examples of issuer credit obligations include:

- a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. Examples can include credit tenant loans (CTLs), equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc. For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.
- b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.
- c. Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to “similar entities” is not intended to capture items issued from collateralized fund obligations (CFOs), feeder funds or other such structures. Although some may consider CFOs to be similar to closed-end funds, that assessment is not supported for classification as an ICO. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as ABS for inclusion as a bond reported on Schedule D-1. Paragraphs 27-28 also detail the assessment expected in classifying feeder funds, and the requirement to determine the source of the underlying cash flows in determining classification and if the structure qualifies for reporting as a bond on Schedule D-1.

Note: Paragraph 32.c. will be revised with adoption of agenda item 2024-01.

- d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or “operation” (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both ICO, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed

by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the financing of an operating component of a project sponsor or municipality. Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

- i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as ICO under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting as a bond on Schedule D-1, or is classified as an ICO or ABS. Instruments (even if identified as “project finance”) that do not qualify as ICO as they are not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.
- e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an ICO intends to highlight a specific exception to the determination as a creditor relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as ICO, under the bond definition, in order for a debt instrument to represent a creditor relationship for both ICO and ABS, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable³. For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grow with inflation, these securities shall be captured as ICO on Schedule D-1-1.

33. This principles-based bond project is not expected to reconsider certain investments previously considered by the Working Group and explicitly permitted for bond reporting on Schedule D-1. As such, unless subsequently addressed, the following investment types are expected to continue to qualify as Schedule D-1 investments, classified as ICO. (By including these investments as ICO, these investments are not subject to the assessments of sufficient credit enhancement or meaningful cash flow generation required for ABS securities.)

³ The principles-based bond definition requirement for pre-determined principal and interest payments with contractual payments that do not vary based on the performance of an underlying collateral value or other non-debt variable does not intend to encompass nominal interest rate adjustments. Nominal interest rate adjustments are those that are too small to be taken into consideration when assessing the investment’s substance as a bond. Nominal adjustments are not typically influential factors in an investors’ evaluation of investment return and are often included to incentivize certain behavior of the issuer. An example would include sustainability-linked bonds where failure to achieve performance metrics could cause interest rate adjustments. In general, interest rate adjustments that adjust the total return from interest by more than 10% (e.g., >0.4% for a 4% yielding bond), would not be considered nominal. Further, any such adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.

- a. Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition.
- b. Bank loans **that** are obligations of operating entities, issued directly by a reporting entity or acquired through a participation, syndication or assignment.
- c. Debt instruments in a certified capital company (CAPCO).
- d. SVO-Identified Bond ETFs.

34. The investment structures explicitly permitted for Schedule D-1 reporting no longer includes a generic reference to “hybrid securities.” Under prior guidance in SSAP No. 26, hybrid securities, defined in the annual statement instructions as securities with characteristics of both debt and equity securities, were included and captured on a specific Schedule D-1 reporting line. Examples in the annual statement instructions included Trust Preferred Securities and Yankee Tier 1 bonds, however, both types of securities are no longer overly prevalent, although some insurers may continue to have them in their portfolios. Pursuant to the intent of the principle-based bond definition, a broad exception for securities that have characteristics of both debt and equity is not viable. Rather, to ensure that securities are classified and reported based on the substance of the investments, securities with characteristics of both debt and equity shall be assessed for inclusion as a bond for reporting on Schedule D-1 in accordance with the principal-based bond definition. If the securities qualify as ICO or ABS, then they can be reported on Schedule D-1.

- a. Trust Preferred Securities – With these securities, there is a trust funded by debt where shares of the trust are then sold to investors in the form of preferred stock. The shares held are referred to as “trust preferred” securities. These securities have characteristics of both stock and debt. While the trust is funded with debt, the shares are considered to be preferred stocks and pay dividends like preferred stock. However, since the trust holds the bank’s debt as the funding vehicle, the payments received by investors are considered interest payments. These securities are considered equities under U.S. GAAP but are taxed as debt obligations by the IRS. With the Dodd-Frank reforms, the incentives for banks to issue trust-preferred securities decreased, resulting in a significant reduction in the issuance of these securities. If these securities continue to be held by insurers, they should be assessed for reporting as a bond on Schedule D-1 under the principal-based bond definition. If these securities do not qualify as a bond for reporting on Schedule D-1, presumably, these securities would be reported as preferred stock on Schedule D-2-1.
- b. Yankee Bond – A Yankee bond is one issued by a foreign bank or company but that is traded in the U.S and priced in U.S. dollars. Yankee bonds are normally issued in tranches, with a large debt structure financing arrangement, with each tranche having different levels of risk, interest rates and maturities. The non-U.S. issuers have to register Yankee bonds with the SEC before offering the bond for sale. If these securities are held by insurers, they should be assessed for reporting as a bond on Schedule D-1 under the principal-based bond definition.
- c. Other Hybrid Securities – From information received, it was noted that some reporting entities have previously reported securities on Schedule D-1 as hybrids due to a code in Bloomberg that identified the security as having characteristics of both debt and equity. Such securities shall be reviewed in accordance with the principles-based bond definition and reported as a bond on Schedule D-1 only if they qualify.

35. For securities that represent principal-protected securities and structured notes that have been previously captured within SSAP No. 26 or SSAP No. 43, the principles-based bond definition will no longer permit these security structures to be reported as bonds on Schedule D-1. Fundamentally, these structures have the potential for variable principal or interest / returns, or both, due to appreciation or depreciation (i.e., performance) of an underlying collateral value or other non-debt variable. This structural characteristic precludes these investments from being captured as ICO or ABS as the investment does not represent a creditor relationship in substance. It should be clear that the principles-based bond definition is intended to require a structural assessment inclusive of all investment components, therefore it is not permissible to segregate components within a structure, such as bond collateral supporting principal and interest payments to determine bond reporting on Schedule D-1 when the structure also includes other collateral with the potential to generate additional interest or returns. Such structures must be viewed holistically within the principles-based bond definition, with all potential returns considered in determining whether the structure qualifies as a creditor relationship.

- a. A principal-protected security is defined in *the Purposes and Procedures Manual of the NAIC Investment Analysis Office*, but generally includes a high-quality traditional bond (such as a U.S. Treasury) that is used to safeguard principal repayment at the structure's maturity, along with performance components where payments originate from, or are determined by, non-fixed-income securities. These returns, often based on underlying equity factors, prevent these structures from qualifying as a creditor relationship. In addition to the traditional design of principal-protected notes, other designs have been identified that may provide "interest" payments in the form of tax-credits based on underlying equity exposures. (So, a high-quality bond safeguards principal returns, but the structure includes equity elements that provide tax credits to the note holder as a form of interest.) Although the classification of a creditor-relationship may not be as clear in this example, such designs would further be disqualified from reporting as a bond on Schedule D-1 as they would not qualify as ICO due to the different forms of collateral within the structure (considering both the bond and equity items) and such structures would not qualify as ABS as there is generally no credit enhancement. These investments shall follow the guidance for non-bond debt securities in *SSAP No. 21—Other Admitted Assets*.
- b. A structured note is a security that otherwise meets the definition of a bond, but for which the contractual amount of the instrument to be paid at maturity (or the original investment) is at risk for other than failure of the borrower to pay the principal amount due. These instruments, although in the form of a debt instrument, incorporate the risk of an underlying variable in the terms of the agreement, and the issuer obligation to return the full principal is contingent on the performance of the underlying variable. These investments are addressed in *SSAP No. 86—Derivatives*. Mortgage-referenced securities issued by a government sponsored enterprise are explicit inclusions in scope of SSAP No. 43. Foreign-denominated bonds subject to variation as a result of foreign current fluctuations are not structured notes.

36. The guidance in the principles-based bond definition requires "assessment at origination" in determining whether a security qualifies for reporting as a bond on Schedule D-1. This provision intends to reflect the reporting entity's understanding of the intent and ultimate structure of the security's focus at origination, not simply what a structure holds on the day of origination. It is not permissible to conclude that a principal-protected security is an ICO at origination (when the structure includes only a US Treasury and cash) and disregard the intended use of the cash in the structure to subsequently acquire other investments to generate additional returns. The determination of whether an investment qualifies as a

creditor-relationship, and then as an ICO or ABS (as applicable), requires an assessment by the reporting entity of the full structure at the time of acquisition as it was ultimately intended by the issuer at the time of origination.

37. Consistent with prior guidance in SSAP No. 26, mortgage loans and other real estate lending activities, which are not securities, made in the ordinary course of business are excluded from bond classification on Schedule D-1. Those investments shall follow the applicable statutory accounting guidance in SSAP No. 37 and *SSAP No. 39—Reverse Mortgages*.

Asset Backed Securities and Required Components

38. An ABS is a bond issued by an entity (an ABS Issuer) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owed by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. As previously noted, ABS Issuers are often in the form of a trust or special purpose vehicle, though the presence or lack of a trust or special purpose vehicle is not a definitive criterion for determining that a security meets the definition of an asset backed security.

39. To qualify for bond reporting on Schedule D-1 as an ABS, there are two defining characteristics that must be present. If the structure is a not an ICO or identified for specific inclusion on Schedule D-1, and does not meet these ABS requirements, the instrument is not permitted to be reported as a bond. Assessment on these aspects is investment specific, with determination at origination by the reporting entity based on the overall intent and ultimate expected holdings of the structure:

- a. **Substantive Credit Enhancement:** The holder of the debt obligation issued by the ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly.
- b. **Cash Generating Collateral Assets:** The assets owed by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful source of cash flows for repayment of the bond through use, licensing leasing, servicing or management fees, or other similar cash flow generation other than through the sale or refinancing of the assets.

40. **Substantive Credit Enhancement:** The component for substantive credit enhancement is required for all ABS structures. There are no practical expedients or thresholds that can be applied in determining whether a structure reflects substantive credit enhancement. Although certain structures may only require a limited analysis (such as agency-backed mortgage-backed securities—MBS), and insurers may benefit from prior analysis when acquiring similar subsequent structures, an automatic assessment is not permitted for this requirement.

41. To qualify as an ABS, the holder of the debt obligation is required to be in a different economic position than if the holder owned the ABS issuer's assets directly. For purposes of this assessment, the holder of the instrument is considered to be in a different economic position if the instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization. This element is required for all ABS designs, regardless of the collateral that is backing the ABS.

42. The requirement for substantive credit enhancement is intended to address investment designs crafted to appear as a debt / bond structure for reporting and RBC purposes, but for which the holder does

not have a “more than nominal” change to the risk or reward profile than if they held the underlying investment directly. This guidance prevents using a specifically designed legal form (such as transferring assets to an SPV and acquiring an SPV-issued note), but which lacks any economic substance, to obtain favorable measurement and RBC impact or to avoid nonadmittance that would occur if the assets were directly held by the reporting entity.

43. The intent of the “substantive” threshold requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as a bond under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an ICO as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to ABS. If substantive credit enhancement did not exist, the substance of the investment would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position.

44. The original exposure (May 2021) detailed this ABS requirement as a “sufficient” credit enhancement and detailed the provision as the level of credit enhancement a market participant (i.e., reasonable investor) would conclude is expected to absorb losses (or decreases in cash flows) to the same degree as other debt instruments of similar quality, under a range of stress scenarios (i.e., scenarios are similar to stress scenarios performed for other debt instruments of the same quality). This original proposal noted that losses are those a market participant would estimate with consideration of historical losses (including loss recoveries) on similar collateral, current market conditions, reasonable and supportable forecasts, and prepayment assumptions associated with the collateral. Excluded from the estimate of expected losses are historical gains on similar collateral and expected market appreciation on the collateral. After further discussion of this concept, it was identified that the term sufficient and its proposed definition implied a quantitative assessment of credit quality was required. As a result, the proposed concept could be interpreted to mean that a reperformance of the credit underwriting process would be needed to support accounting classification, which is not the intent and could be seen to violate the policy that credit ratings do not determine accounting classification, as well as introduce an administrative reporting burden that is both duplicative and lacking any added value. Further, a misinterpretation could occur that would permit satisfaction of this component if a credit rating or NAIC designation was obtained. The intent of the concept is not to address credit quality. Rather, the intent is to require that there must be economic substance to support the transformation of the underlying collateral risk, to bond risk. As a result of these discussions, revisions were incorporated to revise the terminology and related definition to reflect a “substantive credit enhancement.” In addition to eliminating a perception that reporting entities could use credit ratings to support this distinction, this guidance incorporates principle concepts to ensure that the provision cannot be satisfied with structural elements that are merely nominal or lack economic substance.

45. Substantive credit enhancement can come in various forms, including but not limited to, subordination/overcollateralization, guarantees, or other forms of recourse. In whatever form the credit enhancement comes in, it must be of a level of significance that the holder of the debt instrument is in a substantively different position than owning the underlying collateral directly. Assessment of whether a credit enhancement has substance may involve an evaluation of the level of overcollateralization (loan-to-value or LTV) or the capacity of whatever form of subordination, guarantee or recourse to absorb collateral losses. The guidance intends to be specific that an NAIC designation, obtained from either the NAIC Securities Valuation Office (SVO) or from a Credit Rating Provider (CRP) does not provide standalone evidence to support a conclusion that the structure includes a substantive credit enhancement. Although the presence of independent market validation may provide evidence supporting the substance of a credit enhancement, that provision shall not be interpreted to indicate that the presence of an NRSRO rating is automatic validation that the substantive threshold has been met.

46. The following elements were specifically discussed with regards to the requirement for a substantive credit enhancement:

- a. **Agency-Backed Pass-Through Structures (e.g., RMBS/CMBS):** These structures, when they have an agency guarantee, are expected to meet the substantive credit enhancement requirement with little analysis. Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgages directly because the credit risk has been redistributed and assumed by the agencies.
- b. **Non-Agency Backed Pass-Through Structures:** Unlike the above agency-backed example, a pass-through MBS without a credit enhancement, if one were to exist, would not put the holder in a different economic position as owning the mortgage loans directly as they would participate proportionally in the first dollar of losses on the underlying loans. Pursuant to the intent of the overall principles-based bond / Schedule D-1 project and required substantive credit enhancement, the guidance does not permit use of an SPV to recharacterize an asset to qualify for reporting as a bond on Schedule D-1 if the holder is in the same economic position as holding the underlying investments directly. This would apply to any type of underlying asset. In contrast, if a debt instrument represents a senior interest in the pool of loans, through existence of a subordinated tranche for example, the holder may conclude that it is in a different economic position from holding the loans directly, provided the subordination is determined to be substantive.
- c. **Loan-To-Value (LTV) Assessments:** An assessment of LTV at origination may provide evidence of substantive credit enhancement through overcollateralization. The review should be a holistic assessment, evaluating the expected LTV over the life of the transaction, in conjunction with the liquidity and market value volatility of the underlying collateral, particularly in points in time when the underlying equipment is expected to be off-lease or at the time of maturity if refinancing or sale is required. It is appropriate to consider any expected economic depreciation, but it is not appropriate to factor in any expected economic appreciation. Although an expected decline in the LTV ratio may support the presence of a credit enhancement, a declining LTV is not required, and an increasing LTV is not prohibited, as long as the structure continues to provide a substantive credit enhancement. An expected high LTV at maturity, relative to the market value volatility of the underlying collateral, is considered to lack substantive overcollateralization and would require other forms of credit enhancement in order to meet the substantive credit enhancement criteria.
- d. The first loss position may be issued as part of an ABS structure in the form of debt or equity interest, or it may be retained by the sponsor and not be issued as part of the structure. The holder of the loss position, regardless of if it is issued as a tranche or retained by the issuer, does not impact the determination of whether the loss position provides substantive credit enhancement. Rather, the assessment focuses on whether the holder of the debt instrument is in a substantively different position than owning the underlying collateral directly. This assessment includes consideration on the first loss position (or more senior positions, if the first loss position is not sufficient) regardless of the holder of the loss positions. If the first loss position (or a more senior position(s), if the first loss position(s) lacks substantive credit enhancement) is issued as part of the structure and does not have substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond as it is a residual interest. All residual interests shall follow the accounting and reporting guidance in SSAP No 21.

47. **Meaningful Level of Cash Flows to Service Debt:** The element for meaningful cash flow generation is only a requirement for ABS that are backed by non-financial assets. ABS designs backed by financial

assets, when there is no future performance obligation outside of default risk that could impact the ability to generate cash flows to service the debt, are not required to be assessed under the meaningful cash flow requirement.

48. To qualify as an ABS, there must be a meaningful level of cash flows generated from non-financial assets backing an ABS to service the debt, other than through the sale or refinancing of the assets. The evaluation is specific to each transaction and should consider the market volatility and remarketing potential of the underlying collateral, the variability of the cash flows produced, as well as the diversification of the source of cash flows within the structure. The main intent of this guidance is to ensure that non-financial assets supporting structures reported as bonds on Schedule D-1 encompass a level of “cash generation” that is conducive to servicing traditional bond-like cash flows.

49. Consistent with the substance theme of the principles-based bond proposal, this guidance intends to prohibit situations in which the legal form of an investment is utilized to receive favorable accounting and reporting treatment, while the primary non-payment risk is the point-in-time valuation of an underlying asset. The prior guidance in SSAP No. 43 that focused on placing collateral assets in trust, with the SPV issuing a debt instrument, enabled situations in which non-cash generating structures could be reported as bonds on Schedule D-1. As a simple example, this guidance prevents artwork from being captured as the collateral backing a debt instrument issued by an SPV, with the reporting entity then reporting the SPV-issued note as a bond investment that reflects the expected future value that will be received upon the ultimate sale of the artwork.

50. The guidance requires meaningful cash generation to satisfy the debt instrument throughout the duration of the debt term. The timing of the cash generation, at points prior to maturity of the investment, is a key element as it intends to specifically exclude transactions in which the underlying assets must be sold or refinanced at maturity to produce cash to meet the meaningful requirement. However, this restriction is not intended to automatically exclude all structures that may incorporate collateral asset sales or refinancing throughout the debt duration as part of the expected cash generation. An example could be the securitization of short-term rental car receivables. Such a design could encompass both the rental car lease payments as well as periodic sales of the rental cars as the means to generate meaningful cash flows to service the debt. This design, with planned periodic sales of the non-financial collateral assets over the debt term, is distinctly different than a structure in which cash flows are not meaningfully generated over the course of the debt term and would rely predominantly on the sale or refinancing of the underlying collateral at maturity to satisfy the debt obligation. This restriction also does not exclude all structures that have any amount of sales or refinancing at the end of the debt term. Such investments can qualify for reporting as a bond on Schedule D-1 if they meet the meaningful cash generation criteria throughout the term of the instrument other than through the sale/refinancing at maturity.

51. The assessment of meaningful cash flows may require detailed evaluations as it is not permissible to conclude that the presence of any cash flows generated within the structure will result with the investment reaching the “meaningful” threshold. It is also not expected to commonly see ABS structures that include both financial and non-financial collateral. Such designs shall be reviewed to determine that the structure is in line with the principle intent of the bond definition and has not been developed to circumvent separate assessment or reporting of non-financial asset components. As a simplistic example, including mortgage-backed securities and artwork in a single structure, and identifying that the cash flows of the MBS satisfies the meaningful threshold with the artwork representing a minimal residual element, with a conclusion that the full structure qualifies for reporting as a bond on Schedule D-1 is not reflective of the intent of the principles-based standard. If there are instances in which financial asset and non-financial asset collateral are combined in a single ABS structure, consideration should occur on the intent of commingling these collateral elements pursuant to the intent of the principles-based bond definition and in assessing the meaningful cash flow requirements. Structures identified that have been developed to circumvent the provisions of the principle-based bond definition are not permitted to be reported as a bond on Schedule D-1 and shall be captured as a non-bond debt security in scope of SSAP No. 21.

52. The assessment of meaningful cash flows is specific to each transaction, determined at origination, and should consider various factors collectively in determining if the meaningful threshold is met. For this assessment, it is noted that an increase in price volatility or variability of cash flows requires a greater percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral. On the flip side, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral is permitted to decrease. The following factors should be considered with the assessment of meaningful cash flows:

- a. Price volatility in the principal market in the underlying collateral.
- b. Liquidity in the principal market for the underlying collateral.
- c. Diversification characteristics of the underlying collateral (i.e., types of collateral, geographic locations, sources of cash flows within the structure, etc.,)
- d. Overcollateralization of the underlying collateral relative to the debt obligation.
- e. Variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

53. The assessment of meaningful cash flows does permit a practical expedient under the principles-based bond definition. A reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful cash-flow generating criteria. (A structure with contractual cash flows that does not satisfy all of the interest stipulated in the structure does not qualify under the practical expedient.) In applying this practical expedient, only contractual cash flows of the non-financial asset may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on the sale or refinancing to service any interest, an amount greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances do not qualify under the practical expedient and would require a complete analysis of the noted factors in determining whether the meaningful cash-generating criteria has been met.

Additional Elements for Asset Backed Securities

54. When establishing the ABS definition and required components, various aspects were discussed to improve clarity on the application of the guidance.

55. Determination of “Assets” Backing Securities: Although the definition of an asset detailed in *SSAP No. 4—Assets and Nonadmitted Assets*, is applied throughout statutory accounting principles, the question was raised as to where the asset definition would be applied in determining a qualifying ABS. For example, an entity that expects to have subsequent receivables from future operations does not have recognized “assets” from those expectations as the requirements of the asset definition have not been met. However, if that entity were to sell the rights to future cash flows from expected operations, the selling entity would receive cash (a qualifying asset), and the acquiring entity would also have a recognized asset from the acquired right to future cash flows.

