NAIC Summer 2026 Meeting

Issues & Trends

Latest actions include exposures with new guidance for interest maintenance reserves, removal of the exclusion for investments accounted for under the equity method from fair value of financial instruments disclosures, and the introduction of a revised new SSAP, with guidance for interest rate hedging derivatives used for asset-liability management.

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Meeting highlights

During its Summer meeting and on calls before it, the National Association of Insurance Commissioners (NAIC) **adopted** the following guidance.

- SSAP No. 61 to clarify that derecognized net positive interest maintenance reserve (IMR) increases reinsurance collateral requirements, but net negative IMR does not decrease collateral reinsurer requirements for unauthorized or certified reinsurers.
- Modifications to the risk-based capital (RBC) treatment of collateralized loan obligations (CLOs).
- Revisions to RBC charges for collateral loans reported on Schedule BA based on the type of underlying collateral, previously adopted by the Statutory Accounting Principles Working Group (SAPWG), and align RBC and asset valuation reserve (AVR) factors with the risk characteristics of those assets.

The NAIC **exposed** revisions to the following guidance.

- SSAP No. 7 and a new issue paper to include new guidance for IMR and revisions to other impacted SSAPs.
- SSAP No. 100 to remove the exclusion for investments accounted for under the equity method from the fair value financial instruments disclosures.
- A revised proposed SSAP No. 109 and corresponding issue paper for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for asset-liability management (ALM).
- Proposed required documentation for application of VM-22 to inforce policies.

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Accounting highlights >>	
Securities lending restricted asset reporting	SAPWG adopted revisions to SSAP No. 1 to clarify restricted asset reporting for securities lending transactions.[1]
Commitments and contingencies	SAPWG stated that discussions about the definition for commitments and contingent commitments, as well as related disclosures, have continued and proposed revisions are expected to be presented at the 2026 Fall Meeting.
Interest maintenance reserve	**SSAP No. 7 and issues paper** SAPWG exposed revisions to SSAP No. 7 and a new issue paper to include new guidance for IMR as well as revisions to other impacted SSAPs, with a proposed effective date of January 1, 2028.[2] Comments are due October 2, 2026. SAPWG also extended the effective date of INT 23-01 to December 31, 2027.[3] **Reinsurance collateral** SAPWG adopted revisions to SSAP No. 61 to clarify that derecognized net positive IMR increases the reinsurer collateral requirement, but net negative IMR does not decrease the reinsurer collateral requirement for unauthorized or certified reinsurers (asymmetrical treatment).[4]
Insurance company owned life insurance	SAPWG exposed a request for comments about the reporting of insurance company owned life insurance (ICOLI) under SSAP No. 21.[5] Comments are due October 2, 2026.
Canadian transactions	SAPWG exposed revisions to SSAP No. 23 to remove the foreign currency translation exception for Canadian insurance operations.[6] Comments are due October 2, 2026.

1 SSAP No. 1, Accounting Policies, Risks & Uncertainties, and Other Disclosures
2 SSAP No. 7, Asset Valuation Reserve and Interest Maintenance Reserve
3 INT 23-01, Net Negative (Disallowed) Interest Maintenance Reserve
4 SSAP No. 61, Life, Deposit-Type and Accident and Health Reinsurance
5 SSAP No. 21, Other Admitted Assets
6 SSAP No. 23, Foreign Currency Transactions and Translations

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Accounting highlights >>	
Asset-backed securities with embedded asset-liability management risk	SAPWG exposed revisions to SSAP No. 26 to expand the principles-based bond definition to address embedded ALM risk.[7] Comments are due October 2, 2026.
Residential mortgage loan definition	SAPWG exposed a proposal to clarify the definition, asset characteristics and risk components of residential mortgage loans in SSAP No. 37 for more granular accounting and reporting.[8] Comments are due October 2, 2026.
SSAP No. 48 equity method investments	SAPWG stated that discussions about potential revision to SSAP No. 48 have continued and proposed revisions are expected to be presented at the 2026 Fall meeting.[9]
Medicaid updates	SAPWG exposed revisions to SSAP Nos. 47 and 54, intended to clarify the accounting for state-directed payments and separate payment terms in Medicaid managed care.[10] Comments are due October 2, 2026.
Valuation of funds withheld	SAPWG exposed modified revisions to SSAP No. 61 to clarify the reporting of the funds withheld assets and liabilities in a life or health reinsurance agreement. Comments are due October 2, 2026.
Retroactive reinsurance exception	SAPWG exposed revisions to SSAP No. 62 to add disclosures and request comments about the exception to retroactive reinsurance accounting involving transactions with insurers 100% owned by a common parent.[11] Comments are due October 2, 2026.
Replication synthetic asset transactions	SAPWG exposed a new concept to revise accounting and reporting guidance in SSAP No. 86 for replication synthetic asset transactions (RSATs).[12] Comments are due October 2, 2026.