56. For purposes of qualifying as an “asset” permitted in an ABS structure, the definition of an asset must be met by the ABS Issuer. In some situations, particularly when the asset represents a right to future cash flows, the asset may not be in a form that could be liquidated to provide payment towards the debt obligations. (For example, if the asset represents acquired rights to future royalties, those royalty rights would have to materialize to have liquid assets available toward the debt obligations.) The ability to liquidate the backing collateral asset at a single point in time does not impact the structural determination of whether the issued security meets the definition of an ABS provided that the assets are expected to produce meaningful cash flows to service the debt terms. Additionally, the inability to liquidate the assets

backing the instrument may impact the assessment of what constitutes substantive credit enhancement. Failure of cash flows to materialize may impact recoverability and require impairment of an ABS.

57. There is no requirement for a collateral asset backing an ABS structure to qualify as an admitted asset under statutory accounting. Assessing whether the underlying asset qualifies for admittance is not necessary as non-financial assets backing ABS must meet the meaningful cash-generating criteria. If the structure fails to meet the meaningful cash-generating requirement, the instrument does not qualify for reporting as a bond on Schedule D-1. Statutory accounting has not historically restricted bonds backed by inadmissible assets from being admissible, nor has it included any kind of evaluation of the cash flow producing ability of underlying assets. The principles-based bond definition adds a requirement to evaluate the cash flow producing ability of the underlying collateral, but continues to recognize that assets that may not be admissible if held individually on an insurer's balance sheet, may be well suited to support bond-like cash flows when securitized in large numbers with appropriate structuring (e.g. prioritization of cash flows).

58. Determining Whether the Structure Reflects "Financial" or "Non-Financial" Assets: The definition of a "financial asset" has previously been adopted from U.S. GAAP and is reflected in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right 1) to receive cash or another financial instrument from a second entity or 2) to exchange other financial instruments on potentially favorable terms with the second entity.

59. For purposes of excluding financial assets from the ABS meaningful cash generation criteria, the financial asset definition was clarified, for the avoidance of doubt, to not include assets for which the realization of benefits from the rights to receive or exchange financial assets depends on the completion of a performance obligation such as with a lease, mortgage servicing right, royalty rights, etc. For purposes of applying the ABS guidance, when there is a performance obligation required before the cash flows are generated, the assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied. As another way to assess this clarification, if the assets backing the ABS are only subject to default risk (meaning the risk of nonpayment is solely based on failure of the underlying payer to satisfy its unconditional promise to pay), then the asset is a financial asset. If the asset is subject to any other risk in addition to default risk, then the assets represent non-financial assets. As simple illustrative examples:

- a. A mortgage-backed security (MBS), where the underlying mortgages have been securitized into a structure, the mortgage receivables represent unconditional promises to pay, with no further performance obligation of the lender or any other party. This structure is considered to be backed by financial assets. Although this structure is excluded from the meaningful cash flow assessment, it must still comply with the substantive credit enhancement requirement.
- b. A structure that represents the securitization of rental car leases is contingent on the lessor performing its side of the transaction (providing the car for use) before the lessee is obligated to pay. Therefore, a lease is a non-financial asset due to the performance obligation that must be satisfied in order for payment to become unconditional. Additionally, as is the case with short-term car rentals, the lease (rental agreement) may not be in place and the structure may represent a securitization of the rights to future rental payments, which adds an additional performance condition. This structure combines performance risk with default risk, resulting with the structure not qualifying for classification as being backed by financial assets. For this structure, the reporting entity would have to complete assessments that 1) the structure results with substantive credit enhancement and 2) the structure produces meaningful cash flows over the term of the instrument to satisfy the debt obligation other than through the sale or refinancing at maturity. If at origination, the contractual cash flows from the underlying collateral (leased

rental cars) would be sufficient to satisfy all of the interest and at least 50% of the original principal, then the meaningful criteria would be met through the practical expedient. That means, as discussed in SSAP No. 26, paragraph 9.b., that the practical expedient can only be used if less than 50% of the principal relies upon sale or refinancing.

60. Whole-Business Securitizations: In most ABS structures, the assets backing the cash flows are specified and limited to a distinct collateral pool. For example, dedicated cash flows from specific lease arrangements, or specific receivables from credit cards or mortgages. However, ABS structures can exist that represent an entire range of operating revenues or cash flows generated by the business. These structures are often referred to as “whole business” or “operating asset” securitizations. These structures, which could only include cash flows from certain operating segments, and not necessarily the entire business of a company’s operations, transfer the cash flows from the dedicated operations first to the investment holders, with the operating entity receiving their “operation proceeds” after the investment holders have been paid. This is different from a traditional bond structure where the operating entity first receives the proceeds from their operations and has discretion on how it uses those proceeds to continue operations and pay expenses and then ultimately pay the bond holders according to the debt terms. Further, debt holders in a whole-business securitization generally only have recourse to the cash flow streams pledged to support the debt, unlike a general credit obligation of the operating entity.

61. For the principles-based bond definition, structures that refer to whole-business securitizations, or that refer to operation proceeds as the collateral for the source of debt repayment still meet the definition as an ABS and do not reflect ICO. For these structures, the dedicated operational cash flows represent the defined collateral pool and should not be classified as ICO based on an interpretation that the proceeds represent the cash flows of an operating entity as they are not supported by the general creditworthiness of an operating entity, but rather only on referenced cash flow streams from the entity’s operations.

62. Residual Tranches / “Equity” Components of Schedule D-1 Qualifying Structures: The assessment of qualifying Schedule D-1 investments has to consider the overall investment structure but focuses primarily on the specific instrument held by the reporting entity. Structures, particularly ABS, may include residual tranches that provide payment after pre-determined principal and interest payments have been made to other tranches or interests based on remaining available funds. Although payments to residual note holders could occur throughout an investment’s duration, and not just at maturity, such instances still reflect the residual amount permitted to be distributed after other holders have received interest and principal payments. In all instances, despite whether other tranches of the investment structure qualify for reporting as a bond on Schedule D-1 reporting, residual tranches do not qualify for bond reporting on Schedule D-1.

63. Under prior guidance in SSAP No. 43, there was no exclusion that restricted residual tranches of qualifying securitizations from being captured in scope and being reported as bonds. From the outreach performed in developing the principles-based bond definition, it was identified that several insurers have historically reported these residual tranches on Schedule BA: Other Long-Term Invested Assets. However, it was noted that some reporting entities have reported these items as a bond on Schedule D-1 as a component of the securitization or as a beneficial interest in scope of SSAP No. 43. Although residual tranches (first loss tranches) do not receive CRP ratings or NAIC SVO designations, when reported on Schedule D-1, an NAIC designation is required. From information obtained, entities reporting residual tranches on Schedule D-1 have either been reporting as self-assigned 6* or they applied the NAIC 5GI concept to self-designate these securities. Under the 5GI concept, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) permits self-designation as an NAIC 5 if the documentation necessary for a full SVO credit analysis does not exist, the issuer is current on all principal and interest payments, and the reporting entity has an expectation that they will receive all contracted interest and principal. The use of the NAIC 5GI concept to self-designate residual tranches on Schedule D-1 is a misapplication of this guidance. It is faulty to conclude that an investment is current and will provide all contractual interest and principal payments when the investment provides payments based on remaining funds after obligations to other issued debt instruments from the structure are satisfied. Furthermore, the

5GI provision was intended to prevent an NAIC 6 designation simply because the documentation for a full credit analysis could not be provided or reviewed, such as situations involving foreign securities when the supporting documents are in a foreign language. The NAIC 5GI provision was not intended to permit self-assignment of an NAIC 5 designation to securities that would not qualify as a fixed-income instrument eligible for an NAIC designation under the P&P Manual.

64. With the identification that residual tranches are inconsistently reported, with some entities reporting as bonds on D-1 and others reporting on Schedule BA, the Working Group drafted and exposed agenda item 2021-15: SSAP No. 43 – Residual Tranches in September 2021 as an interim action prior to the conclusion of the bond project. The guidance within that agenda item clarified that residual tranches shall be reported on Schedule BA at lower of amortized cost or fair value. The guidance also clarified that the reference to residual tranches intends to capture securitization tranches and beneficial interests, as well as other structures captured in scope of SSAP No. 43 that reflect loss layers where failing to remit contractual interest or principal payments does not result in an act of default. Payments to holders of residual interests occur after contractual interest and principal payments have been made to holders of other tranches or interests and are based on the remaining available funds. Although payments can occur throughout an investment's duration, such instances still reflect the residual amount permitted to be distributed after other holders have received contracted interest and principal payments.

65. On November 10, 2021, the Statutory Accounting Principles (E) Working Group adopted agenda item 2021-15, clarifying that residual tranches are required to be reporting on Schedule BA: Other Long-Term Assets beginning December 31, 2022, with early adoption permitted. The effective date of this action allowed time for reporting entities to implement this change and to correspond with a Blanks (E) Working Group proposal to incorporate separate reporting lines for residuals, based on underlying characteristics of the structure, on Schedule BA. With the adoption of this guidance, the Working Group noted that reporting entities may elect to reclassify residual tranches or interests to Schedule BA in advance of the effective date. As of the effective date, residual tranches or interests previously reported on Schedule BA shall be reclassified to the appropriate residual tranche Schedule BA reporting line based on the underlying characteristics of the investment structure.

66. Along with the action to specify the Schedule BA reporting for residuals, the Statutory Accounting Principles (E) Working Group and the Valuation of Securities (E) Task Force provided a joint memorandum to the Blanks (E) Working Group to specifically identify that application of the NAIC 5GI process to residuals is an inaccurate application. Residual tranches or interests reported on Schedule D-1 for year-end 2021 shall be reported with an NAIC 6. The Task Force also received a referral requesting clarification of the NAIC 5GI process so future misapplications could be mitigated. The Task Force considered specific changes to address residuals and adopted those revisions during the 2021 Fall National Meeting.

67. Subsequent to the guidance adopted in agenda item 2021-15, additional revisions were adopted to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (agenda item 2023-12) and to *SSAP No. 30—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock* (agenda item 2023-23) to clarify that all residuals, regardless of legal form of the investment, shall be reported on the dedicated residual reporting lines on Schedule BA.

68. The adoption of SSAP No. 21 in accordance with the principles-based bond project, incorporated guidance for non-bond debt securities and residual interests. The residual guidance includes the definition, common traits in identifying residuals as well as accounting and reporting guidance. Although adopted with a January 1, 2025 effective date consistent with the bond project, reporting entities are permitted to early-adopt the residual guidance in 2024. This SSAP No. 21 residual guidance has the following key aspects:

- a. Residuals are permitted to be admitted assets if debt securities from the same securitization qualify (or would qualify) as admitted assets. If a debt security held from the same structure is (or would be) nonadmitted, then any residual interests or first loss positions held from the same structure do not qualify as admitted assets. Residuals in the legal form of a SSAP

No. 48 investment are not subject to the SSAP No. 48 audit requirements for admittance as they are captured in scope of SSAP No. 21 and not SSAP No. 48.

- b. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values) if acquired along with debt tranches from the securitization. Subsequent to initial acquisition, residuals shall be reported at either 1) the lower of adjusted cost or fair value under the Allowable Earned Yield method, with temporary reductions in fair value reported as unrealized losses, or 2) at the calculated practical expedient method permitted in SSAP No. 21. For the residual guidance, amortized cost is defined as the cost the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments (OTTI). The Allowable Earned Yield is established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. With this approach, interest income is recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. Amounts received in excess of the Allowable Earned Yield reduces amortized cost. The practical expedient calculates book/adjusted carrying value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero.
- c. Residuals shall be assessed for OTTI on an ongoing basis, with required assessment anytime that fair value is less than the reported value. For residuals measured using the Allowable Earned Yield method, an OTTI is considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield is less than amortized cost. For residuals measured under the practical expedient, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV.
- d. The residual guidance is adopted prospectively and includes transition guidance in applying the revised measurement method for securities previously captured in scope of another SSAP. This guidance mirrors concepts from the transition of the principles-based bond definition.

69. **Stapling of Investments:** The original exposure of the principles-based bond definition (May 2021) included an initial example detailing a situation where “equity interests” from a tranche (such as residuals) were required to be held by a reporting entity when holding debt tranches. That language identified situations where the reporting entity would be restricted from selling, assigning, or transferring the unsecured debt investment without also selling, assigning or transferring the equity interest to the same party. This restriction is often referred to as the “stapling” of investments. Pursuant to the guidance in the initial example, although the debt instrument would separately qualify as a creditor relationship for bond reporting, when considering the entirety of the holdings (both the residual/equity interests and debt tranches combined), the investment would be considered an equity instrument in substance. Although the debt instrument would appear to have a higher priority of payment, that priority would be supported by the residual/equity interest the reporting entity has to hold. Ultimately, the reporting entity would be subordinate to themselves as they would recognize a loss on the residual/equity tranche to safeguard payment under the debt tranche. Under that initial proposed example, all holdings under such situations, including the debt tranches, would not qualify as creditor relationships and would not qualify for bond reporting.

70. After considering comments from the first exposure period, as well as discussing within the small group of industry and regulators, this example was eliminated from the principles-based bond definition. These discussions ultimately concluded that tranches that separately qualify as bonds should be reported as bonds even if other tranches from a structure that do not qualify as bonds are also held by the reporting entity. Elements noted as part of the decision to remove the stapling restriction include:

- a. A key element in the initial proposal to require all of the holdings as equity was to ensure that the risk of the holdings was properly captured. It was noted that recent developments to tranche investments that were previously reported as investments in LLCs or joint ventures could result in RBC arbitrage. This is because the risk of the investment would be concentrated in a specific tranche intended to absorb losses, and only that limited tranche would be reported on Schedule BA with higher RBC charges. This would allow the debt tranches (as they are subordinated by the equity tranche) to likely qualify as bonds with Schedule D-1 reporting and lower RBC charges. However, because risk has been concentrated into the smaller equity tranche as a result of leverage, and because Schedule BA RBC charges are fixed and insensitive to leverage, there is a lowering of risk-based capital in total despite no change in risk. The subsequent discussions highlighted that this is an RBC issue for the equity tranche and is not an accounting classification issue. As consideration on appropriate risk charges for residual tranches has been requested to the Financial Condition (E) Committee and is a discussion item for the RBC Investment Risk and Evaluation (E) Working Group, this issue is not within the focus of the Statutory Accounting Principles (E) Working Group. It was also noted that consideration of statutory accounting provisions (such as nonadmittance) to achieve a desired risk assessment would be an inappropriate use of the accounting guidance. It was also noted that the investments within scope of these discussions are likely permitted for admittance under state law and incorporating statutory guidance different from state law would only result with identification of prescribed practices as domiciliary state laws and statutes are the ultimate authority for the application of SAP.
- b. It was also identified that the initial exposed example was specific to investments that were “stapled” under contractual terms. This guidance would have only been applicable to dynamics in which there was an explicit restriction in the sale, assignment, or transfer of the residual/equity tranche separately from a debt tranche. It was identified that without an active market for residual/equity tranches (which is common) the explicit restrictions would not be necessary to achieve a similar result. Structures would only need to be designed to require initial acquisition of residual/equity tranches when acquiring debt tranches (with removal of the explicit disposal restrictions) to avoid the proposed stapling guidance. Since the proposed guidance could be easily avoided, the guidance would not address the underlying concern.
- c. This discussion noted that it is quite common for acquisitions to require purchases of a vertical slice of a structure and for investments to be stapled for a short duration of time. These provisions are generally made for easier marketing and for easier compliance with conflict-of interest provisions. The short-term aspect of some stapled investments raised concerns as to how bond-qualifying debt tranches would be reported if stapling provisions to a residual/equity tranche were subsequently eliminated. This was identified as likely requiring a schedule move (from BA to D-1) with potential other accounting and reporting impacts (such as with NAIC designations and measurement method). This discussion noted that an issuer’s stapling of investments may reflect a legitimate business purpose, and not intend for RBC arbitrage, and the elimination of such components after the stated timeframe could cause confusion or unnecessary noise in the financial statements from the reclassification of investments. This discussion further supported that the acquisition of different tranches, even if explicitly stapled, should not prevent separate debt (bond) and residual/equity recognition based on the characteristics of the specific tranche.

71. ABS as Short-Term or Cash Equivalent: With the required assessments and requirements for a security to qualify as ABS, as well as dedicated reporting based on the underlying collateral assets, ABS will no longer be permitted to be reported as short-term or cash equivalents. All qualifying ABS will be required to be reported on Schedule D-1-2, even if acquired within one year or less from the maturity date,

to allow for full assessment of ABS held by a reporting entity by regulators. Investments captured in scope of SSAP No. 2R are intended to reflect situations in which limited risk remains, either from changes in credit-quality or interest rates, due to the short-duration until maturity. As ultimate cash flows from ABS may have other risks beyond default risk or interest rate risk (such as performance factors, balloon payments, collateral quality), reporting as a cash equivalent or short-term investment is not permitted to prevent inappropriate assumptions of the investment's remaining potential risk.

Key Discussions / Aspects in Developing the Definition

72. Refinancing Risk / Residual Risk Exposure: Discussion of refinancing risk (where there is outstanding debt owed at maturity that will need to be refinanced for the remaining principal to be received by the note holder) was a key element discussed in accordance with the meaningful cash flow requirement for non-financial ABS. This discussion highlighted that traditional refinancing risk is accepted in the context of corporate debt but is viewed differently when assessing the cash flows of non-financial assets in an ABS structure. This differentiation was confirmed, with identification that there are concerns unique to non-financial ABS.

73. The requirement for a non-financial ABS to produce meaningful cash flows to service the debt other than through the sale or refinancing of the collateral assets ensures that structures captured as a bond on Schedule D-1 actually reflect bond-like cash flows. Structures that rely on the sale or refinancing at maturity to generate cash flows to repay debt obligations ultimately reflect a point-in-time reliance on the underlying collateral asset values that does not reflect the intent of Schedule D-1 reporting of bond-like cash flows. These structures are more reflective of the underlying collateral risk, ultimately contingent on the market at a future point in time and whether the underlying assets can be sold or refinanced in accordance with original expectations at the time of the structure origination.

74. A key comment raised by industry with regards to the meaningful cash flow requirement, and the restriction against relying on the sale/refinancing at maturity to produce meaningful cash flows, is that consideration should be given to the level of overcollateralization that exists in a structure if the meaningful requirement will not be met without sale or refinancing. These industry comments take the position that as the level of overcollateralization to the debt obligation increases, then there is a greater likelihood that the debt issuer will be successful in refinancing or selling the assets and generate the means to repay the debt obligation. Although overcollateralization is a factor in securities for bond classification, allowing overcollateralization to override the requirement for meaningful cash flows other than the refinancing / sale at maturity is not permitted for the following reasons:

- a. The intent of the principles-based bond definition is to clarify what shall be reported as bonds on Schedule D-1. Non-financial ABS that do not generate meaningful cash flows and rely on the refinancing or sale of the underlying assets do not reflect bond-like cash flows and are not characteristic of bond investments. These structures ultimately reflect equity (point-in-time) valuation risks of the assets held as collateral.
- b. The industry position that overcollateralization safeguards the asset performance is an argument that supports the quality of the structure, but not the substance of the investment design. The principles-based bond definition does not factor in investment or credit quality within the determination of whether a structure qualifies for reporting as a bond on Schedule D-1. Permitting an assessment based on overcollateralization would introduce a concept that credit quality determines bond / Schedule D-1 reporting, and that is not an accurate conclusion in line with the principle concepts of bond classification.

75. Consistent with prior conclusions, reporting an investment as a bond on Schedule D-1 is not indicative of the quality of the investment, but rather reflects securities expected to generate bond-like cash flows. Securities reported as bonds on Schedule D-1 may be of high-quality or low-quality, but the reporting is based on the substance of the structure, which ultimately requires bond-like cash flows for all

investments. This includes a requirement that non-financial ABS must produce meaningful cash flows through the use of the underlying collateral assets other than through the sale or refinancing of the assets.

76. Additionally, through the small group discussions around the refinancing restriction, it was noted that even if a debt instrument meets all of the criteria to be reported as a bond on Schedule D-1, there will still be a potential for unintentional RBC arbitrage related to securitizations, because the residual tranches absorb all of the redistributed risk of the underlying collateral, but receives a fixed RBC charge that is not in any way risk-rated. While this could be the case in any type of securitization, it is particularly pronounced if the underlying collateral is equity investments. Equity investments generally receive a base 30% RBC charge for life companies. If equity investments are securitized, the bond tranches will get low bond charges (<2%), while the residual tranche will continue to receive a flat 30% base charge. This will have the effect of bringing the overall weighted-average capital charge on the underlying investments from 30% to approximately 10-15%. This will occur even if the bond tranches have all of the substance associated with a bond. Following these discussions, it was identified that this regulatory concern may not be appropriate to address through the accounting standards but may warrant discussion under the Capital Adequacy (E) Task Force. Subsequent discussions from the Financial Condition (E) Committee directed the new RBC working group (the RBC Investment Risk and Evaluation (E) Working Group) to evaluate this and any other investment-related RBC items. Subsequent to these discussions, the RBC Investment Risk and Evaluation (E) Working Group assumed a project to assess RBC factors for residual interests. An interim approach was adopted to include a 30% base RBC factor with a 15% sensitivity test for year-end 2023, with a 45% base RBC factor and 0% sensitivity for year-end 2024. Continued discussion is expected under a long-term project.

77. Use of NAIC Designation / SVO Review in Determining Bond / Schedule D-1 Reporting: The accuracy of the financial statements, and compliance with statutory accounting provisions, is the responsibility of the reporting entity. Assessment and compliance with key concepts, such as the “meaningful cash flow generation” and “substantive credit enhancement” concepts for ABS are also the responsibility of the reporting entity, along with appropriate documentation of these assessments for regulator review when requested. Consistent with the existing *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office*, a reporting entity cannot utilize an NAIC designation to conclude on the substance of an investment or the resulting reporting schedule. Pursuant to the policy statement, obtaining an NAIC designation does not change an investment’s applicable SSAP, annual or quarterly statement reporting schedule, or override SSAP guidance required for an investment to be an admitted asset.