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7 SSAP No. 26, Bonds

8 SSAP No. 37, Mortgage Loans

9 SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies

10 SSAP No. 47, Uninsured Plans; SSAP No. 54, Individual and Group Accident and Health Contracts

11 SSAP No. 62, Property and Casualty Reinsurance

12 SSAP No. 86, Derivatives

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Accounting highlights >>	
Fair value disclosures	SAPWG reexposed revisions to SSAP No. 100 to remove the exclusion for investments accounted for under the equity method from the fair value financial of instruments disclosures.[13] Comments are due October 2, 2026.
Derivatives used for asset-liability management	SAPWG exposed a revised SSAP No. 109 and corresponding issue paper for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for ALM.[14] The proposed effective date of SSAP No. 109 is January 1, 2028. Comments are due October 2, 2026.
Updates for One Big Beautiful Bill Act	SAPWG exposed revisions to INT 18-03 and SSAP No. 101 to update tax guidance resulting from the federal One Big Beautiful Bill Act (OBBBA) and to nullify INT 18-03, effective January 1, 2027.[15] Comments are due October 2, 2026.
Actuarial highlights >>	
Non-variable annuities	**VM-22 framework** On a call before the Summer meeting, the Life Actuarial Task Force (LATF) adopted amendments to VM-22 to: — permit aggregation between payout and accumulation annuity reserving categories and add disclosure about the effect of aggregation; and — apply VM-22 to deposit-type contracts.[16] The VM-22 Subgroup reexposed a proposal for the reserve treatment of guaranteed payment streams, settlement options and annuitization arising from host contracts issued before the operative date of principle-based reserving (PBR). Comments are due September 24, 2026. The VM-22 Subgroup reexposed revisions to clarify the application of VM-22 to guaranteed investment contracts (GICs), synthetic GICs,

13 SSAP No. 100, Fair Value

14 SSAP No. 108, Derivatives Hedging Variable Annuity Guarantees; SSAP No. 109, Asset Liability Management (ALM) Derivatives

15 INT 18-03, Additional Elements Under the Tax Cuts and Jobs Act; SSAP No. 101, Income Taxes

16 VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities

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Actuarial highlights >>	
	funding agreements and other stable value contracts. Comments are due February 5, 2027. **Retrospective application of VM-22** The VM-22 Subgroup exposed proposed required documentation for application of VM-22 to inforce policies by either 2031 or 2032. Comments are due October 30, 2026.
Pension risk transfer reinvestment guardrails	On a call before the Summer meeting, LATF discussed the proposal to modify the VM-22 reinvestment guardrail requirements for pension risk transfer (PRT).
Portfolio segmentation between principle-based reserves and pre-principles-based reserves lines of business	LATF exposed a proposed concept for an amendment to VM-20, VM-21, VM-22, VM-30 and VM-31 to establish a PBR principle that requires consistency between the model portfolio and actual insurer management practices.[17] Comments were due September 10, 2026.
Risk-based capital >>	
RBC Preamble revisions	On a call before the Summer meeting, the RBC Model Governance Task Force adopted revisions to the RBC Preamble.
Collateralized loan obligations RBC structure	On a call before the Summer meeting, the RBC Investment Risk Evaluation (RBC IRE) Working Group adopted a proposal to modify the RBC treatment of CLOs.
Collateral loan reporting	On a call before the Summer meeting, the Life RBC Working Group adopted revisions to RBC charges for collateral loans reported on Schedule BA based on the type of underlying collateral and aligned RBC and AVR factors with the risk characteristics of those assets. The revisions are effective for year-end 2027 reporting.

[17] VM-20, VM-20, Requirements for Principle-Based Reserves for Life Products; VM-21, Requirements for Principle-Based Reserves for Variable Annuities; VM-30, Actuarial Opinion and Memorandum Requirements; VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation

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Invested Assets >>	
Credit rating provider due diligence framework	On a call before the Summer meeting, the Credit Rating Provider (CRP) Working Group exposed a CRP Due Diligence Framework.
Other Developments >>	
AI risk evaluation supplement	The Big Data and Artificial Intelligence Working Group heard an update about the Artificial Intelligence (AI) Risk Evaluation Supplement pilot process.
Third-party data and model vendors regulatory framework	Before the Summer meeting, based on comments received, the Third-Party Data and Models Working Group decided to narrow the scope of the third-party data and models regulatory framework to initially focus on third party data and models used in the property and casualty pricing and underwriting. At the Summer meeting, the Working Group heard comments about the proposed regulatory framework for third-party data and model vendors for property and casualty pricing and underwriting.

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2 Accounting highlights

Securities lending restricted asset reporting

Action: SAPWG adopted revisions to SSAP No. 1 to clarify restricted asset reporting for securities lending transactions.

The revisions clarify that the restricted assets reported for a securities lending transaction include assets lent by the insurer that are still reflected on the insurer's financial statements rather than the collateral held.