78. Questions have been received whether an NAIC designation in the AVS+ product or an assessment of an investment from a “Regulatory Treatment Analysis Service” (RTAS) submission from the SVO can be utilized as support that an investment qualifies as a bond for Schedule D-1 reporting. These are inaccurate interpretations on the use of NAIC designations within those products. The assignment of an NAIC designation (either from the SVO or CRP) reflects the credit quality of an investment. An assessment of credit quality does not provide assurances that the investment qualifies for reporting as a bond on Schedule D-1 as an ICO or an ABS. As part of this principles-based bond project, consideration is planned to expand the ability to report and use NAIC designations on Schedule BA so that investments that do not qualify as bonds can have appropriate risk assessments that factor in the credit quality of the investment. This capability would ultimately depend on action by the Capital Adequacy (E) Task Force.

79. Although the NAIC designation and RTAS processes cannot be used in determining Schedule D-1 compliance, it is envisioned that a small group of regulators and NAIC staff could be formed to review specific investment structures under the principle-based concepts to assist in assessments of complex new investment designs. If formed, it is anticipated that NAIC staff on the statutory accounting side and within the SVO would assist this small group.

80. Interest Only / Principal Only Strips: Discussion occurred on whether specific guidance should direct the reporting of interest only (IO) and principal only (PO) strips. The resulting conclusion from this

discussion was that the principle concepts from the bond definition should continue to be applied to these investments. If the strips qualify within the definition as ICO, they would be captured in scope of that guidance. If the strips qualified as ABS, they would be captured in scope of that guidance. It was noted that interest-only strips shall also be assessed in accordance with the residual guidance. If the interest-only strip reflects excess interest (e.g., remaining differential spread from interest collected from interest paid), these investments would be akin to a residual investment without contractual interest or principal payments and shall be captured in scope of that guidance. (Residuals are in scope of SSAP No. 21 and required to be reported on Schedule BA. Residuals are not permitted to be reported on Schedule D-1.)

81. The discussion of IO/PO strips with industry representatives identified that they are not overly prevalent investments with insurance reporting entities. It was also noted that IO/PO based on RMBS are relatively rare due to the prepayment risk, however those based on CMBS generally have contractual provisions that prohibit prepayments, thus ensuring that they act more akin to typical bonds. This discussion further highlighted that changes to the principal-based bond definition are not justified for IO/PO investments, and insurers should document their accounting policies for these investments to demonstrate compliance with the bond definition.

82. The discussion of IO/PO strips focused on U.S. Treasury strips and mortgage-backed securities as likely investments, but it was noted that the application of the overall bond definition concepts should be applied to any future design of these investments. Specific elements noted for the two general designs:

- a. U.S. Treasury Strips: Treasury Strips are created when a bond's coupons are separated from the bond. The coupons separated from the bond are sold individually (IO), becoming separate securities from the principal payments due at maturity (PO). U.S. Treasury Strips are backed by the U.S. government. U.S. Treasury strips (IO and PO) are considered U.S. government issues and would be captured with other securities backed by the U.S. government as ICO. Specific identification of U.S. Treasury strips as a separate reporting line of ICO investments, captured within the U.S. government category, was noted to be repetitive and not necessary.
- b. Mortgage-Backed Securities and Other Non-Treasury Strips: Other IO and PO strips are required to be assessed in accordance with the principle concepts of the bond definition. It is anticipated that non-U.S. strips (including mortgage-backed security strips) would not qualify as ICO and shall be reviewed in accordance with the ABS concepts to determine whether the strip qualifies for reporting as a bond on Schedule D-1. The separation of the principal and interest components into separate securities does not change the application of the principle concepts for determining whether a security qualifies as a bond. It was noted that IO strips could be high in the capital structure (supported by subordination) or could represent residual interests (reflecting the spread between proceeds collected and contractual interest). The specific details of the individual IO/PO security shall determine the appropriate accounting and reporting.

83. The discussion of IO/PO strips identified that there is no current need to have separate reporting lines to identify these items within the investment schedules. However, it was identified that the ability to identify these investments with a code (or other feature) would allow for future aggregation and assessment. This was requested to be considered as part of the reporting revisions.

84. Embedded Derivatives / Underlying Variables: Discussion occurred on the language that precludes bond reporting based on the appreciation or depreciation of an underlying collateral value or other variable. Although industry comments noted that the intent of the language was understood, it was identified that the language could be interpreted to mean that amounts in both the magnitude and timing of principal and interest payments must be known in advance, and it could also be interpreted to mean the amounts need to be contractual in nature but can still vary as long as the variability is not dependent on the appreciation or depreciation of an asset or variable. It was also noted that the reference to "other variable" could be

interpreted to mean interest is not allowed to vary based on any variable or just the appreciation or depreciation of the variable. After discussing these comments, revisions were drafted to clarify that the exclusion is not intended to restrict variables that are commonly related to debt instruments, such as but not limited to, plain vanilla inflation or benchmark interest rate adjustments (such as with U.S. TIPs or SOFR-Linked coupons), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. Furthermore, as detailed in footnote 3, this exclusion is not intended to encompass nominal interest rate adjustments. This guidance has also been incorporated within the provisions for determining whether a debt instrument represents a creditor relationship and is applicable for debt instruments structured as ICO and ABS.

Accounting for Debt Securities That Do Not Qualify as Bonds

85. Securities that reflect debt instruments that do not qualify for bond reporting as an ICO or an ABS shall follow specific guidance captured in SSAP No. 21 and be reported on Schedule BA. Investments in scope of this guidance are limited to items that would be in scope of SSAP No. 26, but that do not qualify for bond reporting as they reflect:

- a. Debt securities for which the investment does not reflect a creditor relationship in substance.
- b. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement.
- c. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.

86. The debt securities captured in the SSAP No. 21 guidance meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements within SSAP No. 21. The provisions are specific that the guidance for non-bond debt securities in SSAP No. 21 shall not be inferred to other securities or investment structures.

87. Debt securities in scope of SSAP No. 21 that do not qualify as bonds under SSAP No. 26 and for which the primary source of repayment is derived through rights to underlying collateral, qualify as admitted assets if the underlying collateral primarily qualify as admitted invested assets. As detailed in the SSAP No. 21 guidance pertaining to residual tranches, any residual tranches or first loss positions held from the same securitization that did not qualify as a bond under SSAP No. 26 also only qualify as admitted assets to the extent the underlying collateral primarily qualifies as admitted invested assets.

88. Debt securities in scope of the SSAP No. 21 guidance shall be reported at acquisition at cost, including brokerage and other related fees on Schedule BA. Subsequent measurement shall reflect the lower of amortized cost or fair value. Changes in measurement to reflect the lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses. Debt securities in scope of SSAP No. 21 shall then follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and the interest maintenance reserve (IMR).

89. During the SSAP No. 21 discussion, industry inquired on the direction to utilize SSAP No. 43 for the components detailed in paragraph 88, and not separately assess securities to determine if they are more akin to ICO or ABS and using either SSAP No. 26 or SSAP No. 43 based on those assessments for the calculation of amortized cost, OTTI and allocating AVR/IMR. With this discussion, it was noted that investments that fail the creditor relationship test are identified before determining whether the security would be an ICO or ABS, and as the components of SSAP No. 43 are more relevant for debt securities that do not qualify as bonds, and to ensure consistency for all non-bond debt securities in scope of SSAP No. 21, the decision to utilize SSAP No. 43 for all debt securities that do not qualify as bonds was retained.

Transition Guidance

90. At the time of transition to apply the guidance adopted to reflect the principles-based bond definition, reporting entities shall make their best efforts to assess investments to determine whether they qualify within the bond definition for reporting on Schedule D-1. The bond definition requires assessments at the time of acquisition (as of the origination date), and it is recognized that reporting entities may not have the means to complete historical assessments for securities held at the time of transition. For these instances, if information is not readily available for reporting entities to assess a security as of the date at origination, reporting entities may utilize current or acquisition information in concluding that a security qualifies for reporting as a bond as either an ICO or ABS.

91. Investments that were reported as a bond on Schedule D-1: Long-Term Bonds as of December 31, 2024, that do not qualify under the principle-based bond definition shall be reported as a disposal from that schedule, with a reacquisition on the appropriate reporting schedule as of January 1, 2025. These investments shall be accounted for in accordance with the resulting SSAP that addresses the specific investment structure. For securities that are reported at the lower of amortized cost or fair value under the guidance in SSAP No. 21 for non-bond debt securities, this could result with an unrealized loss in the measurement of the investment at the time of the reclassification. Although the adoption of this guidance is considered a change in accounting principle under *SSAP No. 3—Accounting Changes and Corrections of Errors*, the following transition guidance shall be applied on January 1, 2025, to ensure consistency in reporting and to allow investment schedules to roll appropriately:

- a. Securities reclassified from Schedule D-1 as they no longer qualify under the bond definition shall be reported as a disposal from Schedule D-1 at amortized cost. Although no proceeds are received, amortized cost at the time of disposal shall be reported as consideration on Schedule D-4.
 - i. For securities held at amortized cost at the time of disposal, BACV and amortized cost shall agree, preventing gain or loss recognition at the time of reclassification.
 - ii. For securities held at fair value under the lower of amortized cost or fair value measurement method, previously reported unrealized losses shall be reversed on January 1, 2025, prior to disposal, resulting with a reported value that mirrors amortized cost at the time of disposal. This action prevents realized loss recognition at time of reclassification.
- b. Securities reclassified from Schedule D-1 shall be recognized on the subsequent schedule (e.g., Schedule BA) with an actual cost that agrees to the disposal value (amortized cost). Immediately subsequent to recognition on the resulting schedule, the securities shall be reported in accordance with the measurement method prescribed by the applicable SSAP:
 - i. For securities previously reported at fair value on Schedule D-1 (under a lower of amortized cost or fair value measurement method), the reporting entity will recognize an unrealized loss to match the previously reported BACV. Subsequently, the security will continue to reflect a lower of amortized cost or fair value measurement method.
 - ii. For securities previously reported at amortized cost on Schedule D-1, if the subsequent applicable SSAP guidance requires a lower of amortized cost or fair value measurement method, then the reporting entity shall recognize an unrealized loss to the extent fair value is less than amortized cost.

- c. After application of the transition guidance all securities shall reflect either the same reported value as of December 31, 2024 (amortized cost or fair value) or a lower reported value (if the security is subject to the lower of amortized cost or fair value measurement method). There should be no instances that result with a security having a greater reported value than what was presented on December 31, 2024. Subsequent to transition, securities reported at fair value may incur unrealized gains or losses due to fair value fluctuations, but should never have unrealized gains that result with a BACV that exceeds amortized cost.

92. With this transition guidance, changes in measurement for securities reclassified under the bond definition will be reported as a change in unrealized capital gains (losses) in the first quarter 2025 financial statements (unless sold in the interim with a realized gain or loss) and not as a change in accounting principle. To enable regulators the ability to identify the impact of securities reclassified under the bond definition, the following disclosure for the 2025 first quarter financial statement is required:

- a. Aggregate BACV for all securities reclassified off Schedule D-1.
- b. Aggregate BACV after transition for all securities reclassified off Schedule D-1 that resulted with a change in measurement basis. (This shall be a subset of the aggregate BACV reclassified off Schedule D-1 and captures the securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.)
- c. Aggregate surplus impact for securities reclassified off Schedule D-1. This shall include the difference between BACV as of December 31, 2024 and BACV after transition for those securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.

93. ABS that were previously reported as short-term (Schedule DA) or as a cash equivalent (Schedule E2) shall be reclassified to be reported on Schedule D-1-2 on January 1, 2025. Similar to the process detailed above, the securities shall be removed from Schedule DA and E2 at amortized cost, with reversal of any unrealized loss prior to the reclassification. The amortized cost shall be reported as “consideration received on disposals” on Schedule DA – Verification Between Years or Schedule E-2 – Verification Between Years, as applicable based on the prior reporting location. The security shall be recognized as an ABS acquired on Schedule D-3 at amortized cost. Immediately after initial recognition, if the security was required to be held at fair value, under the lower of amortized cost or fair value measurement method, the reporting entity shall recognize an unrealized loss.

94. The transition guidance shall be applied prospectively beginning with the first year of adoption (January 1, 2025). For disclosures that provide comparative information, reporting entities shall not restate the prior year’s information in the 2025 disclosure.

Investment Examples – Securities That Do Not Represent Creditor Relationship Despite Legal Form

95. As detailed in the principles-based bond definition, an initial determinant is whether the investment is a security that represents a creditor relationship in substance. Examples included intend to identify scenarios that do not reflect an in-substance creditor relationship.

96. Example 1: Debt Instrument from SPV with Large Number of Diversified Equity Interests: A reporting entity invests in a debt instrument issued by a SPV that holds a large number of diversified equity interests with characteristics that support the production of predictable cash flows. The structure contains sufficient overcollateralization and liquidity provisions to ensure the production of adequate cash flows to service both principal and interest payments without significant reliance on refinancing or sale of the

underlying equity investments. The debt instrument's periodic principal or interest payments, or both, contractually vary based on the appreciation or depreciation of the equity interests held in the SPV.

97. Example 1 Rationale: Because the instrument's principal or interest payments, or both, contractually vary with the appreciation or depreciation of the underlying equity interests, it contains an equity-like characteristic that is not representative of a creditor relationship. It would be inappropriate to conclude that a security with any variation in principal or interest payments, or both, due to underlying equity appreciation or depreciation, or an equity-based derivative, is a bond under the principles-based bond definition as such security would contain equity-like characteristics.

98. Example 2: Debt Instrument from SPV with Few Equity Interests, Not an Issuer Credit Obligation: A reporting entity invests in a debt instrument issued from a SPV that owns a portfolio of equity interests, and the debt instrument does not meet the definition of an ICO.

99. Example 2 Rationale: Determining whether debt instruments collateralized by equity interests qualify as bonds under the principles-based bond definition inherently requires significant judgment and analysis. Unlike debt instruments collateralized by assets with contractual cash flows, or debt instruments collateralized by cash-generating non-financial assets, debt instruments collateralized by equity interests may be dependent on cash flow distributions that are not contractually required to be made and/or may not be controlled by the issuer of the debt. In some instances, sale or refinancing of the underlying equity interests may be the only means of generating cash flows to service the debt instruments. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not qualify as a bond. Notwithstanding this rebuttable presumption, it is possible for such debt instruments to qualify as bonds, if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer. Factors to consider in making this determination include but are not limited to:

- a. Number and diversification of the underlying equity interests
- b. Characteristics of the underlying equity interests (vintage, asset-types, etc.)
- c. Liquidity facilities
- d. Overcollateralization
- e. Waiting period for distributions/paydowns to begin
- f. Capitalization of interest
- g. Covenants (e.g., loan-to-value trigger provisions)
- h. Reliance on ongoing sponsor commitments
- i. Source(s) of expected cash flows to service the debt (i.e., dividend distributions from the underlying collateral vs. sale or refinancing of the underlying collateral)

100. While reliance on the sale of underlying equity interests or refinancing at maturity does not preclude the rebuttable presumption from being overcome, it does require that other characteristics mitigate the inherent reliance on equity valuation risk to support the transformation of underlying equity risk to bond risk. As reliance on sale or refinancing increases, the more compelling the other factors needed to overcome the rebuttable presumption become.

101. The analysis of the underlying structure should be conducted and documented by a reporting entity at the time such an investment is acquired. The level of documentation and analysis required will vary based on the characteristics of the individual debt instrument, as well as the level of third-party and/or non-insurance company market validation to which the issuance has been subjected. For example, a debt instrument collateralized by fewer, less diversified equity interests would require more extensive and persuasive documented analysis than one collateralized by a large and diversified portfolio of equity interests. Likewise, a debt instrument that has been successfully marketed to unrelated and/or non-insurance company investors may provide enhanced market validation of the structure compared to one held only by related party and/or insurance company investors where capital relief may be the primary motivation for the securitization.

Investment Examples – Analysis of ABS Under the Meaningful Cash Flows and Substantive Credit Enhancement Concepts

102. All ABS structures are required to provide substantive credit enhancement to qualify for bond reporting on Schedule D-1. Furthermore, ABS structures that are backed by non-financial assets must generate meaningful cash flows to service the debt without reliance on the sale or refinancing at the maturity of the investment. The following provides examples of analysis under these criteria:

103. **Example 3 – Agency Mortgage-Backed Securities:** A reporting entity invests in debt instruments issued from a SPV sponsored by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, “Agency or Agencies”). These debt instruments pass through principal and interest payments received from underlying mortgage loans held by the SPV to the debtholders proportionally, with principal and interest guaranteed by the Agencies. While there is prepayment and extension risk associated with the repayment of the underlying mortgage loans, the credit risk associated with the mortgage loans is assumed by the Agencies.

104. **Example 3 Rationale:** Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgage loans directly because the credit risk has been redistributed and assumed by the Agencies. This is a substantive credit enhancement because a market participant (i.e., knowledgeable investor transacting at arm’s length) would conclude the Agency guarantee is expected to absorb all losses from the debt instrument. Therefore, the holder of the debt instrument is in a substantively different economic position than if the holder owned the ABS Issuer’s unguaranteed assets directly. When guarantees do not cover 100% of principal and interest as the Agency guarantees do in this example, it is still appropriate to determine if the guarantee is substantive in accordance with the requirements of the principles-based bond definition to determine if the holder is in a substantively different economic position than if the holder held the underlying assets directly.

105. **Example 4 – Debt Instrument Issued by an SPV:** A reporting entity invested in a debt instrument issued by a SPV. Payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and an assignment of the lease payments from an operating entity tenant. Additional security is provided by a mortgage on the leased property (the “underlying collateral”). The leased property is owned by the borrower under the note and the SPV does not have any ownership interest in the underlying collateral, though it has legal recourse to it through the mortgage. The tenant makes contractually-fixed payments over the life of the lease to the borrower, who has assigned both the lease and the lease payments to the SPV as security for the debt. While the debt is outstanding, the lease, the lease payment, and the mortgage all serve as security for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the real property as well as submit an unsecured lease claim in the lessee’s bankruptcy for any defaulted lease payments. The loan-to-value (LTV) (as a percentage of property value) at origination is 100%.

106. The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at debt maturity, there is a balloon payment due, totaling 50% of the original outstanding debt principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying collateral to service the final debt balloon payment. The property has a high probability of appreciating in value over the term, however, ignoring any potential for appreciation, the 50% loan-to-value at maturity is the expected figure at the end of the debt term based solely on scheduled amortization payments. The real property is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time but has a predictable value range and ready market over a longer period of time, such that the property could be liquidated over a reasonable period of time, if necessary.

107. Example 4 Rationale: The reporting entity determined that as a debtholder, they are in a fundamentally different position than if the real estate was owned directly. The lease is a cash generating non-financial asset which is expected to generate a meaningful level of cash flows for the repayment of the bonds which covers all interest payments and 50% of the principal payments. The level of reliance on the collateral value for sale or refinancing is just over the cutoff for using the practical expedient (greater than 50%), so a full analysis is required. In reaching its determination, the reporting entity considered the predictable nature of the cash flows, which are contractually fixed for the life of the debt instrument, as well as the ability of the underlying collateral value to provide for the balloon payment through sale or refinancing in light of its characteristics. While the real property may have some market value volatility and periods of lower liquidity at points in time, the cash flows produced by the lease were concluded to reduce the loan balance to a level (50% loan-to-value) that would be able to be recovered by sale or refinancing at the maturity of the loan.

108. The reporting entity also determined that the structure provides substantive credit enhancement in the form of overcollateralization to conclude that investors are in a different economic position than holding the real property directly, in accordance with the requirements of the principles-based bond definition. In reaching this conclusion, the reporting entity noted that although the debt instrument starts with a 100% loan-to-value (not including the value of the contractually required lease payments), contractual fixed payments from the lease provide additional security such that the reporting entity is in a different economic position than owning the property directly. Lease cash flows are sufficient to cover the payment of all interest and 50% of the outstanding principal over the term of the lease. In the context of the predictable nature of the cash flows and collateral value range over time, the reporting entity concluded that a market participant (i.e., a knowledgeable investor transacting at arm's length) would consider this level of overcollateralization to put the investor in a substantially different economic position than owning the underlying property directly.

109. For the purpose of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to consider any expected economic appreciation. Note that a debt instrument with a LTV that is expected to decrease over time is not necessarily deemed to have substantive overcollateralization.

110. Example 5 – Debt Instrument Issued by an SPV With Lease Term Less than Debt Instrument: A reporting entity invested in a debt instrument with the same characteristics as described in Example 4, except that the existing lease at the time of origination has a contractual term that is shorter than that of the debt instrument. It is expected with a high degree of probability that the lease will be renewed, and a substantial leasing market exists to replace the lessee should they not renew. However, in the unlikely circumstance that the property cannot be re-leased, there would not be enough cash flows to service the scheduled principal and interest payments, and the property would have to be liquidated to pay off the debt upon default.

111. Example 5 – Rationale: All details of this example, including the expected collateral cash flows, are consistent with those in Example 4, except that the cash flows in Example 4 are contractually fixed for the duration of the debt while the cash flows in this example are subject to re-leasing risk. Notwithstanding the involvement of re-leasing risk, the reporting entity concluded that the ability to re-lease the property was highly predictable and supported the conclusion that the underlying collateral was expected to produce meaningful cash flows to service the debt.

112. This distinction is to highlight that the expected cash flows of a cash-generating non-financial asset may or may not be contractually fixed for the term of the bond. Certain securitized cash flow streams may not by their nature lend themselves to long-term contracts (e.g., single-family home rentals), but may nevertheless lend themselves to the production of predictable cash flows. While the non-contractual nature of the cash flows is an important consideration in determining whether a non-financial asset is expected to produce meaningful cash flows to service the debt, it does not, in and of itself, preclude a reporting entity from concluding that the assets are expected to produce meaningful cash flows.