Interested parties stated that, in their view, collateral received for securities lending arrangements that can be sold or repledged should not be labeled a restricted asset under the description collateral received, with liability recognized for the return, unless an actual restriction exists on the collateral. They observed that many securities lending arrangements involve cash collateral that does not meet restricted asset criteria and recommended that the term be assets received as collateral with a liability recognized for the return.

SAPWG stated that although collateral with a liability recognized for return is outside of the dedicated restricted assets by category, all collateral items captured on the balance sheet for which a liability is recognized for the return is captured in SSAP No. 1 disclosures under paragraph 23.c.

Commitments and contingencies

SAPWG provided an update about the proposed revisions to SSAP Nos. 1, 5, 21, 26 and 43, and the Annual Statement Instructions to add a definition for commitments and contingent commitments as well as consolidate and clarify disclosures by adding a new comprehensive contingent commitments disclosure.[18]

They stated that discussions have continued and proposed revisions are expected to be presented at the 2026 Fall Meeting.

Background:

SAPWG stated these revisions are in response to a determination that existing instructions for disclosures of commitments and contingencies are unclear and incomplete. The goal of the changes is to provide a comprehensive framework for these disclosures, enabling regulators to form a more complete assessment of an insurer's financial position.

Proposed revisions include:

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[18] SSAP No. 2, SSAP No. 5, Liabilities, Contingencies and Impairments of Assets; SSAP No. 43, Asset-Backed Securities

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- moving disclosure of non-derivative forward commitments from SSAP No. 1 to SSAP No. 5;
- adding a definition of commitments and contingent commitments to SSAP No. 5;
- updating SSAP No. 5 by:
  - clarifying disclosures for loss contingencies and impairments; and
  - requiring disclosure of all commitments and contingent commitments using a format in the Annual Statement Instructions; and
- adding disclosures to SSAP No. 21, 26 and 43 for investment commitments for each reported investment, including capital calls, delayed draws, on-demand drawdowns or unfunded commitments.

The revisions would also add Annual Statement disclosures.

Interest maintenance reserve

SSAP No. 7 and issue paper

Action. SAPWG exposed revisions to SSAP No. 7 and a new issue paper to include new guidance for IMR as well as revisions to other impacted SSAPs, with a proposed effective date of January 1, 2028. Comments are due October 2, 2026.

Action. SAPWG extended the effective date of INT 23-01 to December 31, 2027.

SAPWG primarily discussed the proposal in SSAP No. 7 to limit the admissibility of negative IMR balance to 10% of the current period unadjusted capital and surplus.

Interested parties advocated for full admittance of net negative IMR. Their comments included statements that:

- the proposed proof of reinvestment framework provides a robust, principles-based safeguard that makes the rules-based 10% cap unnecessary;
- the fundamental purpose of IMR is to maintain consistency between the valuation of insurance liabilities and the assets supporting them, and full admittance of negative IMR aligns with this core principle;
- the existing cap could discourage insurers from undertaking prudent portfolio management and investment strategies – such as repositioning for duration or credit risk – that ultimately benefit policyholders; and
- the limitation could introduce negative impacts on reinsurance transactions, including possible introduction of significant volatility to settlements.

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Other interested party comments included concerns about the operational complexity and implementation challenges associated with the new framework. They stated that the framework introduces a structural sequencing mismatch, requiring end-of-period data to validate accounting determinations that must be executed early in the close process.

Regulators were not in favor of allowing insurers to admit net negative IMR without limitations or increasing the 10% limit. They cited concerns about inconsistent application of the guardrails, including cash flow testing (CFT). They suggested that before allowing additional net negative IMR to be admitted, safeguards such as the proof of reinvestment and cash-flow testing would need to be in place, proven effective and auditable. They also stated that insurers would need to demonstrate proper completion and compliance with the proof of reinvestment requirement, along with the removal of excess losses from IMR when an insurer has not passed the proof of reinvestment tests. One regulator was sympathetic to concerns raised by interested parties and stated that negative IMR should be a liability adjustment. However, he agreed that proof of compliance with current safeguards is needed. Regulators expressed an openness to increasing the admittance limit in the future but reiterated the importance of demonstrating compliance with current safeguards. As such, SAPWG requested the industry develop a plan to confirm compliance and accuracy of reporting for later consideration.

Background:

The proposed revisions to SSAP No. 7 include guidance about:

- the types of realized gains and losses subject to IMR;
- methods for amortizing IMR;
- recognition of net negative IMR, including the proof of reinvestment test that was previously adopted;
- treatment of IMR for ceded and assumed reinsurance; and
- elimination of hypothetical IMR that was previously adopted.

The proposed SSAP also includes disclosure requirements.

Reinsurance collateral

Action. SAPWG adopted revisions to SSAP No. 61 to clarify that derecognized net positive IMR increases the reinsurer collateral requirement, but net negative IMR does not decrease the reinsurer collateral requirement for unauthorized or certified reinsurers (asymmetrical treatment).

SAPWG received a response from the Reinsurance Task Force on this topic. The response stated that given the existing admittance limit on net negative IMR, the asymmetrical approach is best. The Task Force discussion also pointed out that collateral application will only impact reinsurers in jurisdictions for which collateral is required, therefore only affecting reinsurers that have not been vetted by the NAIC. The discussion

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acknowledged that although the symmetrical approach makes conceptual sense from an actuarial perspective, when combining it with the admittance limit, the asymmetrical approach is the better option.

Interested parties reiterated their previous comments advocating for the symmetrical approach.

Insurance company owned life insurance

Action. SAPWG exposed a request for comments about the reporting of ICOLI under SSAP No. 21. Comments are due October 2, 2026.

The exposure requests comments on whether the amounts that could be realized on life insurance where the insurer is the owner and beneficiary or otherwise has obtained rights to control the policy (amounts under paragraph 9 of SSAP No. 21) should be reported on Schedule BA under a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amounts:

- outside of an investment vehicle; and
- within an investment vehicle, divided by investment category.

Currently, the amounts under paragraph 9 of SSAP No. 21 are reported as 'other-than-invested assets' outside of the balance sheet investment categories and are excluded from RBC for life insurers. SAPWG observed that there has been a rapid increase in ICOLI holdings over the past several years, with some insurers indicating that ICOLI assets make up a significant portion of surplus assets. It further stated that previous concerns were expressed about ICOLI premiums potentially being invested into underlying investment products that would expose the insurer to investment risk without incurring an RBC charge, which could be used to circumvent RBC requirements otherwise applicable to such investments.

Canadian transactions

Action: SAPWG exposed revisions to SSAP No. 23 to remove the foreign currency translation exception for Canadian insurance operations. Comments are due October 2, 2026.

The proposed revisions would eliminate the exception for Canadian insurance operations and require insurers to:

- translate all foreign currency operations to US dollars within each financial statement reporting line; and
- record gains and losses due to translating foreign operations to US dollars as unrealized capital gains or losses.

The current exemption allows Canadian insurance operations resulting in less than 10% of the insurer's admitted assets, less than 10% of the insurer's liabilities and less than 10% of the insurer's net premium to be

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translated to US dollars by making an adjustment to the net assets of the foreign operation.

SAPWG stated that the Canadian insurance operation exception was added when the Canadian and US dollars were a close equivalent, and the cost of translating each item for immaterial operations was not worth the benefit for the financial statement line reporting. However, with the current rates no longer being close, the conversion could be considered significant.

Asset-backed securities with embedded asset-liability management risk

Action. SAPWG exposed revisions to SSAP No. 26 to expand the principles-based bond definition to address embedded ALM risk. Comments are due October 2, 2026.

The proposed revisions would expand the requirements for asset-backed securities (ABS) to qualify as bonds under the principles-based bond definition. Under the proposed guidance:

- ABS that are not self-liquidating would be excluded from the bond definition unless the insurer performs an assessment to overcome the presumption for debt instruments supported by equity instruments; and
- ABS that are self-liquidating would be assessed for significant embedded ALM risk, and if significant risk is present, be excluded from the bond definition.

The exposure explained that ALM risk is determined based on whether the contractual cash flows could be impacted by changes in reinvestment interest rates or investment spreads. SAPWG stated that the proposed revisions are in response to regulator identification of an emerging asset class known as 'multi-collateral structured credit investments.' These structures can be supported by any asset class and have a broad spectrum of fixed income investments, unrated loans, debt securities, mortgage loans and allocations to equity investments. The regulators are focusing on this structure because they can include significant amount of ALM mismatch, whereby the duration of the debt tranches is significantly longer than the duration of the assets supporting them. They stated that structures have been observed with debt tranches having durations of up to 40 years, while the underlying assets within the structure have weighted average durations of eight years or less.

Regulators expressed concerns about:

- the complexity, transparency and interconnectedness of these investments, stating that the diverse collateral has greater potential to create interconnectedness within insurer portfolios than structures limited to a single collateral type; and
- a subset of multi-collateral structures that include significant asset-liability duration risk within the structure.

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SAPWG stated that the principles-based bond definition did not contemplate embedded ALM risk when it was developed. While substantive credit enhancement considers subordinated positions that absorb credit losses on underlying assets, it did not contemplate using this subordination to absorb significant ALM risk. Although the proposed revisions are limited to addressing embedded ALM risk under the principles-based bond definition, SAPWG stated that reporting refinements for several asset classes that have gained prominence after the principles-based bond definition was finalized, such as multi-collateral credit structures, feeder funds and other forms of fund finance, will likely follow.

Residential mortgage loan definition

Action. SAPWG exposed a proposal to clarify the definition, asset characteristics and risk components of residential mortgage loans in SSAP No. 37 for more granular accounting and reporting. Comments are due October 2, 2026.