113. Example 6 – Lease in SPV with 80% Balloon Payment: A reporting entity invested in a debt instrument issued by a SPV that owns equipment which is leased to an equipment operator. The equipment operator makes lease payments to the SPV, which are passed through to service the SPV's debt obligation. While the debt is outstanding, the equipment and lease are held in trust and pledged as collateral for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the equipment as well as submit an unsecured lease claim in the lessee's bankruptcy for any defaulted lease payments. The LTV at origination is 70%.

114. The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at maturity, there is a balloon payment due, totaling 80% of the original outstanding principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying equipment to service the final debt balloon payment. The LTV at maturity is expected to increase to 95% considering the scheduled principal amortization payments net of the expected economic depreciation in the equipment value over the term of the debt. The equipment is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time but has a predictable value range and ready market over a longer period of time, such that the equipment could be liquidated over a reasonable period of time, if necessary.

115. Example 6 Rationale: The equipment is a cash generating non-financial asset which is not expected to generate a meaningful level of cash flows for the repayment of the issued debt via the existing lease that covers all interest payments and 20% of principal payments. In reaching this determination, the reporting entity considered that, while the cash flows being produced are predictable, the ability to recover the principal of the debt investment is almost entirely reliant on the equipment retaining sufficient value to sell or refinance to satisfy the debt.

116. The reporting entity also determined that the structure lacks a substantive credit enhancement to conclude that investors are in a different economic position than holding the equipment directly, in accordance with the requirements of the principles-based bond definition. In reaching this conclusion, the reporting entity noted that the debt starts with a 70% LTV, but the overcollateralization is expected to deteriorate over the term of the debt as the equipment economically depreciates more quickly than the debt amortizes. This results in a high LTV (i.e., 95%) at maturity, relative to the market value volatility of the underlying collateral. Despite the predictable nature of the cash flows, the reporting entity concluded that the debt instrument lacked a substantive level of overcollateralization to conclude that the investor is in a different economic position than owning the underlying equipment directly. It was determined that the level of overcollateralization, as determined by a market participant (i.e., a knowledgeable investor transacting

at arm's length), is nominal. Therefore, the reporting entity concluded that it was in a substantively similar position as if it owned the equipment directly.

117. For the purposes of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to factor in any expected economic appreciation. Note that a debt instrument with a LTV that is expected to increase over time is not necessarily deemed to have nominal overcollateralization.

Reflecting the Principles-Based Bond Proposal in SAP

118. The principles-based bond definition and the specific accounting guidance for bonds, including ICO and ABS, and the guidance for debt securities that do not qualify as bond be captured as new SAP concepts to existing SSAPs:

- a. *SSAP No. 26—Bonds (Exhibit 1)*
- b. *SSAP No. 43—Asset-Backed Securities* (renamed from *Loan-Backed and Structured Securities*) (Exhibit 2)
- c. *SSAP No. 21—Other Admitted Assets (Exhibit 3)*

119. For SSAP No. 26, the revisions capture the full bond definition, and the guidance for determining whether a security qualifies as either an ICO or an ABS. The accounting guidance for ICO is retained within SSAP No. 26 and is not changed with the inclusion of the bond definition. Other key revisions include transition guidance to reclassify debt securities that do not qualify as bonds from Schedule D-1 to the subsequent schedule and to delete the glossary as no longer necessary.

120. For SSAP No. 43, in addition to revising the name to “Asset-Backed Securities,” revisions reorder and streamline the existing guidance. Although the broad measurement concepts and requirements to assess cash flows have not changed, the guidance specific to whether collection of cash flows is probable, not probable, and pertains to beneficial interests has been eliminated. The guidance has been rewritten to provide consistent guidance for the assessment of cash flows and considering the impact of prepayments. These revisions are not expected to result in significant deviations from past practice as the resulting guidance is believed to be reflective of prominent past industry interpretations. Clarifications have been included to ensure recognition of an other-than-temporary impairment whenever a security is in an impaired state (fair value is less than amortized cost, regardless of if an unrealized loss has been recognized) and there is an adverse change in cash flows expected to be collected. Other key revisions include transition guidance to reclassify debt securities that do not qualify as bonds from Schedule D-1 to the subsequent schedule as well as to incorporate guidance that prohibits reporting ABS as cash equivalents or short-term investments and the process to reclassify any securities reported as such as of the effective date.

121. For SSAP No. 21, revisions incorporate new guidance for the accounting and reporting for debt securities that do not qualify as bonds as well as residual interests. For both sections, the revisions specify new measurement and admittance concepts for these securities and specify reporting on Schedule BA in designated reporting lines. For residuals, guidance is included for the recognition of other-than-temporary impairments and transition guidance for situations where the residual had a different measurement method prior to the effective date.

122. In addition, **Exhibit 4**, details “revisions to other SSAPs” adopted in accordance with the principles-based bond definition. This section identifies all SSAPs that have modified guidance, which predominantly

reflects updated terms and references, but includes the revisions to SSAP No. 2R to restrict ABS from being in scope.

Discussion of Comments Received and Exposures

123. This section details key comments received from exposures of the principles-based bond definition revisions and the Working Group's consideration for potential edits.

- a. Per the exposure of the issue paper and principles-based bond definition on March 2, 2022, with comments due May 6, 2022. The Working Group heard comments on July 18, 2022, and directed limited edits to be reflected as followed:
 - i. Revise the guidance related to U.S. Treasury Inflation Protected Securities (TIPs) and to clarify the guidance regarding variable contractual principal and interest payments. These revisions clarified that securities with plain-vanilla inflation adjustment mechanisms are not intended to be captured within the provisions that restrict bond classification due to varying principal or interest payments, as well as clarified that other variances in contractual amounts due to reference variables (and not just equity interests) are intended to be precluded from bond treatment.
 - ii. Revise guidance describing substantive credit enhancements, particularly to revise reference to the first loss "tranche" as the first loss "position" and clarify that securitization tranches that do not have contractual principal and interest payments along with substantive credit enhancement do not qualify as a Schedule D Bond and shall be reported on Schedule BA. (Tranches without contractual principal and interest payments are considered residual tranches shall be on Schedule BA.) (Subsequent to these edits further discussion and updates to the residual guidance were adopted. These revisions improve the guidance and remove specific references to contractual principal and interest payments.)
 - iii. Document the outcome of small group discussions around the application of the bond principles, particularly the equity-backed example, to feeder fund structures. Feeder fund structures shall not automatically be assumed to qualify for bond classification (even if the ultimate collateral is fixed income), nor be automatically precluded bond classification. The substance of the investment should be the determining factor in these and other similar situations. In particular, the assessment of feeder fund structures should evaluate whether the structure ensures the pass through of the underlying cash flows, or whether uncertainty as to the timing or amount of cash flows is introduced by the structure.
 - iv. Requested interested parties to work with NAIC staff in proposing revisions to capture the elements that may introduce equity-like characteristics into the main components of the bond definition.
- b. In addition to the revisions incorporated from the July 18, 2022, call, the Working Group also heard comments and elected not to incorporate revisions for the following items:
 - i. The Working Group identified that non-bond items that are specifically scoped into SSAP No. 26 will not be identified in the bond definition. The Working Group was explicit that the inclusion of an investment in-scope of SSAP No. 26 did not make the investment a "bond" and such a distinction is necessary to prevent scope-creep or inference of other investments into the bond definition. For example, although SVO-Identified Bond ETFs, SVO-Identified CTLs and certificates of

deposit that exceed one year are explicit inclusions to SSAP No. 26 and reported on Schedule D-1, these investments are not bonds.

- ii. The Working Group did not incorporate industry-proposed edits to limit guidance that requires the consideration of all returns to equity-backed ABS. Rather, the Working Group clarified that all investments that have contractual principal and interest that can fluctuate due to a referenced variable shall consider all returns in excess of principal repayment as interest when determining whether the investment qualifies for bond reporting under the principles-based definition.
 - iii. The Working Group did not agree with comments supporting ABS to be reported as cash equivalents or short-term investments even if acquired with a maturity date that is less than 90-days or 1-year away. To ensure proper assessment under the bond definition, and reporting based on the underlying components of the investments, the Working Group retained the provisions that all ABS shall be captured within SSAP No. 43 and be reported on Schedule D-1-2.
 - iv. The Working Group did not direct changes to the bond definition or issue paper after considering the industry “Lease-Backed Securities Working Group” May 5, 2022, comment letter. That letter, which is consistent with their prior comments, proposes to capture securities as ICO if they pass-through cash flows unaltered (such as with certain lease-backed structures) and are supported primarily by a single rated credit payor, though principal repayment is not fully supported by the obligation of that payor. The discussion noted that these securities shall follow the guidance for ABS if they are not fully supported by an underlying contractual obligation of a single operating entity, including the criteria for substantive credit enhancement and meaningful cash flows. The Working Group identified that these structures are not based on the credit worthiness of a single operating entity and rely on the underlying collateral for repayment, which is why they should be considered ABS rather than ICO. The comment letter also raised concerns around the guidance for evaluating project finance debt noting a perception that inconsistent classification may occur for investments with similar characteristics. As a result of the discussion, there were no changes to the exposed bond definition. Working Group members and other interested parties noted during the discussion that the guidance pertaining to project finance is intended to provide guidance for evaluating issuers that share characteristics of both operating entities and ABS Issuers (i.e., the middle of the spectrum). Nevertheless, the guidance is clear that issuers of project finance debt must themselves have the characteristics of operating entities in order for the debt instrument to qualify as an ICO. As such, project finance bonds issued by operating entities and other municipal revenue bonds will be retained as ICO as the design of these structures are supported by the credit worthiness of a single operating entity and are therefore different than the investment structures presented by the industry Lease-Backed Securities Working Group.
- c. Per the exposure of the principles-based bond definition, and proposed revisions to SSAP No. 26 and SSAP No. 43 on August 10, 2022, with comments due October 7, 2022, comments were received from Fermat Capital, the industry Lease-Backed Securities Working Group and Interested Parties. After considering the comments, the following key revisions were incorporated:
- i. Revisions to incorporate the entire bond definition within SSAP No. 26, with a deletion of bond definition guidance from SSAP No. 43. With this change, securities that qualify as ABS after application of the bond definition will follow

the measurement and reporting guidance within SSAP No. 43. This edit prevents unintended inconsistencies in the guidance that could occur if aspects of the bond definition are in both SSAPs.

- ii. Revisions to incorporate the guidance for determining a creditor relationship, which was in an exhibit, into the body of guidance within SSAP No. 26.
- iii. Revisions to the examples for ABS analysis, which were moved to SSAP No. 26, to reflect a scenario in which payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and the assignment of the lease payments from an operating entity tenant. This revision was in response to comments from the industry Lease-Backed Security Working Group and detail that the SPV does not need to have ownership interest in the underlying collateral for the security to qualify as an ABS.
- iv. Revisions to SSAP No. 26 to clarify that investments with specific guidance and reporting lines (such as surplus notes, working capital finance investments (WCFI) and structured settlements) shall follow the guidance in their specific SSAP and be reported on designated reporting lines. This edit was made in response to the comments from Fermat Capital, who identified that WCFI meet the definition of ICO. These investments shall follow the guidance in *SSAP No. 105R—Working Capital Finance Investments* and be reported on their specific reporting lines on Schedule BA.
- v. Revisions to SSAP No. 26, and the addition of a new footnote, to clarify that the general creditworthiness of an entity can be direct or indirect recourse and is the primary source of repayment for issuer credit obligations.
- vi. Revisions to SSAP No. 26 to clarify application when interest and principal vary based on the performance of an underlying value or variable. The revised guidance adds language to clarify that the exclusion is not intended to restrict variables that are commonly linked to debt instruments, such as plain-vanilla inflation or benchmark interest rates.
- vii. Revisions to SSAP No. 26 to delete the proposed glossary, with the inclusion of the bank loan definition into a footnote. Other definitions were identified as not being necessary for retained inclusion in the statement.
- viii. Revisions to SSAP No. 43 to identify Freddie-Mac When Issued Trust Certificates, pursuant to *INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates*, as an explicit scope inclusion.
- ix. Revisions to SSAP No. 43 to clarify the guidance for prospective adjustment method for high-credit quality investments, and on the assessment of cash flows. This guidance clarifies that if a security is in an unrealized loss position, and there is an adverse change in cash flow, the entity shall recognize an other-than-temporary impairment.
- x. Revisions to both SSAP No. 26 and SSAP No. 43 to provide specialized transition and disclosure guidance for the reclassification of securities previously reported that will no longer qualify for reporting as bonds.
- xi. Revision to the issue paper to clarify the application of the principles-based bond definition to feeder funds.

- d. Per an exposure on November 16, 2022 of SSAP No. 26, SSAP No. 43 and other SSAPs that will be impacted under the bond project, until February 10, 2023, revisions were incorporated to reflect most of the interested party comments. The revised documents were discussed and exposed at the 2023 Spring National Meeting. Most of the edits were minor, but the following elements are specifically noted:
- i. Revisions to SSAP No. 26 incorporated an exception for nominal interest rate adjustments. The guidance defines the exception as being too small to be taken into consideration when assessing an investment's substance as a bond. This revision was added based on industry's comments on inadvertent impact to sustainability-linked bonds, but the exception guidance is not limited to those specific bonds.
 - ii. Revisions clarify that replication (synthetic asset) transactions are addressed in *SSAP No. 86—Derivatives* and are not impacted by the principles-based bond definition.
 - iii. Revisions to SSAP No. 26 to explicitly identify that residuals, including first loss positions, do not qualify as bonds and shall be captured in *SSAP No. 21—Other Admitted Assets*.
 - iv. Revisions specific to transition that clarify that investment assessments are required as of origination and to permit current or acquisition information in determining whether investments qualify as bonds at the time of transition. The guidance was also clarified that the transition guidance shall be applied prospectively beginning with the first year of adoption. For disclosures that provide comparable information, reporting entities shall not restate the prior year's information in the 2025 disclosure.
 - v. With an exposure of the revised documents, an updated SSAP No. 21 was also exposed to update guidance for the measurement of debt securities at the lower of amortized cost or fair value and to incorporate proposed accounting and reporting guidance for residuals.
- e. The Statutory Accounting Principles (E) Working Group received comments on June 9, 2023, from the 2023 Spring National Meeting exposure. No comments were received on SSAP No. 26, SSAP No. 43 or the document that detailed revisions to other SSAPs. The Working Group adopted the SSAP revisions reflected in these documents on August 12, 2023, during the 2023 Summer National Meeting, effective January 1, 2025.
- f. During the 2023 Summer National Meeting, the Working Group considered comments on SSAP No. 21 pertaining to the guidance for debt securities that do not qualify as bonds and for residual interests and exposed a revised SSAP No. 21 until September 29, 2023. The revisions for debt securities that do not qualify as bonds reflect a majority of interested parties' comments.
- i. For debt securities that do not qualify as bonds, revisions clarify that if the primary source of repayment is derived through underlying collateral, the investment shall only be admitted if the underlying collateral qualifies as admitted invested assets. For residuals, revisions clarify that if the reporting entity holds a debt tranche from the same securitization, and the debt tranche does not qualify as a bond (either an ICO or ABS), and the debt security does not qualify as an admitted asset under SSAP No. 21, then the residual does not qualify as an admitted asset.

- ii. Revisions proposed new measurement methods for residuals. This guidance is different from what was proposed by interested parties but intends to reflect the highly uncertain amount and timing of residual cashflows. This proposed guidance will require all cash flows received to be treated as a return of principal until the BACV is zero. At that point, all cashflows received would be treated as interest income. This proposed guidance was noted to best suit how residuals work conceptually. The reporting BACV will reflect the potential risk of loss prior to recovering the initial investment, rather than requiring an assessment of potential loss over the entire life of the securitization.
- g. During the 2023 Fall National Meeting, the Working Group considered comments and exposed an updated SSAP No. 21 until January 22, 2024. No comments were received on the section for non-bond debt securities, but comments focused on the guidance for residual interests. Revisions reflected in the 2023 Fall National Meeting exposure:
 - i. Revisions capture an Allowable Earned Yield method for the measurement of residuals. This guidance will limit the extent interest income can be recognized without recognizing cash flows as return of principal. Provisions were also included to permit a practical expedient to allow all cash flows received to be taken as a reduction of BACV. Under the practical expedient, interest income would not be recognized until BACV was zero.
 - ii. Revisions clarified the treatment of reductions in fair value as unrealized losses and updated OTTI guidance to be consistent with SSAP No. 43 and the assessment of the present value of expected cash flow to the BACV.
- h. On February 22, 2024, an updated SSAP No. 21 reflecting a variety of edits from working with industry throughout the interim was exposed until March 7, 2024. The shortened comment period was proposed to allow for adoption consideration during the 2023 Spring National Meeting.
 - i. Revisions for residual incorporate the definition and characteristics captured in other SSAPs to make SSAP No. 21 the location for all residual guidance. All residuals shall follow the accounting, admittance and reporting guidance detailed in SSAP No. 21.
 - ii. Revisions clarified that residuals shall be accounted for at the lower of Allowable Earned Yield method or fair value, or under the practical expedient.
 - iii. Revisions eliminated the guidance that directed reclassification of residuals to other SSAPs and reporting schedules in situations when the residual tranches cease to meet the definition of residual tranches. With the deletion, once classified as a residual, an investment would retain that classification and reporting until it is disposed by the reporting entity.
 - iv. Revisions separate the OTTI calculation between items measured at the Allowable Earned Yield method and those that follow the practical expedient.
 - v. Revisions incorporate transition guidance for residuals that were accounted for under a different SSAP prior to the effective date.
 - vi. Revisions prescribe a January 1, 2025, effective date, but permit early adoption of the residual guidance.

History of Definition / Scope Development of SSAP No. 43 – Before the Principles-Based Definition

The following section details the historical development of SSAP No. 43 along with the prior benefits for reporting investments in scope of SSAP No. 43 and key issues from the prior guidance. Due to various revisions that have been reflected since its original adoption, this information is retained for historical reference on the SSAP No. 43 guidance prior to the reflection of the principles-based bond proposal.

124. SSAP No. 43—*Loan-backed and Structured Securities* was originally effective with the SAP codification and resulted with separate guidance for “bonds” (in SSAP No. 26) and “loan-backed and structured securities” (in SSAP No. 43). (The initial guidance indicated that investments in scope of SSAP No. 43 met the definition of a bond in SSAP No. 26—*Bonds, excluding Loan-backed and Structured Securities*.) Although most of the guidance between the original SSAP No. 26 and SSAP No. 43 was the same, the guidance in SSAP No. 43 recognized the need to review (at least quarterly) the assumptions and resulting cash flows of the underlying loans, as changes in assumptions could necessitate a recalculation of the effective yield or other-than-temporary impairment.

125. The original issue paper to SSAP No. 43 (Issue Paper No. 43) cited guidance originally contained in Chapter 1, *Bonds and Loan Backed and Structured Securities*, from the *Accounting Practices and Procedures Manual of the Life and Accident and Health Insurance Companies*. The issue paper identified that the *Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies* contained similar guidance. In this Issue Paper No. 43, and the original SSAP No. 43, loan-backed securities were defined as “pass-through certificates, collateralized mortgage obligations (CMOs) and other securitized loans...” The reference to “securitized loans” was a key aspect of this original definition.

126. Original definition / scope guidance for SSAP No. 43:

2. Loan-backed securities are defined as pass-through certificates, collateralized mortgage obligations (CMOs), and other securitized loans not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the interest and/or principal received by the issuer from the mortgage pool or other underlying securities.

3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to interest and/or principal received by the issuer from the mortgage pool or other underlying securities.

4. Loan-backed securities are issued by special-purpose trusts (issuer) established by a sponsoring parent organization. Mortgage loans or other securities securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee under the issuer's obligation has been fully satisfied. The investor can only look to the issuer's assets (primarily the trustee assets or third parties such as insurers or guarantors) for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying mortgage loans. Some sponsors do guarantee the performance of the underlying loans.

5. Loan-backed securities meet the definition of assets as defined in SSAP No. 4—*Assets and Nonadmitted Assets* and are admitted asset to the extent they conform to the requirements of this statement.

127. In agenda item 2007-26, *FAS 156: Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*, the Working Group adopted with modification FAS 156 in SSAP No. 91R—*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, revising the terminology for “retained interests” to “interests that continue to be held by the transferor.” This action also clarified that beneficial interests from the sale of loan-backed and structured securities shall be accounted for in accordance with SSAP No. 43. This initial adoption identified that the holder of a beneficial interest in securitized financial assets should recognize the excess of all cash flows attributed to the beneficial

interest estimated at the acquisition date over the initial investment as interest income over the life of the beneficial interest using the effective yield method.

128. In 2009, the Working Group adopted a substantively-revised SSAP No. 43 (effective September 30, 2009). The focus of the substantive revisions was to revise the valuation and impairment requirements based on the cash flows expected to be collected for the securities, rather than fair value. Although the focus of the revisions was inclusion of impairment guidance based on whether an entity has an intent to sell, whether an entity does not have the intent and ability to hold a security, and when there is a non-interest related decline if there is no intent to sell and the entity has the intent and ability to hold, the revisions resulted in a significant rewrite of the guidance in SSAP No. 43, including the guidance for beneficial interests. This guidance expanded the prior scope inclusion from “beneficial interests from the sale of LBSS,” to include “purchased beneficial interests in securitized financial assets.”

129. In agenda item 2010-12, Clarify Definitions of Loan-Backed and Structured Securities, the Working Group received a regulator-sponsored, nonsubstantive Form A with a proposal to revise the definitions of a loan-backed and structured security (LBSS). As a result of this proposal, the definition was revised to eliminate the reference to “securitized loans” and instead refer to “securitized assets.” These revisions were adopted with an effective date of January 1, 2011.

- a. Although the agenda item simply identifies that this item was exposed in August 2010, and then adopted after a single exposure in October 2010, with an effective date of January 1, 2011, there were significant comments received during the exposure period. In short summary, these comments highlighted that the scope of the changes were intended to move fixed-income assets that had been accounted for as bonds under SSAP No. 26 to SSAP No. 43 as LBSS. Particularly, the comments noted concerns with the movement of equipment trust certificates and credit tenant loans from the accounting provisions of SSAP No. 26 to the accounting rules of SSAP No. 43. These comments stated that “instruments with radically different sources of cash flows and risk characteristics utilize trust structures, and not all should be classified as loan-backed.” There were no changes incorporated to the proposed guidance as a result of these comments, and the revisions were adopted as exposed.

130. In 2019, revisions to the definition and scope section were also adopted to clarify the identification of affiliate/related party transactions (agenda item 2019-03) as well as to explicitly capture mortgage-referenced securities issued from a government sponsored enterprise in scope of SSAP No. 43 (agenda item 2018-17). The inclusion of mortgage-referenced securities was a distinct departure from the “trust” structure required in determining inclusion within scope of SSAP No. 43, but was incorporated as the securities (with the referenced pool of assets), functions similarly to the securities held in trust and the referenced pool of assets can be assessed for the underlying credit risk

131. Between the adoption of agenda item 2010-12 and the items adopted in 2019, there were several revisions to SSAP No. 43, but those revisions did not impact the definition / scope of the statement. Those revisions included changes to incorporate price-point NAIC designations, guidance for interim financials for RMBS/CMBS, clarification of disclosures, updating Q/A guidance, and guidance for prepayment fees.

132. Definition of loan-backed and structured securities in the “As of March 2020” AP&P Manual:

2. Loan-backed securities are defined as securitized assets not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the payments received by the issuer from the underlying assets, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.
3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has

been allocated in a manner which is not proportional to payments received by the issuer from the underlying assets.

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.

- a. In determining whether a loan-backed structure is a related party investment, consideration shall be given to the substance of the transaction, and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, although a loan-backed security may be acquired from a non-related issuer, if the assets held in trust predominantly⁴ reflect assets issued by affiliates of the insurance reporting entity, and the insurance reporting entity only has direct recourse to the assets held in trust, the transaction shall be considered an affiliated investment, and the transaction shall also subject to the accounting and reporting provisions in *SSAP No. 25—Affiliates and Other Related Parties*.

5. Mortgage-referenced securities do not meet the definition of a loan-backed or structured security but are explicitly captured in scope of this statement. In order to qualify as a mortgage-referenced security, the security must be issued by a government sponsored enterprise⁵ in the form of a "credit risk transfer" in which the issued security is tied to a referenced pool of mortgages. These securities do not qualify as "loan-backed securities" as the pool of mortgages are not held in trust and the amounts due under the investment are not backed or secured by the mortgage loans. Rather, these items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, reporting entity holders may not receive a return of their full principal as principal repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. Unless specifically noted, the provisions for loan-backed securities within this standard apply to mortgage-referenced securities.

6. Investments within the scope of this statement are also subject to the provisions and disclosure requirements of *SSAP No. 25* if the *SSAP No. 43* transaction is a related party arrangement⁶. Loan-backed and structured securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and *SSAP No. 25*.

⁴ In applying this guidance, a reporting entity is not required to complete a detailed review of the assets held in trust to determine the extent, if any, the assets were issued by related parties. Rather, this guidance is a principle concept intended to prevent situations in which related party transactions (particularly those involving affiliates) is knowingly captured in a *SSAP No. 43* structure and not identified as a related party transaction (or not reported as an affiliated investment on the investment schedule) because of the involvement of a non-related trustee or *SSAP No. 43* security issuer. As identified in *SSAP No. 25—Affiliates and Other Related Parties*, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

⁵ Currently, only Fannie Mae and Freddie Mac are the government sponsored entities that issue qualifying mortgage-referenced securities. However, this guidance would apply to mortgage-referenced securities issued by any other government sponsored entity that subsequently engages in the transfer of residential mortgage credit risk.

⁶ As discussed in paragraph 4.a. of this statement, a *SSAP No. 43* security may still be considered a related party transaction even if the asset trustee or security issuer is a non-related party.

7. The scope of this statement encompasses all types of loan-backed and structured securities, including, but not limited to, the following:

- a. Loan-backed and structured securities acquired at origination,
- b. Loan-backed and structured securities acquired subsequent to origination for which it is probable, at acquisition, that the reporting entity will be able to collect all contractually required payments receivable, and are accounted for at acquisition under SSAP No. 103R,
- c. Loan-backed and structured securities for which it is probable, either known at acquisition or identified during the holding period⁷, that the reporting entity will be unable to collect all contractually required payments receivable, and
- d. Transferor's beneficial interests in securitization transactions that are accounted for as sales under SSAP No. 103R and purchased beneficial interests in securitized financial assets⁸.

Benefits of Reporting in Scope of SSAP No. 43 – Before the Principles-Based Definition

133. There are a variety of benefits for reporting investments as bonds on Schedule D-1. Also, with regards to bifurcated impairment, capturing an investment in scope of SSAP No. 43 may be more advantageous than capturing in scope of *SSAP No. 26—Bonds*. These benefits include:

- a. Capturing an investment in scope of SSAP No. 26 or SSAP No. 43 results with reporting the investment on Schedule D-1, Long-Term Bonds. By reporting on this bond schedule, the investment is generally not subject to investment limitations, the asset is admitted and the investment has the benefit of lower risk-based capital (RBC) charges based on NAIC designation. (Moving held equity instruments from Schedule BA into a SSAP No. 43 trust has been particularly noted as providing “regulatory capital relief.”)
- b. Capturing an investment in scope of SSAP No. 26 or SSAP No. 43 may result in amortized cost reporting and a delay in recognizing decreases in value or other-than-temporary impairments than if the assets held in trust were reported separately on the statutory financial statements.
 - i. Under the SSAP No. 43 bifurcated impairment model, an entity is not required to recognize an OTTI or deviate from an amortized cost measurement as long as the entity can assert that they have the intent and ability to hold the SSAP No. 43 security to recover the amortized cost basis and there is no non-interest related decline. (This has been a key factor in the PPN design, as a high-quality bond is placed in trust (along with other assets), and the bond – over several years – will single-handedly satisfy the contractual requirements of the 43 issued security, preventing any recognition of OTTI or a reduction of NAIC designation even when the other securities held in trust could completely default to zero.)
 - ii. The SSAP No. 43 bifurcated impairment can be considered an advantage over SSAP No. 26 as under SSAP No. 43, if there is an intent and ability to hold the asset, a reporting entity only has to recognize an OTTI for the portion of the non-

⁷ Securities classified within the type of paragraph 7.a. or 7.b. may be required to change classification to type 6.c. when it becomes probable that the reporting entity will be unable to collect all contractually required payments receivable.

⁸ The accounting requirements related to these types of securities included in paragraphs 22-25 shall be determined at acquisition or initial transfer.

interest related loss. Under SSAP No. 26, if there is any assessed OTTI (despite if interest or credit related), a reporting entity must recognize an OTTI down to the then-current fair value for the security.

- iii. Prior to the principles-based bond project, guidance in SSAP No. 43 did not differentiate between different types of tranches or payment streams for the issued securities. This is easiest to illustrate through the “equity” tranche of a SSAP No. 43 investment but could be a factor if payments are provided sequentially. (Sequential payments are used to pay the senior notes first, until paid in full, before payments are allocated to junior notes.) For the “equity” tranche, which is a term that refers to the junior-most layer of issued SSAP No. 43 securities, this tranche is the first-loss position and only receives payment after all other layers have been satisfied. Without prior guidance in SSAP No. 43 for this layer, entities were able to classify these residual tranches as “bonds” on Schedule D-1, which did not properly reflect the nature of those investments.
- c. SSAP No. 43 permits admittance of the security without any verification to the assets held in trust. As such, if a reporting entity was to derecognize a joint venture or LLC from Schedule BA and reacquire through the ownership of a SSAP No. 43 security, the reporting entity would be permitted to admit the security without any verification of the joint venture or LLC held in trust. Under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, assets must have audited support (audited U.S. GAAP financials, audited reconciliation to U.S. GAAP, audited IFRS financials or audited U.S. tax basis equity) in order to be admitted in the statutory financial statements.

Key Issues with Scope / Definition Application of SSAP No. 43 – Before the Principles-Based Definition

134. With the existing guidance in SSAP No. 43, there are no restrictions to the assets that can be placed in trust and used to support securities issued from the trust structure. Although these structural designs are referred to as “securitizations” and reported as debt instruments, these investment structures may not reflect actual securitizations in which cash flows from multiple contractual debt obligations held in trust are used to pay principal and interest payments on the trust-issued security. The assets being securitized may include assets that are not cash flow producing, creating reliance on an underlying collateral valuation risk. Or, there may be no economic substance to the use of the securitization structure, such that the insurer is in the same economic position as owning the underlying assets directly. As a result, there is a regulatory concern that assets being represented as bonds may contain unidentifiable risks that regulators would not traditionally associate with bond risk.

135. As an additional issue of the existing guidance, questions have been raised on whether securities captured in scope of SSAP No. 43 would be “asset-backed securities” as defined by the Code of Federal Regulations (17 CFR 229.1101(c)). These questions have arisen as an SEC identified nationally recognized statistical rating organization (NRSRO) must be specifically approved to provide ratings of “asset-backed securities.” Since the CFR definition is different than what is permitted in scope of SSAP No. 43, a rating from an NRSRO approved as a credit rating provider (CRP) that may not be approved by the SEC for “asset-backed securities” could provide a valid rating for a SSAP No. 43 instrument permitted as “filing exempt” if that asset was not an “asset-backed security.” This has caused questions as regulators have identified designations given by CRPs not SEC approved to provide “ABS” designations and have questioned the use of these CRP ratings in determining the NAIC designation.

Issue Paper Exhibits:

Staff Note: Although not captured, the final issue paper retained for historical purposes will include the following Exhibits reflecting the adopted guidance to initially reflect the principles-based bond definition.

Exhibit 1 – SSAP No. 26—Bonds

Exhibit 2 – SSAP No. 43—Asset-Backed Securities

Exhibit 3 – SSAP No. 21—Other Admitted Assets

Exhibit 4 – Revisions to Other SSAPs

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/Bond IP - Adopted 2024 Summer.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/BondIP-Adopted2024Summer.docx)

Not for Distribution

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Review of *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

This agenda item provides a review of Interpretation (INT) 03-02: *Modification to an Existing Intercompany Pooling Arrangement*, because of conflicts between INT 03-02 and *SSAP No. 25—Affiliates and Other Related Parties*. This agenda item was prompted by the recent focus of Statutory Accounting Principles (E) Working Group on related party transactions, recent queries to NAIC about how broadly to apply the guidance in INT 03-02 and the review of the SSAP No. 62R, paragraph INT 03-02 addresses the valuation of bonds in instances when bonds are used instead of cash for the payment among affiliates for amounts due on modifications to existing intercompany reinsurance pooling contracts. The discrepancy between the INT 03-02 and SSAP No. 25 has been identified through recent discussions evaluating related party transactions. Key excerpts of INT 03-02 are in the Authoritative Literature section below.

The primary accounting question that is a concern for this agenda item is INT 03-02, paragraph 11b which asks, “What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?” The response provided in INT 03-02, paragraph 13 is, “The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*.”

INT 03-02 states that it is an interpretation of the following three reinsurance statements: *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, *SSAP No. 62R—Property and Casualty Reinsurance* and *SSAP No. 63—Underwriting Pools*. *SSAP No. 25—Affiliates and Other Related Parties* is not listed as an interpreted statement. However, as described below, the consensus in INT 03-02, paragraph 13 is not consistent with the guidance in SSAP No. 25 regarding economic transactions between related parties.

The result of the consensus in INT 03-02, paragraph 13 allows assets used in affiliated payments for reinsurance contracts, which modify existing intercompany reinsurance pooling agreements, to be transferred using statutory book value. Note that in most cases, this means that bonds, which are likely the primary assets that would be used, would typically have a statutory book value that reflects amortized cost. The valuation of assets using statutory book value on transfer to an affiliate can result in substantial differences from the cash equivalent (fair value) for the payment due. For example, bonds reported at amortized cost book value could have a corresponding fair value that is materially higher or lower. This difference in valuation can result in an unacknowledged dividend or with the passing on of an investment loss.

SSAP No. 25 describes economic transactions and non-economic transactions (See Authoritative Literature). Economic transactions are defined as arm’s-length transactions which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof, i.e., “permanence.” SSAP No. 25, paragraph 18 indicates that economic transactions between related parties shall be recorded at fair value at the date of the transaction and also notes that to the extent that the related parties are affiliates under common control, the controlling reporting

entity shall defer the effects of such transactions that result in gains or increases in surplus until such time that the asset is sold outside the group.

It is quite possible, by using transfers at book value instead of fair value, to design a transaction with a very significant economic effect. The following example illustrates the concern with the results of the guidance in INT 03-02. For this example, \$100 million is due on an existing intercompany reinsurance pooling agreement. INT 03-02 would allow bonds to be settled using statutory book value which may not be reflective of the fair value equivalent of a cash settlement.

Asset Used to Settle	Book Value (millions) Measurement for Settlement	Fair Value (millions)	Result	Consistent with SSAP No. 25 for an Economic Transaction?
Cash	\$100	\$100	No difference in basis	Yes
Bonds	\$100	\$ 85	\$15 difference in fair value means the paid party received an amount less than what is actually owed. This approach could allow reporting entities to transfer impaired assets to affiliates in lieu of assessing OTTI.	No
Bonds	\$100	\$110	\$10 difference in fair value means the paid party has received an asset greater than what was owed. This dynamic could result in an unrecognized gain or dividend.	No

The INT 03-02 direction to use statutory book value for the transfer of bonds between affiliated entities in most instances would conflict with the primary guidance on affiliated transactions contained in *SSAP No. 25—Affiliates and Other Related Parties*. For example, economic transactions between related parties are valued using fair value. (There are more nuances in SSAP No. 25 when payments have the possibility of being economic for one entity and noneconomic for an upper-level parent). NAIC staff recommends that the treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different if assets are transferred instead of cash for intercompany reinsurance.

Under INT 03-02, for intercompany reinsurance transactions, takes an approach that either SSAP No. 25 or SSAP No. 62R may apply, but multiple Working Group discussions have noted that SSAP No. 25 provides the overarching guidance that is relevant in evaluating all related party transactions. INT 03-02, paragraph 8 indicates that the statutory accounting intention is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. However, the guidance in SSAP No. 62R, paragraph 37 uses a more punitive method of accounting if there is a gain in surplus to the ceding entity as a result of the intercompany reinsurance transaction. Therefore, NAIC staff would characterize the SSAP No. 62R guidance as imposing an accounting penalty if there is a gain, rather than seeking to avoid recognizing such a gain. The INT also characterizes SSAP No. 25 as being for isolated transactions, which is inconsistent with discussions of the Working Group on the applicability of SSAP No. 25.

SSAP No. 62R, paragraph 36d (see Authoritative Literature) includes an exception to retroactive reinsurance accounting which allows prospective accounting treatment for intercompany reinsurance agreements and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction. Paragraph 37 provides that if there is a gain to the ceding entity that a more restrictive method of accounting is required which is less beneficial to the financial statements. Whereas the INT tries to argue that statutory intent is to avoid surplus gain, NAIC staff would note that the goal is not to avoid gain as a result of the reinsurance transaction, but to impose a different accounting if there is a gain. NAIC staff would characterize evaluating reinsurance agreements for SSAP No. 62R, paragraph 36d or paragraph

37 as using the cash flows or corresponding equivalent fair value (cash equivalent) of the amounts payable or receivable in the reinsurance transactions to determine if there is a gain or loss to the ceding entity. The reinsurance cash flows evaluated should be the same as if the bond was sold for fair value and resulting cash equivalent obligation was paid. The fact that the bond sold has a gain or loss is not part of the reinsurance contract evaluation, the reinsurance contract that is an economic transaction evaluation is based on the cash equivalent value of the assets transferred less the liabilities transferred. The evaluation of gain or loss on the intercompany reinsurance transaction should give the same answer if either cash or assets were transferred.

Existing Authoritative Literature:

03-02: *Modification to an Existing Intercompany Pooling Arrangement* is attached in full. The following excerpts are from INT 03-02:

8. Therefore, based on the foregoing guidance and background, the statutory accounting intent is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. On that basis, such a modification does not represent an economic transaction to the insurance group or to the impacted companies. As such, the transfer of both the assets and the liabilities valued at statutory book value ensures that there is no impact to surplus as a result of implementing a modification to an existing pooling arrangement.
11. The accounting issues are:
 - a. What is the relevant guidance for modifications to intercompany pooling arrangements?
 - b. What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?

The Working Group reached a consensus as follows:

12. SSAP No. 62R provides accounting for property and casualty reinsurance agreements including specific guidance on intercompany pooling agreements. SSAP No. 62R provides two methods of accounting for changes in intercompany pooling agreements, depending on whether or not the pooling results in a gain in surplus.
13. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*.

SSAP No. 25—Affiliates and Other Related Parties

Transactions Involving the Exchange of Assets or Liabilities

14. An arm's-length transaction is defined as a transaction in which willing parties, each being reasonably aware of all relevant facts and neither under compulsion to buy, sell, or loan, would be willing to participate. A transaction between related parties involving the exchange of assets or liabilities shall be designated as either an economic transaction or non-economic transaction. An economic transaction is defined as an arm's-length transaction which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof, i.e., "permanence." The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed. If subsequent events or transactions reverse the effect of an earlier transaction prior to the issuance of the financial statements, the reversal shall be considered in determining whether economic substance existed in the case of the original transaction. Subsequent events are addressed in SSAP No. 9—Subsequent Events. An economic transaction must represent a bonafide business purpose demonstrable in measurable

terms. A transaction which results in the mere inflation of surplus without any other demonstrable and measurable betterment is not an economic transaction. The statutory accounting shall follow the substance, not the form of the transaction.

15. In determining whether there has been a transfer of the risks and rewards of ownership in the transfer of assets or liabilities between related parties, the following—and any other relevant facts and circumstances related to the transaction—shall be considered:

- a. Whether the seller has a continuing involvement in the transaction or in the financial interest transferred, such as through the exercise of managerial authority to a degree usually associated with ownership;
- b. Whether there is an absence of significant financial investment by the buyer in the financial interest transferred, as evidenced, for example, by a token down payment or by a concurrent loan to the buyer;
- c. Whether repayment of debt that constitutes the principal consideration in the transaction is dependent on the generation of sufficient funds from the asset transferred;
- d. Whether limitations or restrictions exist on the buyer's use of the financial interest transferred or on the profits arising from it;
- e. Whether there is retention of effective control of the financial interest by the seller.

16. A transaction between related parties may meet the criteria for treatment as an economic transaction at one level of financial reporting but may not meet such criteria at another level of financial reporting. An example of such a transaction is a reporting entity purchasing securities at fair value from an affiliated reporting entity that carried the securities at amortized cost. This transaction meets the criteria of an economic transaction at this level of financial reporting, and therefore, the selling reporting entity would record a gain and the acquiring reporting entity would record the securities at their cost (fair value on the transaction date). At the common parent level of reporting, this transaction has resulted in the mere inflation of surplus, and therefore, is a non-economic transaction. The parent reporting entity shall defer the net effects of any gain or increase in surplus resulting from such transactions by recording a deferred gain and an unrealized loss. The deferred gain shall not be recognized by the parent reporting entity unless and until arms-length transaction(s) with independent third parties give rise to appropriate recognition of the gain.

17. A non-economic transaction is defined as any transaction that does not meet the criteria of an economic transaction. Similar to the situation described in paragraph 16, transfers of assets from a parent reporting entity to a subsidiary, controlled or affiliated entity shall be treated as non-economic transactions at the parent reporting level because the parent has continuing indirect involvement in the assets.

18. When accounting for a specific transaction, reporting entities shall use the following valuation methods:

- a. Economic transactions between related parties shall be recorded at fair value at the date of the transaction. To the extent that the related parties are affiliates under common control, the controlling reporting entity shall defer the effects of such transactions that result in gains or increases in surplus (see paragraph 16);
- b. Non-economic transactions between reporting entities, which meet the definition of related parties above, shall be recorded at the lower of existing book values or fair values at the date of the transaction;
- c. Non-economic transactions between a reporting entity and an entity that has no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded at the fair value at the date of the transaction; however, to the extent that the transaction results in a gain, that gain shall be deferred until such time as permanence can be verified;

- d. Transactions which are designed to avoid statutory accounting practices shall be reported as if the reporting entity continued to own the assets or to be obligated for a liability directly instead of through a subsidiary.

Examples of transactions deemed to be non-economic include security swaps of similar issues between or among affiliated companies, and swaps of dissimilar issues accompanied by exchanges of liabilities between or among affiliates.

Transactions Involving Services

19. Transactions involving services between related parties can take a variety of different forms. One of the significant factors as to whether these transactions will be deemed to be arm's length is the amount charged for such services. In general, amounts charged for services are based either on current market rates or on allocations of costs. Determining market rates for services is difficult because the circumstances surrounding each transaction are unique. Unlike transactions involving the exchange of assets and liabilities between related parties, transactions for services create income on one party's books and expense on the second party's books, and therefore, do not lend themselves to the mere inflation of surplus. These arrangements are generally subject to regulatory approval.

20. Transactions involving services provided between related parties shall be recorded at the amount charged¹. Regulatory scrutiny of related party transactions where amounts charged for services do not meet the fair and reasonable standard established by Appendix A-440, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action. Expenses that result from cost allocations shall be allocated subject to the same fair and reasonable standards, and the books and records of each party shall disclose clearly and accurately the precise nature and details of the transaction. See *SSAP No 70—Allocation of Expenses* for additional discussion regarding the allocation of expenses.