SAPWG stated that this proposal is in response to a referral from the Investment Analysis Working Group to better define residential mortgage loans and improve reporting consistency. The referral stated that there is limited guidance about distinguishing traditional residential mortgage loans from other loan types in SSAP No. 37. These other loan types may exhibit significantly different risk characteristics and are currently being classified as residential mortgage loans by some insurers, which has led to inconsistent reporting within the residential mortgage category on Schedule B. The referral also stated that for loans that are clearly residential, the current investing spectrum introduces specific risks that may warrant additional disclosures and RBC considerations– including varying loan-to-value levels, borrower credit quality, occupancy status, non-first-lien positions, construction loans, home equity lines of credit and bridge loans.

SAPWG stated that while SSAP No. 58 and Model Law 280 describe residential mortgage loans as one-to-four family residences, there is no explicit definition in SSAP No. 37.[19] It further said that the existing references do not explain the meaning of one-to-four family properties. Although the term ‘one-to-four family property’ is a widely utilized industry term, based on 12 CFR § 1266.1, SAPWG recommended the term be explicitly defined in SSAP No. 37.[20] It emphasized that this proposal is not intended to redefine residential mortgages but to define what constitutes a one-to four family property.

The exposure requested comments about whether:

- there are industry definitions other than 12 CFR § 1266.1 for one-to-four family and multifamily properties that should be considered;

[19] SSAP No. 58, Mortgage Guaranty Insurance; Model Law 280 – Investments of Insurers Model

[20] Code of Federal Regulations (CFR), Title 12, Chapter XII, Subchapter D, Part 1266, Subpart A, § 1266.1, Definitions

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- the definition in the 12 CFR § 1266.1 should be modified to:
  - establish a threshold for mixed-use properties with both residential and commercial units;
  - have one-to-four family properties and multifamily properties be classified as residential mortgage loans with separate reporting, or if multifamily properties should be included as a component of commercial mortgage reporting;
  - clarify that a mortgage loan, including a construction loan, secured by a project involving multiple one-to-four family properties cannot be reported as a single residential loan when the collateral is the project or development as a whole;
  - add loan value limits on individual residential mortgage loans; and
  - provide specific guidance for residential mortgage loans secured by accessory dwelling units, non-owner-occupied properties, construction loans, fix-and-flip loans, lines of credit, home equity loans and transitional properties;
- residential loan risk factors, including lien position and loan-to-value ratios, should be included into Schedule B reporting; and
- an alternative reporting approach should be considered that removes residential mortgage loans from Schedule B and reports them in predefined aggregated categories.

SSAP No. 48 equity method investments

SAPWG provided an update on the status of the proposal to review several concepts in SSAP No. 48 to evaluate whether the guidance is clear and consistently applied as intended.

It stated that discussions have continued and proposed revisions are expected to be presented at the 2026 Fall Meeting.

Background:

The proposal includes discussion of topics including:

- timing for recognizing equity value changes, requesting feedback about:
  - whether clarification is needed about the intent for audited support before recognition of any equity changes or clarification of industry practice when changes are reported when known, with a true-up to audited financials, when available; and
  - addition of electronic columns to identify the date of the last audited financial statement, when that information was received and the audited equity value at that time.
- application of goodwill guidance and goodwill disclosures, specifically:
  - when an investment is acquired at a discount with negative goodwill recognized and if information should be added to Schedule BA about investments purchased at a premium or a discount and if there is unamortized goodwill;

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  - whether the goodwill from SSAP No. 48 acquisitions should be captured with the other goodwill disclosures, and whether, without such inclusion, the goodwill from these acquisitions is not subject to admittance limitations or used to calculate the adjusted capital and surplus for other thresholds (e.g. IMR admittance); and
  - replacing the term ‘basis difference’ with ‘goodwill’ to ensure consistency with statutory accounting terminology.

- negative investment income, specifically its cause, and information about the cause of unrealized losses, especially when book adjusted carrying value (BACV) is greater than original cost;

- use of related party codes, with identified instances when an insurer has majority ownership but does identify that the investment reflects a related party relationship; and

- clarity of guidance specifying that the Schedule BA column of ‘date originally acquired’ should not be updated to reflect additional interests or fundings towards an existing investment.

Medicaid updates

Action: SAPWG exposed revisions to SSAP Nos. 47 and 54, intended to clarify the accounting of state-directed payments and separate payment terms in Medicaid managed care. Comments are due October 2, 2026.

The proposed revisions would add a principles-based statement that Medicaid contract payments classified as capitated payments are included in insured plans, rather than uninsured plans.

SAPWG stated that the proposed revisions are in response to questions received about the accounting of state directed payments in Medicaid managed care and for separate payment terms. The primary question was about whether these payments are classified as "at risk" under SSAP No. 54.

Valuation of funds withheld

Action. SAPWG exposed modified revisions to SSAP No. 61 to clarify the reporting of the funds withheld assets and liabilities in a life or health reinsurance agreement. Comments are due October 2, 2026.

The modified revisions would require the ceding insurer to:

- establish a funds withheld liability for funds deposited by or withheld from reinsurers pursuant to the reinsurance agreement;

  - for agreements where withheld collateral is segregated and investment risk is ceded, value the funded portion of the funds withheld liability in accordance with applicable statutory accounting principles for the specific asset(s), with any unfunded portion reported equal and offsetting to reinsurance receivables;

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  - for agreements that do not cede investment risk and segregate assets, report the funds withheld liability equal to the amount determined in accordance with the contract terms;

- record a reinsurance receivable for the unfunded amount of collateral owed by the reinsurer as of the reporting date in accordance with contract terms;
- account for assets held on the balance sheet to support the funds withheld liability under the appropriate statutory accounting principles for the specific asset(s); and
- recognize a liability for any collateral deficiency required to support credit for reinsurance with unauthorized and certified reinsurers with collateral assets not held on the balance sheet such as in qualifying trusts under Appendix A-785 valued at fair value.

Interested parties recommended that the funds withheld liability be determined based on the terms of contractual liability in the underlying reinsurance agreement. In their view, defining the liability in terms of the contractual obligation would provide clear treatment for all types of funds withheld agreements, including cases where assets are not specifically identified or segregated.

SAPWG stated that SSAP No. 61 currently has references to specific accounting and reporting items that include reference to the reinsurance contract terms. Accordingly, the proposed modified revisions try to strike a balance of recognizing reinsurance agreement contractual obligations with using statutory accounting and reporting requirements.

The proposed revisions to the Annual Statement were deferred. SAPWG stated that Annual Statement revisions are expected to be developed after the revisions to SSAP No. 61 are finalized.

Retroactive reinsurance exception

Action. SAPWG exposed revisions to SSAP No. 62 to add disclosures and request comments about the exception to retroactive accounting for transactions with insurers 100% owned by a common parent. Comments are due October 2, 2026.

The proposed revisions would require insurers to disclose each contract entered into during the period that applied the exception to retroactive reinsurance accounting, which allows intercompany reinsurance contracts to be reported as prospective reinsurance, and to disclose a description of the parties and general terms of the contract including:

- the amount of reserves reinsured;
- the aggregate consideration paid;
- the amount of ceded premiums recorded by line of business;
- the amount of any gain or loss in surplus from the transaction; and

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- whether the contract received domiciliary approval.

The exposure also requested comments about whether this existing exception to retroactive accounting under SSAP No. 62 should remain unchanged, be eliminated or be narrowed.

SAPWG stated that the proposed revisions are in response to regulator concerns about allowing retroactive reinsurance contracts between insurers 100% owned by a common parent or ultimate controlling person to be treated as prospective reinsurance, provided there is no gain in surplus because of the transaction. SAPWG explained that the regulators raised the following concerns:

- to apply retroactive reinsurance accounting, retroactive reinsurance agreements must transfer risk, but it is unclear how a ceding insurer can simultaneously assert that the retroactive reinsurance transfers risk and that no surplus gain will result from the agreement to qualify for the exception; and
- it seems contrary to the stated purpose of retroactive accounting treatment to allow a broad exception for affiliated transactions that are inherently more susceptible to potential abuse.

Regulators acknowledged that there is currently not a disclosure requirement for retroactive contracts that apply this intercompany reinsurance exception, therefore it is difficult to identify use of this reinsurance exception in the Annual Statement.

Replication synthetic asset transactions

Action. SAPWG exposed a new concept to revise accounting and reporting guidance in SSAP No. 86 for RSATs. Comments are due October 2, 2026.

The proposed concept changes would establish that the dedicated cash component should reflect a high-quality, liquid asset that supports a replicated asset with investment-grade characteristics by:

- introducing definitions and effectiveness requirements for the RSAT to be effective, with the effectiveness test satisfied when the derivative notional amount does not exceed the BACV of the cash components;
- restricting cash components used in RSATs to high-quality US government investments, municipals or corporate bonds reported on Schedule D-1-1 with an overall NAIC 1 or NAIC 2 designation;
- adding a new requirement for RSATs to replicate investment-grade long-term Schedule D-1-1 Issuer Credit Obligation bonds as the permissible investment;
- assessing and potentially eliminating accounting guidance for situations that result in the fair value measurement of the derivative; and
- adding guidance about how the RSAT and RBC reporting schedules are to be completed, particularly for situations where the CUSIP for the

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RSAT has yet to be received, when a single derivative is used with a basket of cash components or that covers many RSAT credit profiles.

SAPWG stated that the proposed concept changes are in response to increased RSAT filings, instances where RSATs are used to obtain better RBC treatment, questions about whether there are parameters for when an RSAT is permitted or should be restricted, and from the review of SSAP No. 86 that occurred with the IMR project.