SSAP No. 62R—Property and Casualty Reinsurance provides the following (**bolding added for emphasis**):

36. The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):

- a. Structured settlement annuities for individual claims purchased to implement settlements of policy obligations;
- b. Novations (i.e., (i) transactions in which the original direct insurer's obligations are completely extinguished, resulting in no further exposure to loss arising on the business novated or (ii) transactions in which the original assuming entity's obligations are completely extinguished) resulting in no further exposure to loss arising on the business novated, provided that (1) the parties to the transaction are not affiliates (or if affiliates, that the transaction has the prior approval of the domiciliary regulators of the parties) and (2) the accounting for the original reinsurance agreement will not be altered from retroactive to prospective;
- c. The termination of, or reduction in participation in, reinsurance treaties entered into in the ordinary course of business;

¹ The amount charged shall be reviewed when there are any modifications or waivers subsequent to the establishment of the contract terms. If waivers or modifications to amounts charged occur, the related party transaction shall be reassessed to determine whether the contract continues to reflect fair and reasonable standards. If the transaction was with a parent or other stockholder and the charge for services has been fully waived, then the guidance in *SSAP No. 72* for recognition as contributed capital (forgiveness of reporting entity obligation) or as a dividend (forgiveness of amount owed to the reporting entity) shall apply.

- d. **Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction; or**
 - e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements described in paragraphs 102-105.
37. **Retroactive reinsurance agreements resulting in surplus gain to the ceding entity (with or without risk transfer)** entered into between affiliates or between insurers under common control (as those terms are defined in Appendix A-440) shall be reported as follows:
- a. The consideration paid by the ceding entity shall be recorded as a deposit and reported as a nonadmitted asset; and
 - b. No deduction shall be made from loss and loss adjustment expense reserves on the ceding entity's balance sheet, schedules, and exhibits.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

INT 03-02 was exposed in March of 2003 and adopted in June 2003. The interpretation was not subsequently amended. The final vote on this consensus had three members opposed. The March 2003 exposure received six different comment letters to the Emerging Accounting Issues (E) Working Group from: 1) Ohio (EAIWG member); 2) New Hampshire (EAIWG member); 3) Interested parties, 4) Liberty Mutual and 5) PricewaterhouseCoopers (one of the very few letters ever submitted directly by the firm.) and 6) CNA. Five out of the six commenters noted concerns that the proposed guidance (which was ultimately adopted) would conflict with SSAP No. 25 guidance regarding economic transactions. While the interested parties' comment letter was more neutral, the verbal comments provided supported the use of SSAP No. 25.

Several commenters recommended not adopting the guidance regarding the use of book value and instead following SSAP No. 25 guidance for economic and non-economic transactions. The commenters noted that SSAP No. 25 directs the use of fair value when such transactions meet the definition of an economic transaction and that tax regulations would provide a result similar to SSAP No. 25. Multiple comments noted concerns similar to those highlighted in the illustration above. Commenters also noted that intercompany pooling reinsurance transactions are economic transactions. They noted that when assets (such as bonds valued at amortized cost) are transferred, if the assets have a different fair value than book value, that difference should be recognized since the transferor no longer controls the assets. Commenters also noted that treatment for reinsurance transactions for asset transfers should not be different than the treatment for other intercompany transactions.

CNA comments were supportive of adopting the exposed consensus, the comment letter provided illustrations and noted that intercompany reinsurance agreements were subject to regulatory approval. The comments tried to illustrate concerns possibly having premature gain / surplus recognition.

The June 2003 minutes Emerging Accounting Issues (E) Working Group discussion on the INT 03-02 are excerpted below.

The working group was referred to INT 03-02: *Modification to an existing intercompany pooling arrangement* (Attachment D). Written comments were received from Ohio, New Hampshire and interested parties. Ohio and New Hampshire believe that the transfer of assets and liabilities in an intercompany pooling arrangement constitute an economic transaction and the accounting guidance in SSAP No. 25—*Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25), should be followed. As such, the assets should be transferred at fair value and the ceding entity should record a realized gain or loss. Keith Bell (Travelers) spoke on behalf of interested parties. Interested parties commented that if the transaction was considered to be an economic transaction, SSAP No. 25 should be followed. If the modification of an intercompany pooling arrangement is considered a noneconomic transaction, the guidance in SSAP No. 62—*Property and Casualty Reinsurance* (SSAP No. 62) is applied,

as such, statutory book value should be used for assets and statutory value should be used for liabilities. Jeff Alton (CNA) presented his comments by summarizing the statements made in his comment letter. Mr. Alton stated that no revenue recognition should occur and suggested using a modified statutory book value for transferring assets and liabilities. Mr. Clark stated that the Statutory Accounting Principles Working Group must address the recommended transfer at modified statutory book value as this recommendation would require substantive adjustments to statutory accounting principles. Shelly Zimmerman (Liberty Mutual) provided comments which supported that intercompany pooling changes should follow the accounting guidance in SSAP No. 25 as these are economic transactions between affiliates. Jean Connelly (PriceWaterhouseCoopers) provided comments that summarize those outlined in the comment letter. Ms. Connelly stated that intercompany pooling arrangements are economic transactions and that INT 03-01 provides a substantive change to SSAP No. 25.

Mr. Johnson then stated that he believes there is a stronger case for non-economic transaction treatment and as such, statutory book value is appropriate for valuation purposes. Additionally, all these transactions are subject to regulatory review under the Insurance Holding Company Act, affording regulators some control over the approval of these transactions. Mr. Fritsch commented that if this guidance is not adopted in the form of a new interpretation, SSAP No. 25 should be followed. Mr. Alton stated that he believes the current guidance in effect for intercompany pooling arrangements exists in SSAP No. 62, paragraph 30d which supports surplus neutrality; hence, the need is for an interpretation of paragraph 30d. Mr. Johnson stated that language clarification in SSAP No. 61—*Life, Deposit-Type and Accident and Health Reinsurance* (SSAP No. 61) and SSAP No. 62 should be addressed as a project of the reinsurance subgroup of the SAPWG. Mr. Johnson made a motion to adopt Interpretation 03-02 with deletion of the first two sentences in paragraph 11. Mr. Stolte seconded the motion. Mr. Johnson requested a roll call vote. There were 9 yeas from Alabama, Connecticut, Florida, Illinois, Louisiana, Michigan, Texas, Pennsylvania and Virginia. There were 3 nays from New York, Ohio, and Wisconsin. Therefore, the working group adopted Interpretation 03-02 by consensus. Mr. Johnson also made a motion to refer to the Reinsurance Subgroup of the SAPWG, review of the current guidance in SSAP No. 61, SSAP No. 62 and SSAP No. 63—*Underwriting Pools and Associations Including Intercompany Pools*. Mr. Ford seconded the motion. The working group unanimously adopted the referral.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): Not Applicable

Staff Review Completed by: Robin Marcotte – NAIC Staff, July - 2022

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the intent to nullify INT 03-02, as it is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions.

Status:

On August 10, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed the intent to nullify INT 03-02.

On December 13, 2022, the Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and re-exposed the intent to nullify INT 03-02. This re-exposure requested industry to provide comments on specific instances in which the interpretation was being applied. In addition, the following key points were noted for consideration during the exposure in response to some of the comments received.

1. In the current interest rate environment, the fair value of many bonds is below book value. For example, a bond with an amortized cost of 100 with a fair value of 85. The way INT 03-02 is written a bond with a fair value of 85 could be used to settle an intercompany reinsurance pooling obligation of 100. If the reporting entity paid with cash, they would be required to pay \$100. The actual cash value of obligations when they are extinguished is a relevant measure of the transaction.
2. Using book value for measurement of payments between affiliates can result in either unrecognized or in effect dividend or losses. SSAP No. 25 requires such transfers of assets between affiliates to use fair value. If a subsidiary can pay the parent with assets that have a lower fair value than book value (ex, owes \$100 but pays with a bond of 85), this has a similar effect as an unrecognized capital contribution to the subsidiary. SSAP No. 72 requires a capital contribution to be valued using fair value.
3. At the ultimate parent level such transfer of assets (in accordance with SSAP No. 25 guidance) may be noneconomic in that the parent continues to hold an interest in the same assets. Therefore, at the parent level, such transfers of assets may result in the deferral of gains. Staff believes that losses would not be deferred at the ultimate parent level.
4. While it may be more expedient to pay intercompany reinsurance pooling transactions with assets, the valuation used should be similar to if the obligation was extinguished with cash. Therefore, an entity can still choose to pay with assets, they just need to be valued consistently with SSAP No. 25 guidance.
5. SSAP No. 62R, paragraph 36d provides an exception to retroactive reinsurance accounting guidance which allows for prospective accounting treatment for intercompany reinsurance among 100% owned affiliated provided there is no gain to the ceding entity. If there is a gain to the ceding entity, there is guidance in SSAP No. 62R, paragraph 37 which requires a more punitive method of accounting than either prospective or retroactive reinsurance accounting. Therefore, NAIC staff comment is that the statutory accounting objective is to provide different treatment for retroactive reinsurance contracts if there is a gain to the ceding entity. This is another reason that the guidance in INT 03-02 is problematic. The object is to correctly measure the effects of the contract, which drives the accounting. The objective is not to obscure whether there is a gain to the ceding entity, which can happen in the event that the assets used in payment are not measured correctly.
6. Interested parties noted that modifications to intercompany pooling arrangements are typically effective retroactive to the beginning of the year. Staff notes that the payment value when the transaction is settled should be equivalent to the cash value of what is owed on the date of extinguishment of the liability.
7. Many of the interested parties' comments regarding GAAP use of book value are more relevant to consolidated basis accounting which is not consistent with the legal entity basis of statutory accounting.
8. Interested parties' comments noted that there is a difference in treatment for intercompany pooling participants who are not 100% owned by a common parent. NAIC staff notes that retroactive pooling agreement changes with participants that are not 100% under common control do not meet the exception to retroactive accounting provided in SSAP No. 62R, paragraph 36d. NAIC staff notes that SSAP No. 62R, paragraph 37 provides guidance for retroactive reinsurance agreements among affiliates where there is a gain to the ceding entity. Therefore, the regulatory objective is not to avoid gain but to properly account for intercompany retroactive contracts that include gains.

On March 22, 2023, the Working Group re-exposed the intent to nullify INT 03-02, effective December 31, 2023. The nullification is proposed as INT 03-02 is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with, in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements.

Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group re-exposed the intent to nullify INT 03-02 and directed NAIC staff to work with industry regarding some of their comments and examples to be submitted by industry.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group deferred action on this agenda item and directed NAIC staff to continue working with interested parties on the proposal.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed its intent to nullify INT 03-02, and exposed revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* to address transfers of assets when modifying intercompany pooling agreements. The exposed revisions were based on interested parties' comments with minor edits proposed by NAIC staff.

Exposed Revisions to SSAP No. 25 and SSAP No. 63 are illustrated below.

SSAP No. 25—Affiliates and Other Related Parties

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for and valued in accordance with the guidance in SSAP No. 63—Underwriting Pools. The guidance in SSAP No. 63 regarding the transfers of assets or liabilities to effectuate a modification of an intercompany pooling arrangements shall not be applied or analogized to other transactions involving transfers of assets and liabilities.

SSAP No. 63—Underwriting Pools (only impacted paragraph are reflected.)

1. This statement establishes statutory accounting principles for underwriting pools and associations, including intercompany pooling arrangements.

8. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions, or a restructuring of the group's legal entity structure. In order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company may commute the existing pooling agreement and execute a new pooling agreement(s). In conjunction with executing the appropriate intercompany pooling agreements, a transfer of assets and liabilities amongst the impacted affiliates may also be required in order to implement the new pooling agreement(s). The following subparagraphs provide guidance specific to modifications of intercompany pooling arrangements and shall not be applied to an analogous transaction or event.

a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.

b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

12. Note that other applicable reinsurance guidance from SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance or SSAP No. 62R—Property and Casualty Reinsurance, depending on

the type of business, applies to intercompany pooling arrangements and voluntary and involuntary pools. This includes the SSAP No. 62R guidance in paragraphs 33 through 39 regarding retroactive reinsurance.

New disclosure in paragraph 13

13.i For modifications to an existing intercompany pooling arrangement that involve the transfer of assets with fair values that differ from cost or amortized cost, the statement value and fair value of assets received or transferred by the reporting entity.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted as final, revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* to address transfers of assets when modifying intercompany pooling agreements. Effective upon adoption, this agenda item also nullifies *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*. The exposed disclosure to SSAP No. 63, paragraph 13i, was modified from the exposure to incorporate revisions suggested by interested parties.

Adopted revisions are illustrated below.

SSAP No. 25—Affiliates and Other Related Parties

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for and valued in accordance with the guidance in SSAP No. 63—Underwriting Pools. The guidance in SSAP No. 63 regarding the transfers of assets or liabilities to effectuate a modification of an intercompany pooling arrangements shall not be applied or analogized to other transactions involving transfers of assets and liabilities.

SSAP No. 63—Underwriting Pools (only impacted paragraphs are reflected.)

1. This statement establishes statutory accounting principles for underwriting pools and associations, including intercompany pooling arrangements.

8. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions, or a restructuring of the group's legal entity structure. In order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company may commute the existing pooling agreement and execute a new pooling agreement(s). In conjunction with executing the appropriate intercompany pooling agreements, a transfer of assets and liabilities amongst the impacted affiliates may also be required in order to implement the new pooling agreement(s). The following subparagraphs provide guidance specific to modifications of intercompany pooling arrangements and shall not be applied to an analogous transaction or event.

- a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.
- b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

13. Note that other applicable reinsurance guidance from SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance or SSAP No. 62R—Property and Casualty Reinsurance, depending on

the type of business, applies to intercompany pooling arrangements and voluntary and involuntary pools. This includes the SSAP No. 62R guidance in paragraphs 33 through 39 regarding retroactive reinsurance.

New disclosure in paragraph 13 as modified after exposure:

13.i The statement value and fair value of assets received or transferred by the reporting entity for modifications to an existing intercompany pooling arrangement that involved the transfer of assets with fair value that differ from statement value.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/22-12 - Review INT 03-02.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/22-12-ReviewINT03-02.docx)

Not for Distribution

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 03-02: Modification to an Existing Intercompany Pooling Arrangement

NULLIFIED BY AGENDA ITEM 2022-12

INT 03-02 Dates Discussed

March 9, 2003; June 22, 2003; [August 10, 2022](#); [December 13, 2022](#); [March 22, 2023](#); [August 13, 2023](#); [December 1, 2023](#); [March 16, 2024](#); [August 13, 2024](#)

INT 03-02 References

Current:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

SSAP No. 62R—Property and Casualty Reinsurance

SSAP No. 63—Underwriting Pools

INT 03-02 Issue

1. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions or a restructuring of the group's legal entity structure. As an insurance group's business objectives and strategies evolve, it may be necessary for the insurance group's legal entity structure to similarly evolve in order to address the insurance group's business needs.

2. SSAP No. 63, paragraphs 5 and 7, defines and describes intercompany pooling as an arrangement among affiliated entities whereby "all of the pooled business is ceded to the lead entity and then retroceded back to the pool participants in accordance with their stipulated shares." This arrangement is established through "a conventional quota share reinsurance agreement..." Arrangements whereby there is one lead company that retains 100% of the pooled business and all or some of the affiliated companies have a 0% net share of the pool may qualify as intercompany pooling."

3. Therefore, in order to effectuate a modification to the existing intercompany pooling arrangement, companies must either 1) amend the existing reinsurance agreement, or 2) execute new agreements. The latter scenario may entail executing at least two agreements: a commutation of the existing agreement, and a new quota share agreement(s) that covers both past and future periods.

4. To illustrate, in order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company must commute the existing pooling agreement and execute a new quota share agreement(s). In conjunction with executing the appropriate reinsurance agreements, a transfer of assets and liabilities amongst the impacted affiliates is also required in order to implement the new reinsurance agreement(s). At issue is the appropriate valuation basis to be used for assets and liabilities that are transferred pursuant to the new reinsurance agreement(s).

5. Since SSAP No. 63 does not specifically address modifications to intercompany pooling arrangements, insurance groups that modify their intercompany pooling arrangements must refer elsewhere in Statutory Accounting Principles (SAP) for relevant guidance. The obvious guidance for such transactions is SSAP No. 62R since an intercompany pooling arrangement is, by definition, affiliated reinsurance. There is, however, a minority opinion that *SSAP No. 25—Affiliates and Other Related*

Parties appears to apply due to the affiliated nature of these transactions. Since the guidance and intent of SSAP No. 62R and SSAP No. 25 provide for different valuation bases, this interpretation serves to provide definitive guidance as to which SSAP is relevant for these transactions and, therefore, clarify the appropriate valuation basis to be used for assets and liabilities transferred pursuant to a modification to an intercompany pooling arrangement.

SSAP No. 62R Approach:

6. This approach refers to the guidance and statutory accounting intent from SSAP No. 62R since intercompany pooling arrangements are defined and established through reinsurance. Further, since modifications to intercompany pooling agreements typically involve the transfer of net liabilities incurred since the inception of the existing pooling agreement (i.e., prior to the effective date of the new agreement), the retroactive reinsurance accounting guidance in paragraphs 33-39 of SSAP No. 62R is applicable. Paragraph 33 states that this special accounting treatment is warranted “due to the potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results...” However, paragraph 36.d. specifically applies to intercompany reinsurance arrangements, and amendments to intercompany reinsurance agreements, since the reinsurance agreement is among companies 100% owned by a common parent. This paragraph allows prospective accounting treatment for intercompany reinsurance agreements that do not result in a gain in surplus as a result of the transaction.

7. To provide historical perspective, prior to the adoption (with modification) of FASB *Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) as SAP, paragraph 36.d. was added as one of the SAP modifications. The intent of adding paragraph 36.d. was to specifically exclude intercompany reinsurance agreements among entities 100% owned by a common parent from retroactive reinsurance accounting requirements as a result of amending or modifying these agreements, provided there is no surplus gain. The presumption in this intent was that there would be no gains to the ceding entity resulting from implementing amendments or modifications to these types of reinsurance agreements.

8. Therefore, based on the foregoing guidance and background, the statutory accounting intent is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. On that basis, such a modification does not represent an economic transaction to the insurance group or to the impacted companies. As such, the transfer of both the assets and the liabilities valued at statutory book value ensures that there is no impact to surplus as a result of implementing a modification to an existing pooling arrangement.

SSAP No. 25 Approach:

9. An approach different from that which refers to reinsurance accounting guidance is to refer to the guidance in SSAP No. 25 since some may view a modification to an intercompany pooling agreement as a related party transaction involving the exchange of assets or liabilities. In this case, paragraphs 14-18 of SSAP No. 25 would appear applicable. This guidance specifies differing valuation bases, depending on whether the transaction is considered an economic or a non-economic transaction. SSAP No. 25, paragraph 14, states that “...The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed ...” Since insurance groups often modify intercompany pooling arrangements, this type of transaction is not permanent, and may be construed as a non-economic transaction. SSAP No. 25, paragraph 18.b., states that “non-economic transactions ... shall be recorded at the lower of existing book value or fair value at the date of the transaction.”

10. It appears that this guidance is intended to address matters involving discrete or isolated transfers of assets and/or liabilities between affiliates rather than transfers of assets and liabilities effected in relation to executing reinsurance transactions (the guidance for which is SSAP No. 62R). Additionally,

Modification to an Existing Intercompany Pooling Arrangement

application of this guidance would result in a change to the surplus of the insurance group as a result of implementing a modification to an existing intercompany pooling arrangement. As previously stated, the statutory accounting intent is to avoid surplus gains for the insurance group as a result of implementing a modification to an intercompany pooling arrangement.

11. The accounting issues are:

- a. What is the relevant guidance for modifications to intercompany pooling arrangements?
- b. What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?

INT 03-02 Discussion

The Working Group reached a consensus as follows:

12. SSAP No. 62R provides accounting for property and casualty reinsurance agreements including specific guidance on intercompany pooling agreements. SSAP No. 62R provides two methods of accounting for changes in intercompany pooling agreements, depending on whether or not the pooling results in a gain in surplus.

13. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*.

INT 03-02 Status

14. No further discussion is planned.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/22-12aINT03-02.docx>

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: ASU 2023-06, Disclosure Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In October 2023, FASB issued *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, in response to a referral from SEC Release No. 33-10532, Disclosure Update and Simplification, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of Topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies. It was also noted by Staff that the effective date of ASU 2023-06 is unusual as both its timing, and ultimately its implementation within the Codification, is dependent on whether the SEC removes the related disclosures from Regulation S-X, or Regulation S-K becomes effective, prior to June 30, 2027. For this agenda item, Staff believes that the occurrence, or non-occurrence, of future SEC actions is not relevant to discussion concerning the proposed disclosures' merits for inclusion in the statutory accounting framework. If needed, the Working Group will address the effective date of adoption at a later stage.

Existing Authoritative Literature:

The table starting on page six summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

Agenda item 2024-04: Conforming Repurchase Agreements was developed in in response to the American Council of Life Insurers (ACLI) request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):

None.

Staff Recommendation – Spring National Meeting:

NAIC staff recommends that the Working Group expose revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The disclosures revisions we have recommended are:

- Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.

- Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

NAIC staff also requests regulator and interested party input on whether the accounting policy disclosure for cash flows associated with derivatives, ASC 230-10-50-9, should also be adopted for statutory accounting purposes. This would require companies to provide an accounting policy disclosure for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

Staff Recommendation – Summer National Meeting:

NAIC staff recommends that the Working Group adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 86—Derivatives*. The disclosure revisions we have recommended are:

- Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.
- Disclosure of the derivative cash flow accounting policy

In addition, NAIC staff recommend that the previously exposed revisions to adopt, with modification, certain disclosures from *ASU 2023-06* within *No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* be combined with agenda item 2024-04: Conforming Repurchase Agreements. These disclosures revisions include:

- Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

Agenda item 2024-04 is intended to review and revise current statutory guidance for repos and secured lending, as such adoption of additional repo disclosures should be considered as a part of that project.

Staff Review Completed by:

NAIC Staff – William Oden, February 2024

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group deferred exposure of this agenda item as some items were noted which require further consideration.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Working Group also requested input from regulators and interested parties on whether the derivative cash flow accounting policy disclosure, described in ASC 230-10-50-9, would provide useful information to regulators.

Exposed Revisions to SSAP No. 15—Debt and Holding Company Obligations – *Adopted*

22. For unused commitments and lines of credit, the reporting entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:

- The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).

- ~~a.~~b. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

Relevant Literature

32. This statement adopts, with modification, ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. Statutory modifications include:

- a. Extending the disclosure requirements to both short-term and long-term unused commitments and lines of credit, whereas ASU 2023-06 only required these disclosures for long-term unused commitments and short-term lines of credit.
- b. The requirement to disclose the weighted-average interest rate of short-term borrowings was rejected for statutory accounting purposes.

Exposed revisions to SSAP No. 86—Derivatives – **Adopted**

Disclosure Requirements

63. Reporting entities shall disclose the following for all derivative contracts used:

- a. General disclosures:
- i. A description of the reporting entity's objectives for using derivatives, i.e., hedging, income generation or replication;
 - ii. A description of the context needed to understand those objectives and its strategies for achieving those objectives;
 - iii. The description for hedging objectives shall identify the category, e.g., fair value hedges, cash flow hedges, or foreign currency hedges, and for all objectives, the type of instrument(s) used;
 - iv. A description of the accounting policies for derivatives including the policies for recognizing (or reasons for not recognizing) and measuring the derivatives used, and when recognized, where those instruments and related gains and losses are reported;
 - v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);
 - vi. The net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness; ~~and~~
 - vii. The net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach; and
 - ~~vii.~~viii. The reporting entity shall disclose its accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flow.

Relevant Literature

74. [This statement adopts, with modification, ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. The adopted guidance requires the reporting entity to disclose its accounting policy for where cash flows associated with derivative instruments are presented in the statement of cash flow.](#)

Not adopted - The following Revisions to were exposed SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – Are To be Combined with Agenda Item 2024-04 (not adopted in August 2024)

28. A reporting entity shall disclose the following^{fn}:

- a. For Repurchase and Reverse Repurchase Agreements:
 - i. If the entity has entered into repurchase or reverse repurchase agreements, information regarding the company policy or strategies for engaging in repo programs, policy for requiring collateral, as well as whether transactions have been accounted for as secured borrowings or as sale transactions. This disclosure shall include the terms of reverse repurchase agreements whose amounts are included in borrowing money. The following information shall be disclosed by type of agreement:
 - (a) Whether repo agreements are bilateral and/or tri-party trades;
 - (b) Maturity time frame divided by the following categories: open or continuous term contracts for which no maturity date is specified, overnight, 2 days to 1 week, from 1 week to 1 month, greater than 1 month to 3 months, greater than 3 months to 1 year, and greater than 1 year^{fn};
 - (c) Aggregate narrative disclosure of the fair value of securities sold and/or acquired that resulted in default. (This disclosure is not intended to capture "failed trades," which are defined as instances in which the trade did not occur as a result of an error and was timely corrected. Rather, this shall capture situations in which the non-defaulting party exercised their right to terminate after the defaulting party failed to execute.)
 - (d) [If as of the date of the most recent balance sheet the aggregate carrying amount of reverse repurchase agreements \(securities or other assets purchased under agreements to resell\) exceeds 10% of total admitted assets, the assets shall be separately disclosed. The entity shall also disclose whether there are any provisions, beyond the collateral requirements in paragraph 113, to ensure that the market value of the underlying assets remains sufficient to protect the entity in the event that the counterparty defaults and, if so, the nature of those provisions.](#)

Staff Note 2: *The Supplemental Investment Risks Interrogatories (Appendix A-001) does require reporting of the amount and percentage of admitted assets subject to reverse repurchase agreements. Staff is of the opinion that if the assets subject to reverse repurchase agreements exceeded 10% then this fact is significant enough to also be included in the notes the financial statements.*

- ii. For repurchase transactions accounted for as secured borrowings^{fn}, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
 - (a) Fair value of securities sold. (Book adjusted carrying value shall be provided as an end balance only.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with identification of nonadmitted assets. Although legally sold as a secured borrowing, these assets are still reported by the insurer and shall be coded as restricted pursuant to the annual

statement instructions, disclosed in accordance with SSAP No. 1—*Accounting Policies, Risks & Uncertainties, and Other Disclosures*, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.

- (b) Cash collateral and the fair value of security collateral (if any) received. This information is required in the aggregate and by type of security categorized by NAIC designation with identification of collateral securities received that do not qualify as admitted assets.
 - (1) For collateral received, aggregate allocation of the collateral by the remaining contractual maturity of the repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral received, including the impact arising changes in the fair value of the collateral received and/or the provided security and how those risks are managed.
 - (2) For cash collateral received that has been reinvested, the total reinvested cash and the aggregate amortized cost and fair value of the invested asset acquired with the cash collateral. This disclosure shall be reported by the maturity date of the invested asset: under 30 days, 60 days, 90 days, 120 days, 180 days, less than 1 year, 1-2 years, 2-3 years and greater than 3 years. To the extent that the maturity dates of the liability (collateral to be returned) does not match the invested assets, the reporting entity shall explain the additional sources of liquidity to manage those mismatches.
 - (c) Liability recognized, including accrued interest, to return cash collateral, and the liability recognized to return securities received as collateral as required pursuant to the terms of the secured borrowing transaction.
- iii. For reverse repurchase transactions accounted for as secured borrowings^{fn}, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
- (a) Fair value of securities acquired. This information shall be reported in the aggregate, and by type of security categorized by NAIC designation, with identification of whether acquired assets would not qualify as admitted assets.
 - (b) Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall identify the book adjusted carrying value of any nonadmitted securities provided as collateral. For collateral pledged, the aggregate allocation of the collateral by the remaining contractual maturity of the reverse-repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.
 - (c) Recognized receivable for the return of collateral. (Generally cash collateral, but including securities provided as collateral as applicable under the terms of the secured borrowing transaction. Receivables are not recognized for securities provided as collateral if those securities are still reported as assets of the reporting entity.)
 - (d) Recognized liability, including accrued interest, to return securities acquired under the reverse-repurchase agreement as required pursuant to the secured borrowing transaction. (Generally, a liability is required if the acquired securities are sold.)

- iv. For repurchase transactions accounted for as a sale^{fn}, the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:
 - (a) Fair value of securities sold (derecognized from the financial statements). (Book adjusted carrying value shall be provided as an end balance only, reflecting the amount derecognized from the sale transaction.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with information on the book adjusted carrying value of nonadmitted assets sold.
 - (b) Cash and the fair value of securities (if any) received as proceeds and recognized in the financial statements. This information is required in the aggregate and by type of security categorized by NAIC designation, with identification of received assets nonadmitted in the financial statements. All securities received shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with SSAP No. 1, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.
 - (c) The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction.
- v. For reverse repurchase transactions accounted for as sale^{fn}, the maximum amount and end balance as of each reporting period (quarterly and annual):
 - (a) Fair value of securities acquired and recognized on the financial statements. (Book adjusted carrying value shall be provided as an end balance only.) This information shall be reported in the aggregate, and by type of security categorized by NAIC designation. The disclosure also requires the book adjusted carrying value of nonadmitted assets acquired.
 - (b) Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall also identify whether any nonadmitted assets were provided as collateral (derecognized from the financial statements).
- vi. If as of the date of the most recent balance sheet the amount at risk under repurchase agreements or the amount at risk under reverse repurchase agreements with any individual counterparty or group of related counterparties exceeds 10% of adjusted capital and surplus, an entity shall disclose the name(s) of those counterparties or group of related counterparties, the amount at risk with each, and the weighted-average maturity of the repurchase agreements or reverse repurchase agreements with each.
 - (a) For the purposes of this statement, the amount at risk under repurchase agreements is the excess of the carrying amount (or market value, if higher than the carrying amount or if there is no carrying amount) of the securities or other assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability (adjusted for accrued interest).
 - ~~(a)~~(b) For the purposes of this statement, the amount at risk under reverse repurchase agreements is the excess of the carrying amount of the reverse repurchase agreements over the market value of assets delivered in accordance with the agreements by the counterparty to an entity (or to a third-party agent that has affirmatively agreed to act on behalf of the entity) and not returned to the counterparty, except in exchange for their approximate market value in a separate transaction.

Relevant Literature

135. This statement adopts, with modification, ASU 2023-06, *Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. Statutory modifications include:

- a. It is not feasible to require separate reporting of assets subject to reverse repurchase agreements in excess of 10% of total assets. Instead, this was modified to require separate disclosure and the threshold was modified to be "10% of total admitted assets."
- b. The disclosure threshold for the amount at risk under repurchase agreements or reverse repurchase agreements was modified to be 10% of adjusted capital and surplus, rather than 10% of total equity.
- c. The requirement to disclose the weighted-average interest rate of repurchase liabilities and related repurchase liabilities was rejected for statutory accounting purposes.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted, with modification, as final, certain disclosures from ASU 2023-06, *Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within SSAP No. 15—*Debt and Holding Company Obligations* and SSAP No. 86—*Derivatives*. The partial adoption of ASU 2023-06 only includes the previously exposed disclosures on unused commitments, lines of credit, and derivative cash flows accounting policy. The Working Group also directed NAIC staff to incorporate the previously exposed disclosures from ASU 2023-06 concerning repos, reverse repos and securities borrowing into agenda item 2024-04: Conforming Repurchase Agreements for further consideration as part of the ongoing project looking at the statutory accounting treatment of repos and securities lending. The adopted revisions are reflected below.

Adopted Revisions to SSAP No. 15—Debt and Holding Company Obligations – Adopted

22. For unused commitments and lines of credit, the reporting entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:

- a. The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).
- ~~a.~~ b. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

Relevant Literature

32. This statement adopts, with modification, ASU 2023-06, *Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. Statutory modifications include:

- a. Extending the disclosure requirements to both short-term and long-term unused commitments and lines of credit, whereas ASU 2023-06 only required these disclosures for long-term unused commitments and short-term lines of credit.
- b. The requirement to disclose the weighted-average interest rate of short-term borrowings was rejected for statutory accounting purposes.

Proposed revisions to SSAP No. 86—Derivatives – *Adopted***Disclosure Requirements**

63. Reporting entities shall disclose the following for all derivative contracts used:

b. General disclosures:

- i. A description of the reporting entity's objectives for using derivatives, i.e., hedging, income generation or replication;
- ii. A description of the context needed to understand those objectives and its strategies for achieving those objectives;
- iii. The description for hedging objectives shall identify the category, e.g., fair value hedges, cash flow hedges, or foreign currency hedges, and for all objectives, the type of instrument(s) used;
- iv. A description of the accounting policies for derivatives including the policies for recognizing (or reasons for not recognizing) and measuring the derivatives used, and when recognized, where those instruments and related gains and losses are reported;
- v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);
- vi. The net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness; ~~and~~
- vii. The net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach; and
- ~~vii.~~viii. The reporting entity shall disclose its accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flow.

Relevant Literature

74. This statement adopts, with modification, ASU 2023-06, *Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. The adopted guidance requires the reporting entity to disclose its accounting policy for where cash flows associated with derivative instruments are presented in the statement of cash flow.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/23-26-ASU2023-06-DisclosureImprovements.docx>

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Statement of Cash Flows—Overall	230-10	Requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.	50-9	NAIC staff noted that this disclosure may be duplicative of <i>SSAP No. 86—Derivatives</i>, paragraph 63a.iv. However, this disclosure does not specifically require disclosure of the accounting policy for the presentation of cash flows from derivatives and the statutory statement of cash flows does not currently break out cash flows from derivatives. No comments were received from regulators and Interested Parties had no comments on adoption of this disclosure. Staff recommends adoption of this disclosure for statutory accounting purposes.
Accounting Changes and Error Corrections—Overall	250-10	Requires that when there has been a change in the reporting entity, the entity disclose any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements.	50-6	This disclosure is duplicative of <i>SSAP No. 3—Accounting Changes and Corrections of Errors</i>, paragraph 13. This update is not applicable – no action required.
Earnings Per Share—Overall	260-10	Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures should be made during interim periods. Amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation.	50-1 55-51 55-52	This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Interim Reporting—Overall	270-10	Conforms to the amendments made to Topic 250.	45-12 45-19 50-1	This update is not applicable – no action required.
Commitments—Overall	440-10	Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized.	50-1	This disclosure is duplicative of <i>SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures</i> , paragraph 23b. This update is not applicable – no action required.
Debt—Overall	470-10	Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. Entities that are not public business entities are not required to provide information about the weighted-average interest rate.	15-1 50-6 5-7	Staff do not recommend adoption of the weighted-average interest rate calculation for statutory accounting purposes. Due to the complexity of this computation, this this disclosure is only required for public entities under GAAP. As SAP does not have the public/private entity distinction, adoption of this disclosure would be applicable to all insurance entities. This disclosure is not considered necessary in light of existing debt SAP disclosures and does not provide enough benefit to offset the cost of implementing such a potentially complex calculation. We recommend adoption, with modification, of the disclosures unused LOC and commitment disclosures.
Equity—Overall	505-10	Requires entities that issue preferred stock to disclose preference in involuntary liquidation if the liquidation preference is other than par or stated value.	50-4	This disclosure is duplicative of <i>SSAP No. 72—Surplus and Quasi-Reorganizations</i> , paragraph 22b. This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
Derivatives and Hedging—Overall	815-10	Adds inter-codification reference to 230-10-50-9 for disclosure of cash flows associated with derivative instruments.	50-8C	This update is not applicable – no action required.
Transfers and Servicing—Secured Borrowing and Collateral	860-30	Requires: a. That accrued interest be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions. b. Separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets. c. Disclosure of the weighted-average interest rates of repurchase liabilities for public business entities. d. Disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholder's equity. e. Disclosure for reverse repurchase agreements that exceed 10 percent of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.	15-1 45-2 45-2A 45-3 50-7 50-9 thru 12 55-4	We recommend adoption, with modification, of the disclosures in bullets a., b., d., and e. (see Abbreviated Summary of Changes) The disclosure in bullet c. is not recommended for adoption within SAP – no action required.
Extractive Activities—Oil and Gas—Notes to Financial Statements	932-235	Requires that paragraphs 932-235-50-3 through 50-36 be applicable for each annual period presented in the financial statements.	50-2A	This update is not applicable – no action required.
Financial Services—Investment Companies—Investment Company Activities	946-20	Requires that investment companies disclose the components of capital on the balance sheet.	50-11 50-12	This update is not applicable – no action required.
Real Estate—Real Estate Investment Trusts—Overall	974-10	Requires disclosure for annual reporting periods of the tax status of distributions per unit (for example, ordinary income, capital	50-1	This update is not applicable – no action required.

<u>Topic</u>	<u>Codification</u>	<u>Abbreviated Summary of Change</u>	<u>Related Paragraphs</u>	<u>SAP Status/Recommendation</u>
		gain, and return of capital) for a real estate investment trust.		
Generally Accepted Accounting Principles—Overall	105-10	Adds in transition and open effective date information.	65-7 65-8	This update is not applicable – no action required.

Not for Distribution

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: ASU 2023-01, Leases (Topic 842), Common Control Arrangements

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In March 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements*. This ASU was issued as part of FASB's post-implementation review to address issues that have been found during the implementation of the new lease guidance from *ASU 2016-02, Leases (Topic 842)*. As a reminder, ASU 2016-02 was rejected for statutory accounting and the operating lease treatment was retained.

ASU 2023-01 focuses on two issues that are both related to private company stakeholders' concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine 1) whether a lease exists and, if so, 2) the classification of and accounting for that lease. The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist (including in situations in which an entity does not document existing unwritten terms and conditions in writing upon transition to the practical expedient), an entity is prohibited from applying the practical expedient and must evaluate the enforceable terms and conditions to apply Topic 842. The new U.S. GAAP guidance for this issue is only applicable to non-public entities.

The second issue involves the accounting for leasehold improvements associated with a lease between entities under common control. U.S. GAAP guidance for life of leasehold improvements prior to this update generally agrees to statutory accounting. It was noted in the ASU that private company stakeholders were concerned that amortizing leasehold improvements associated with arrangements between entities under common control determined to be leases (hereinafter referred to as common control leases) over a period shorter than the expected useful life of the leasehold improvements might result in financial reporting that do not faithfully represent the economics of those leasehold improvements, particularly in common control leases with short lease terms. While this issue originally came from private company stakeholder comments, the guidance for this issue is applicable for all lessees that are party to a lease between entities under common control in which there are leasehold improvements.

Existing Authoritative Literature:

The ASUs related to Topic 842 have previously been rejected in *SSAP No. 22R—Leases*. Guidance for leasehold improvements is included in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and guidance for related parties is included in *SSAP No. 25—Affiliates and Other Related Parties*.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): ASC Topic 842 was the result of a joint project between FASB and the International Accounting Standards Board.

Staff Recommendation:

NAIC staff recommends 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 2023-01 in SSAP No. 19—*Furniture, Fixtures, Equipment and Leasehold Improvements* and SSAP No. 73—*Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, as illustrated in the Form A. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.

SSAP No. 19—*Furniture, Fixtures, Equipment and Leasehold Improvements*

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term as defined in SSAP No. 22R. Leasehold improvements associated with a lease between entities under common control shall be amortized over the useful life of those improvements to the holding company group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same holding company group, the amortization period shall not exceed the amortization period of the holding company group. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee. Such improvements related to the functionality of health care delivery assets shall follow the accounting, reporting and impairment guidance in SSAP No. 73—*Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and an exception to the application of this guidance to leasehold improvements necessary for the functionality of health care delivery assets is included in SSAP No. 73. If leased real estate is acquired, recognition of the real estate shall follow the provisions in SSAP No. 40R—*Real Estate Investments*.

20. This statement adopts, with modification, ASU 2023-01, *Leases (Topic 842), Common Control Arrangements*. The practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement is rejected for statutory accounting. The guidance for lessees that are a party to a lease between entities under common control in which there are leasehold improvements is adopted, with modification to align with existing statutory guidance.

SSAP No. 73—*Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19. Leasehold improvements associated with a lease between entities under common control shall be amortized over the useful life of those improvements to the holding company group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same holding company group, the amortization period shall not exceed the amortization period of the holding company group. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee but excludes situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded from the purchase cost of the real estate. Upon acquisition, such leasehold improvements necessary for the functionality of healthcare delivery assets shall follow the guidance for health care delivery assets in this statement. If

leased real estate is acquired, recognition of the real estate shall follow the provisions in SSAP No. 40R—*Real Estate Investments*.

13. This statement adopts, with modification, ASU 2023-01, Leases (Topic 842), Common Control Arrangements. The practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement is rejected for statutory accounting. The guidance for lessees that are a party to a lease between entities under common control in which there are leasehold improvements is adopted, with modification to align with existing statutory guidance.

Staff Review Completed by: Jake Stultz, NAIC Staff – February 2024

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* in SSAP No. 19—*Furniture, Fixtures, Equipment and Leasehold Improvements* and SSAP No. 73—*Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*, as illustrated above. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions which adopt with modification, as final, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* in SSAP No. 19—*Furniture, Fixtures, Equipment and Leasehold Improvements* and SSAP No. 73—*Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/24-02-ASU2023-01Leases.docx>

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: ASU 2023-08, Accounting for and Disclosure of Crypto Assets

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In December 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. This ASU establishes the accounting and reporting for crypto assets, which are defined in U.S. GAAP as assets that:

1. Meet the definition of intangible assets as defined in the Codification.
2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets.
3. Are created or reside on a distributed ledger based on blockchain or similar technology.
4. Are secured through cryptography.
5. Are fungible.
6. Are not created or issued by the reporting entity or its related parties.

ASU 2023-08 also clarified the disclosure of crypto assets in the financial statements, which note that crypto assets are to be reported at fair value, are reported separately from the other intangible assets, describe how they are to be disclosed in the income statement and statement of cash flows, and includes a rollforward of activity and balances on an annual basis.

As background, on May 20, 2021, the Working Group adopted *Interpretation (INT) 21-01: Accounting for Cryptocurrencies*, which established statutory accounting for crypto assets. At that time, NAIC staff had received several questions on the proper treatment of cryptocurrencies, so with the absence of U.S. GAAP guidance, the Working Group adopted INT 21-01. The INT established that directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual (AP&P Manual)* as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the AP&P Manual as an admitted asset. Additionally, a disclosure for crypto assets was added to the general interrogatories of the Annual Statement blanks and instructions.

This agenda item intends to codify the guidance that was adopted in INT 21-01, and formally establish that crypto assets are nonadmitted assets for statutory accounting.

Existing Authoritative Literature:

Accounting for cryptocurrencies is currently addressed by *INT 21-01 Accounting for Cryptocurrencies*, and the Annual Statement blanks included a disclosure in the general interrogatories.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None**Staff 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 2023-08 for statutory accounting. The agenda item proposes to adopt the definition of crypto assets from the ASU but establishes that directly held crypto assets are nonadmitted assets for statutory accounting. The recommendation is to add guidance to *SSAP No. 20—Nonadmitted Assets* that clarifies that directly-held crypto assets are nonadmitted assets for statutory accounting and to define crypto assets using the definition from ASU 2023-08. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions. Additionally, NAIC staff recommends that the Working Group expose the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*, upon the adoption of this agenda item. The revisions to SSAP No. 20 are illustrated below.