Fair value disclosures

Action. SAPWG reexposed revisions to SSAP No. 100 to remove the exclusion for investments accounted for under the equity method from the fair value financial of instruments disclosures. Comments are due October 2, 2026.

The proposed revisions would require investments accounted for under the equity method, SSAP No. 48 and SSAP No. 97, to be included in the fair value of financial instruments disclosure.[21] If adopted, this revision would create a difference between US GAAP and statutory accounting.

The reexposure includes a request for industry to propose guidance and reporting categories that could differentiate equity-method investments by operating entities and structures that hold investments.

Interested parties stated that investments accounted for using the statutory equity method generally fall into three categories:

- operating companies or subsidiaries, such as insurance, service and investment companies;
- equity method investments that hold structures following ASC 946; and[22]
- other equity investments, such as limited partnerships and limited liability companies holding real estate.

They commented that operating entities or subsidiaries should not be in scope for any new fair value disclosures because it:

- would be impracticable to determine fair value, close the ledger and prepare statutory financial statements on a timely basis;
- is not required by US GAAP;
- could be costly, because of a large number of operating entities within some insurers; and
- could be harmful to an insurer to publicly disclose this information if it is a potential acquisition target.

[21] SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities

[22] ASC 946, Financial Services – Investment Companies

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For entities following ASC 946, interested parties suggested that using the reported equity value is an appropriate approximation for a fair value disclosure because the assets of those entities are measured at fair value. For other equity investments, interested parties stated that developing fair value estimates on a timetable that allows for timely inclusion in the statutory financial statements presents several challenges and further discussion is needed.

SAPWG stated that this change was intended to be a minor edit because insurers already report fair value in the investment schedules for each investment. SAPWG agreed that exceptions could be added, particularly for insurance subsidiaries, controlled or affiliated entities that do not meet or elect not to use the market valuation approach and are recorded using the statutory equity method under SSAP No. 97. However, because both SSAP No. 48 and SSAP No. 97 structures can be used simply to hold investments, SAPWG explained that these structures should have fair values determined and reported.

SAPWG asserted that fair value reporting in the investment schedules and notes to the financial statements should reflect fair value (exit price), and any exceptions for distinct operating entities should be specifically carved out with separate reporting lines and identification in the investment schedules. It further stated that, because interested parties indicated that fair value assessments are not occurring for these equity-method investments, there is a question about how and when industry is using consistent metrics for impairment assessments. SAPWG stated they will consider industry feedback on the separation of operating entities and holding entities and will likely sponsor a blanks proposal to expand the fair value disclosure into a specific template to improve usability.

Derivatives used for asset-liability management

Action. SAPWG exposed a revised SSAP No. 109 and corresponding issue paper for interest rate hedging derivatives that do not qualify as effective hedges under SSAP Nos. 86 or 108 but are used for ALM. The proposed effective date of SSAP No. 109 is January 1, 2028. Comments are due October 2, 2026.

The revised exposure includes changes to reflect recommendations by regulators to:

- eliminate accelerated amortization;
- require derivative deferred gains and losses to be recognized immediately as capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance arrangement; and
- include derivative deferred gains and losses in CFT and PBR calculations in the same manner as IMR.

SAPWG supported the January 1, 2028 effective date because it is consistent with the proposed effective date of SSAP No. 7. It stated that because the proposed guidance in SSAP No. 7 would prevent allocation to

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IMR for realized gains and losses that result from non-accounting effective derivatives, the ALM guidance would need to be adopted with an effective date before or in conjunction with the revised SSAP No. 7.

Interested parties expressed support for proposed SSAP No. 109 because it will significantly enhance the alignment of each insurer's reported surplus with its actual solvency and liquidation value. In their view, this treatment avoids situations where financial statements include inappropriate portrayals of surplus and illusory financial strength. Additionally, they supported the provision that permits admittance of all deferred gains and losses of highly effective hedges recognized under the ALM derivative standard, stating that this treatment avoids disincentivizing prudent hedging activities and provides surplus reporting benefits.

Background:

The proposed SSAP provides special accounting for insurers to use a form of macro-hedging in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities, including the entire book of business, under a Clearly Defined Hedging Strategy (CDHS). To use the guidance within the proposed SSAP No. 109, the insurers would be required to:

- obtain approval from the domiciliary state regulator allowing this treatment; and
- provide certification by a financial officer of the insurer that the hedging strategy meets the definition of a CDHS and that the CDHS is the hedging strategy being used by the insurer in its actual day-to-day risk mitigation efforts.