SSAP No 20—Nonadmitted Assets**Paragraph 4:**

f. Crypto assets are defined as intangible digital assets in which transactions are created or reside on a distributed ledger based on blockchain or similar technology and are verified with records maintained by a decentralized system using cryptography, rather than by a centralized authority, and do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets. Directly held crypto assets do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*, and due to the volatile nature of the assets and liquidity issues, the assets shall not be considered available to satisfy policyholder obligations.

5. This statement adopts with modification *FASB Emerging Issues Task Force No. 08-7: Accounting for Defensive Intangible Assets* to nonadmit defensible intangible assets. This statement rejects Chapters 3A and 11 of *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*. This statement adopts, with modification, ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60)*, *Accounting for and Disclosure of Crypto Assets*, which adopts the definition of crypto assets from the ASU and establishes that directly held crypto assets are nonadmitted assets for statutory accounting.

Staff Review Completed by: Jake Stultz, NAIC Staff—February 2024

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification ASU 2023-08, *Accounting for and Disclosure of Crypto Assets* for statutory accounting. The revisions propose to adopt the definition of crypto assets from the ASU but establishes within *SSAP No. 20—Nonadmitted Assets* that directly held crypto assets are nonadmitted assets for statutory accounting. Additionally, the exposure includes the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 20 which with modification, ASU 2023-08, *Accounting for and Disclosure of Crypto Assets* for statutory accounting. Upon adoption, this agenda also nullifies *INT 21-01, Accounting for Cryptocurrencies*.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/24-03-ASU2023-08Crypto.docx>

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 21-01: Accounting for Cryptocurrencies

GUIDANCE NULLIFIED AUGUST 13, 2024

INT 21-01 Dates Discussed

March 15, 2021; May 20, 2021; [August 13, 2024](#)

INT 21-01 References

SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments

INT 21-01 Issue

1. This interpretation is to address questions regarding statutory accounting treatment for cryptocurrencies, which are defined as a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority. Cryptocurrencies are purchased and exchanged using a limited number of unregulated digital currency exchanges and are not held or offered by major banks.

2. The most valuable cryptocurrency as of February 2021 is Bitcoin, which has been in circulation since 2009, and there are approximately 4,000 different cryptocurrencies available on 200 different cryptocurrency exchanges. Cryptocurrencies have seen significant price volatility and have experienced an extreme increase in value over the past year, with the value of the total outstanding cryptocurrencies nearing \$1 trillion as of February 2021. The total market value and increased popularity has led to increased interest in the market by traditional financial institutions and insurance companies.

3. No NAIC Committees or groups have taken any action or established a position on cryptocurrencies. Currently, auditors must rely on guidance provided by the American Institute of Certified Public Accountants through a nonauthoritative practice guide.

4. This Interpretation intends to clarify that directly held cryptocurrencies are nonadmitted assets for statutory accounting.

INT 21-01 Discussion

5. Directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual* (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the *Accounting Practices and Procedures Manual* as an admitted asset.

6. Cash is defined in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* as a “medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor’s account.” Cryptocurrencies are currently not accepted by major banks and do not operate like a traditional currency, and as such do not meet the definition of cash in *SSAP No. 2R*.

INT 21-01 Consensus

7. The Statutory Accounting Principles (E) Working Group reached a consensus that directly held cryptocurrencies do not meet the definition of an admitted asset and are therefore considered to be a nonadmitted asset for statutory accounting. The Working Group intends to rely on this interpretation for statutory accounting and will address cryptocurrencies further once FASB has provided definitive guidance.

INT 21-01 Status

8. No further discussion is planned.

9. The Statutory Accounting Principles (E) Working Group will continue to monitor the evolution of cryptocurrencies and subsequently review this interpretation as appropriate as part of the normal maintenance process.

Not for Distribution

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Consistency Revisions for Residuals

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize the guidance in SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from scope and direct to SSAP No. 21R.

Existing Authoritative Literature: - Key references **bolded** for emphasis.

- ***SSAP No. 21R—Other Admitted Assets (Effective 2025) – Adopted March 16, 2024***

Residual Tranches or Interests/Loss Positions

28. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

29. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance

of the investment and how cash flows to the holder are determined. Additionally, it would be expected that the equity position in an ABS Issuer, as defined in SSAP 26R, would be classified as a residual tranche.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

30. Residual tranches or interests do not qualify for bond reporting. Residuals shall follow the accounting and admittance guidance within this statement and are required to be reported on Schedule BA: Other Long-Term Invested Assets.

31. As stated in paragraph 22, residuals are permitted to be admitted assets if debt securities from the same structure qualify (or would qualify) as admitted assets. If the debt security from a structure is (or would be) nonadmitted due to the requirements under paragraph 22, then any residual interests or first loss positions held from the same structure also do not qualify as admitted assets and shall be reported as nonadmitted assets.

32. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values if acquired along with debt tranches from the securitization). Subsequent to initial acquisition, residuals shall be reported at either 1) the lower of amortized cost or fair value under the Allowable Earned Yield method detailed in paragraphs 33-34, with temporary reductions in fair value reported as an unrealized loss, or 2) at the calculated practical expedient method detailed in paragraph 35.

33. For purposes of this statement for residuals only, amortized cost shall be defined as the cost to acquire the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments (OTTI). The Allowable Earned Yield shall be established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. The Allowable Earned Yield is not to be updated after acquisition.

34. Interest income shall be recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. To the extent that the Allowable Earned Yield, applied to the current amortized cost, exceeds the cash distributions received, such unrecognized interest income may be carried forward to future periods to be recognized when sufficient cash distributions are received. To the extent cash distributions exceed the Allowable Earned Yield (including any unrecognized interest carried forward), the amortized cost shall be reduced by the excess. As a result of this method, the amortized cost shall not be increased unless there is a subsequent investment (i.e., an additional purchase with additional consideration remitted).

35. Reporting entities may elect a practical expedient in lieu of the Allowable Earned Yield detailed in paragraphs 33-34 and calculate Book/Adjusted Carrying Value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero. Once the residual has a zero BACV, distributions received shall be recognized as interest income.

- a. Reporting entities applying the practical expedient shall continue to report residuals on Schedule BA, including those with a zero BACV. Any subsequent distributions shall be reported as interest income until the structure matures/terminates, is unwound, or no longer meets the definition of a residual.
- b. Reporting entities are required to apply the practical expedient to all residuals held.
- c. Reporting entities that wish to discontinue use of the practical expedient approach and move towards the Allowable Earned Yield method are required to specify and disclose an explicit transition date, and only apply the Allowable Earned Yield method to residuals acquired after that date. Residuals held prior to the disclosed accounting method transition date shall continue to follow the practical expedient until those residuals mature/terminate or are unwound.

36. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis, with required assessment anytime that fair value is less than the reported value.

- a. For residuals measured using the Allowable Earned Yield method, as detailed in paragraphs 33-34, an OTTI shall be considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield, is less than amortized cost. Upon identification of an OTTI, the reporting entity shall recognize a realized loss equal to the difference between the amortized cost and the present value of expected cash flows, with the present value of expected cash flows becoming the new amortized cost to which the Allowable Earned Yield is applied. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraphs 33-34. Subsequent recoveries in cash flows shall not result in increases to the amortized cost.
- b. For residuals measured under the practical expedient, as detailed in paragraph 35, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV. The reporting entity shall recognize a realized loss equal to the difference between the fair value and the BACV, with the fair value becoming the new BACV. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraph 35. Subsequent recoveries in cash flows shall not result in increases to the BACV.

37. Residuals recognized on Schedule BA as of December 31, 2024, and accounted for under a different SSAP, shall follow the following measurement transition guidance as of January 1, 2025:

- a. Reporting entity shall determine whether they will follow the Allowable Earned Yield method detailed in paragraphs 33-34, or the practical expedient detailed in paragraph 35, for all residuals.
- b. Residuals previously accounted for under SSAP No. 26R or SSAP No. 43R shall prospectively apply the Allowable Earned Yield measurement method elected under this Statement using the amortized cost as of December 31, 2024 as the starting point in the calculation. Residuals that will follow the practical expedient shall be recognized on January 1, 2025 at the lower of amortized cost or fair value as of December 31, 2024, realizing any unrealized loss existing at that date.
- c. Residuals reported under the equity method or fair value as of December 31, 2024 (as they were previously captured in scope of SSAP No. 30R, 32R or 48) with unrealized gains or losses recognized, shall recognize any unrealized position as realized, with the reported value as of December 31, 2024 becoming the January 1, 2025 cost basis for subsequent measurement under this statement.

Effective Date and Transition

40. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3—*Accounting Changes and Corrections of Errors*. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018.

41. Revisions adopted March 16, 2024, to add guidance for “Debt Securities That Do Not Qualify as Bonds” and for “Residual Tranches or Interests/Loss Positions” are initially effective Jan. 1, 2025, to correspond with

the effective date of the principles-based bond definition. The guidance for residual tranches is permitted for early application. Reporting entities that apply this guidance in 2024 shall continue to follow the transition guidance in paragraph 37 using the modified dates that correspond to the reporting entity's application date.

- **SSAP No. 26R—Bonds (Effective 2025)**

4. This statement excludes:

- a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in SSAP No. 37—*Mortgage Loans* and SSAP No. 39—*Reverse Mortgages*.
 - b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in SSAP No. 43R—*Asset-Backed Securities*.
 - c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.
 - d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack contractual payments or substantive credit enhancement. These investments shall follow the appropriate guidance in SSAP No. 21R—*Other Admitted Assets*.
 - e. Replication (synthetic asset) transactions addressed in SSAP No. 86—*Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86.
 - f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of SSAP No. 21R—*Other Admitted Assets*, held surplus notes are captured in scope of SSAP No. 41R—*Surplus Notes* and working capital finance investments are captured in scope of SSAP No. 105—*Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.
10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.
- a. **Substantive Credit Enhancement:** The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and

refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.

- b. **The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss position(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in SSAP No. 21R—Other Admitted Assets.)**

- ***SSAP No. 30R—Unaffiliated Common Stock***

1. This statement establishes statutory accounting principles for common stocks.
2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.
3. **Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.**

- ***SSAP No. 32R—Preferred Stock***

1. This statement establishes statutory accounting principles for preferred stock.
2. Investments in preferred stock of entities captured in SSAP No. 97—*Investments in Subsidiaries, Controlled or Affiliated Entities* or SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* as well as preferred stock interests of certified capital companies per INT 06-02: *Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of SSAP No. 25—*Affiliates and Other Related Parties* and SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities*.
3. **Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.**

- ***SSAP No. 43R—Asset-Backed Securities (Effective 2025)***

4. This statement excludes:
 - a. Securities captured in scope of SSAP No. 26R—*Bonds*.
 - b. Mortgage loans in scope of SSAP No. 37—*Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under SSAP No. 26R.
 - c. **Securities that do not qualify as Asset-Backed Securities per the bond definition in SSAP No. 26R—*Bonds*. This exclusion includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement. Debt**

securities that do not qualify and residual interests shall follow guidance in SSAP No. 21R—Other Admitted Assets.

11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual):

- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities, **excluding residual tranches or interests**, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. 3
- b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), **excluding residual tranches or interests**, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
- c. For residual tranches or interests⁴, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. These items are captured in SSAP No. 21R—Other Admitted Assets and subject to admittance restrictions detailed in that statement.

Footnote 4: Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Residual Tranches or Interests

27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive

in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.
- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

- *SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies*

Residual Interests and Reporting

18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

- a. Residuals often do not have contractual principal or interest.

- b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.
- c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.
- d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.
- e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Agenda Item 2021-15 – SSAP No. 43R – Residual Tranches, was adopted November 10, 2021, to incorporate accounting guidance for residuals and clarify that residuals shall be reported on Schedule BA.
- Agenda item 2023-12 – Residuals in SSAP No. 48 Investments, was adopted September 21, 2023 to define residuals consistently between *SSAP No. 43R—Asset-Backed Securities* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and to add Annual Statement Instructions for the Schedule BA residual reporting category.
- Agenda Item 2023-23 – Residuals in Preferred Stock and Common Stock Structures was adopted during the 2023 Fall National Meeting to exclude residual interests from *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock*.
- Principles-Based Bond Definition – During the 2023 Summer National Meeting, the Working Group adopted the principles-based bond definition in a revised *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*. Subsequent to this adoption, revisions to *SSAP No. 21R—Other Admitted Assets* were exposed to capture accounting and reporting guidance for non-bond debt securities as well as residual interests. The revisions to *SSAP No. 21R* for debt securities that do not qualify as bonds to prescribe the measurement method and accounting provisions for residual interests was adopted March 16, 2024 during the 2024 Spring National Meeting.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21R for the formal definition and accounting and reporting guidance. This recommendation involves revisions to *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

Staff Review Completed by: Julie Gann, NAIC Staff—February 2024

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed consistency revisions for residuals so that *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective January 1, 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* refer directly to *SSAP No. 21R—Other Admitted Assets* for the formal definition and accounting and reporting guidance.

Proposed Revisions:**SSAP No. 26R—Bonds (Effective Jan. 1, 2025)**

4. This statement excludes:

- a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in *SSAP No. 37—Mortgage Loans* and *SSAP No. 39—Reverse Mortgages*.
- b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities*.
- c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.
- d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack ~~contractual payments or~~ substantive credit enhancement as described in paragraph 10.b., as those items are residual interests. All investments that are in substance residual interests or that is a residual security tranche, as defined in SSAP No. 21R—Other Admitted Assets. ~~These investments~~ shall follow the appropriate guidance in SSAP No. 21R—~~Other Admitted Assets~~.
- e. Replication (synthetic asset) transactions addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86.
- f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of *SSAP No. 21R—Other Admitted Assets*, held surplus notes are captured in scope of *SSAP No. 41R—Surplus Notes* and working capital finance investments are captured in scope of *SSAP No. 105—Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

- a. Substantive Credit Enhancement: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like

characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.

- b. The first loss position may be issued as part of an ~~an securitization~~ ABS structure in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the ~~securitization structure~~. If the first loss position (or a more senior position(s), if the first loss position(s) lacks ~~contractual payments along with a~~ substantive credit enhancement) is issued as part of the ~~securitization structure~~, and does not have ~~contractual principal and interest payments along with~~ substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond as it is a residual interest. All residual interests shall follow the accounting and reporting guidance in SSAP No. 21R—Other Admitted Assets. ~~and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in SSAP No. 21R—Other Admitted Assets.)~~

• **SSAP No. 30R—Unaffiliated Common Stock**

1. This statement establishes statutory accounting principles for common stocks.
2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
3. Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in ~~SSAP No. 21R—Other Admitted Assets~~ SSAP No. 43R or SSAP No. 48, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting ~~be reported~~ on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.

• **SSAP No. 32R—Preferred Stock**

1. This statement establishes statutory accounting principles for preferred stock.
2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

3. Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in ~~SSAP No. 43R or SSAP No. No. 48~~*SSAP No. 21R—Other Admitted Assets*, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting ~~be reported on Schedule BA: Other Long-Term Assets~~ in the dedicated reporting lines for residuals.

• ***SSAP No. 43R—Asset-Backed Securities (Effective 2025)***

4. This statement excludes:

- a. Securities captured in scope of SSAP No. 26R—*Bonds*.
- b. Mortgage loans in scope of SSAP No. 37—*Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under SSAP No. 26R.
- c. Securities that do not qualify as Asset-Backed Securities per the bond definition in SSAP No. 26R—*Bonds* and residual interests as defined in SSAP No. 21R—Other Admitted Assets. ~~This exclusion includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement. These securities~~ Debt securities that do not qualify and residual interests shall follow the accounting and reporting guidance in SSAP No. 21R. ~~—Other Admitted Assets~~

11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual):

- a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities, ~~excluding residual tranches or interests~~, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. 3
- b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), ~~excluding residual tranches or interests~~, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.
- c. ~~For residual tranches or interests⁴, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. These items are captured in SSAP No. 21R—Other Admitted Assets and subject to admittance restrictions detailed in that statement.~~

Footnote 4: ~~Reference to “residual tranches or interests” intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment’s duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.~~

Residual Tranches or Interests

~~27. — A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

~~28. — The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

- ~~a. — Residuals often do not have contractual principal or interest.~~
- ~~b. — Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.~~
- ~~c. — Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.~~
- ~~d. — Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.~~
- ~~e. — Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.~~

- **SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies**

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per INT 06-02: *Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO), whether or not it is considered to be controlled by or affiliated with the reporting entity.

2. This statement excludes:

- a. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in SSAP No. 40R—Real Estate Investments, are excluded from this statement.
- b. This statement does not address the accounting for i) investments in joint ventures, partnerships and limited liability companies that invest in tax credit programs and are in scope of Low-Income Housing Tax Credit Properties as discussed in SSAP No. 93—Investments in Tax Credit ProgramsLow-Income Housing Tax Credit Property Investments. However, investments in certain state Low Income Housing

~~Tax Credit Property Investments that do not fall within the scope of SSAP No. 93 are covered by the requirements of this statement. (Staff Note: This text reflects edits proposed to reflect the revised tax credit guidance in SSAP No. 93 exposed under agenda item 2022-14.)~~

- c. Investments that are in substance residual interests or a residual security tranche, as defined in SSAP No. 21R—Other Admitted Assets, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.

Residual Interests and Reporting

~~18. Investments in scope of this statement are reported on Schedule BA: Other Long-Term Assets. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.~~

~~19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

~~20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

- ~~a. Residuals often do not have contractual principal or interest.~~
- ~~b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.~~
- ~~c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.~~
- ~~d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.~~
- ~~e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.~~

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed consistency revisions for residuals with an effective date of January 1, 2025. These revisions result with all noted SSAPs referring to *SSAP No. 21R—Other Admitted Assets* for the formal definition and accounting and reporting guidance.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/06-24-08-ResidualConsistencyRevisions.docx>

Not for Distribution

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: SSAP No. 2R – Clarification

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to update the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to remove a lingering reference to items that have been removed from scope pursuant to the principles-based bond definition project (asset-backed securities) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses ‘rolling’ cash equivalents and short-term investments in which there is a continued reference for SSAP No. 43R investments and ‘other Invested assets.’ This guidance has been revised to only reflect items in scope of SSAP No. 2R.

Existing Authoritative Literature:

• ***SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments***

7. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply,¹ unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
 - a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
 - b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
 - c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)
15. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, or that would be reported as “Other Invested

¹ Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

Assets” shall be reported as long-term investments if any of the following conditions apply,^{2, 3} unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

- a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
- b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*, reflecting new guidance to incorporate a principles-based bond definition were adopted during the 2023 Summer National Meeting. This guidance is effective Jan. 1, 2025. Pursuant to the revisions adopted, all ABS are required to be reported as long-term investments on Schedule D-1-2 and are not permitted for cash equivalent or short-term reporting.
- Agenda item 2023-17 – Short-Term Investments, was adopted during the 2023 Fall National Meeting and removes mortgage loans and all Schedule BA investments from being reported as cash equivalents or short-term investments.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP Clarification and expose revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

² Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

³ Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

Staff Review Completed by: Julie Gann, NAIC Staff—February 2024

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Proposed Revisions to SSAP No. 2R—Bonds (Effective Jan. 1, 2025)

7. Regardless of maturity date, related party or affiliated investments that would be in scope of [this statement pursuant to paragraph 6](#) ~~SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets”~~ shall be reported as long-term investments if any of the following conditions apply,⁴ unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
 - a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
 - b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
 - c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)
15. Regardless of maturity date, related party or affiliated investments in scope of [this statement pursuant to paragraph 14](#) ~~SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities, or that would be reported as “Other Invested Assets”~~ shall be reported as long-term investments if any of the following conditions apply,^{5, 6} unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

⁴ Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

⁵ Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

⁶ Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

- a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
- b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
- c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* with an effective date of January 1, 2025. These revisions eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/08-13-24SummerNationalMeeting/Adoptions/24-09-SSAPNo.2RClarification.docx>

NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
March 16, 2024

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (Manual) such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
Removal of “Revised” and “R” identifiers from SSAP titles and references within the Manual.	Remove “Revised” and “R,” previously intended to identify a SSAP that has been substantively revised, from SSAP titles and SSAP references within the Manual. NAIC staff consider the “Revised” and “R” identifiers to no longer be useful as several SSAPs have now had multiple substantive revisions after their initial adoption.

Staff Recommendation:

NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP Clarification, and expose editorial revisions as illustrated within.

Removal of “R” identifier from SSAP titles and references within the AP&P Manual

Remove the “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Manual. NAIC staff consider the “Revised” and “R” identifier to no longer be useful. The following SSAPs currently have an “Revised” and “R” identifier in the title.

2R—Cash, Cash Equivalents, Drafts and Short-Term Investments
5R—Liabilities, Contingencies and Impairments of Assets
16R—Electronic Data Processing Equipment and Software
21R—Other Admitted Assets
22R—Leases
26R—Bonds
30R—Unaffiliated Common Stock
32R—Preferred Stock
35R—Guaranty Fund and Other Assessments
40R—Real Estate Investments
41R—Surplus Notes
43R—Loan-Backed and Structured Securities
51R—Life Contracts
54R—Individual and Group Accident and Health Contracts
61R—Life, Deposit-Type and Accident and Health Reinsurance
62R—Property and Casualty Reinsurance
94R—Transferable and Non-Transferable State Tax Credits
100R—Fair Value
103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
104R—Share-Based Payments
105R—Working Capital Finance Investments

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed editorial revisions to the Accounting Practices and Procedures Manual to remove the “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Manual.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the proposed editorial revisions to the Accounting Practices and Procedures Manual to remove the “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Manual.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/24-14EP Spring 2024.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2024/08-13-24%20Summer%20National%20Meeting/Adoptions/24-14EP%20Spring%202024.docx)

Not for Distribution



The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

For more information, visit www.naic.org.