Under SSAP No. 109, insurers would:

- measure highly effective hedging instruments at amortized cost with excluded derivative components measured at fair value and changes recognized as unrealized gains or losses;
- recognize:
  - a deferred asset or a deferred liability when a derivative terminates or is rebalanced while part of a highly effective program; and
  - an asset or liability offset by a deferred asset or a deferred liability equal to the fair value of the derivative at the time of de-designation or rebalancing;
- discontinue the amortized cost treatment for derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective and record them at fair value, with the change in fair value recognized as an unrealized gain or loss;
- allocate an amount equal to the net deferred asset and deferred liability (the net amount from all hedging strategies or programs included in this guidance) from unassigned funds to special surplus;

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- amortize all derivative deferred assets and liabilities on a straight-line basis for a period equal to the weighted average life of the hedged liability portfolio not to exceed 10 years; and
- allow all deferred losses recognized to be admitted.

The proposed SSAP No. 109 also includes:

- documentation requirements of a CDHS;
- an assessment of hedge effectiveness; and
- disclosure requirements.

Updates for One Big Beautiful Bill Act

Action. SAPWG exposed revisions to INT 18-03 and SSAP No. 101 to update tax guidance resulting from the federal OBBBA and to nullify INT 18-03, effective January 1, 2027. Comments are due October 2, 2026.

The proposed revisions would remove the Repatriation Transition Tax (RTT) disclosures and Alternative Minimum Tax (AMT) credit disclosures from the Annual Statement, because the RTT installment payments end in 2026 and the AMT credit balances were to be used in 2021 or before and no longer exist. The proposed revisions would also add guidance for Net Controlled Foreign Corporations Tested Income, formerly known as Global Intangible Low-Taxed Income, to SSAP No. 101 because these provisions were made permanent by the OBBBA.

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3 Actuarial highlights

Non-variable annuities

VM-22 framework

Action. On a call before the Summer meeting, LATF adopted an amendment to VM-22 to permit aggregation between payout and accumulation annuity reserving categories and add disclosure about the effect of aggregation.

The revisions:

- allow immediate and deferred annuities to be aggregated under certain conditions with sufficiencies and deficiencies offsetting each other when calculating the stochastic reserve; and
- add disclosure requirements to VM-31 about the financial impact of aggregation by reserving category.

Action. On a call before the Summer meeting, LATF adopted an amendment to apply VM-22 to deposit-type contracts. The amendment clarifies that some deposit-type contracts are in the scope of VM-22.

The revisions state that only deposit-type contracts that meet the descriptions in Section II, Subsection 2.C of the Valuation Manual are in scope of VM-22.

Action. The VM-22 Subgroup reexposed a proposal for the reserve treatment of guaranteed payment streams, settlement options and annuitization arising from host contracts issued before the operative date of PBR. Comments are due September 24, 2026.

The proposal would allow insurers to elect to reserve for these contracts under the host contract methodology, which is the minimum standard valuation requirements applicable to the contract as originally issued, or PBR. This election would be made at the policy form level for the host contract or life insurance policy. Insurers would also be required to notify the domiciliary commissioner of this election and ensure that the regulator does not disapprove.

Interested parties recommended:

- establishing the default treatment as the standard applicable to the host contract or life insurance policy at the time of issue, with an election available to use VM-22 or VM-V; [23]

[23] VM-V, Statutory Maximum Valuation Interest Rates for Formulaic Reserves

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- including a table that illustrates default and election treatment by host contract issue date for annuity host contracts;
- simplifying scope language through reference to VM-V;
- retaining 'notification and non-disapproval' language instead of 'approval';
- requiring policy-form-level consistency for the elections; and
- allowing flexibility for an insurer to elect either the issue date of the host contract or the election date of the settlement or annuitization for determining the minimum valuation interest rate.

Interested parties expressed concern that specifying a single interest rate could create an administrative burden for insurers that previously made the policy-form-level election. They suggested permitting elections at a policy-form or block-of-business level.

Regulators agreed that the revisions proposed by interested parties would clarify the requirements but expressed concern about optionality to choose the date used to determine the minimum valuation interest rate, asserting that it would allow insurers to select the more favorable rate. They also stated that the valuation rate at the election date of the settlement or annuitization is consistent with how insurers invest assets supporting the resulting payment streams and suggested that any use of the host contract issue date should require justification.

The VM-22 Subgroup updated the proposal to include revisions proposed by interested parties but revised the proposal to require insurers to use the election date of the settlement or annuitization to determine the minimum valuation interest rate.

Action. The VM-22 Subgroup reexposed revisions to clarify the application of VM-22 to GICs, synthetic GICs, funding agreements and other stable value contracts. Comments are due February 5, 2027.

The proposal includes GICs, synthetic GICs, funding agreements and other stable contracts in PBR but provides criteria for these contracts to be excluded from PBR under the exclusion section of VM-22. The proposal includes the following criteria to pass the stochastic exclusion test:

- limited exposure to policyholder behaviour risks related to surrender and withdrawal timing;
- limited exposure to biometric risks related to mortality and longevity, such as life contingent payout benefits or long-term payout benefits;
- maturity of ten years or less after the initial contract is issued;
- absence of material embedded optionality, such as features that create asymmetric, path-dependent or market-contingent outcomes (e.g., options or guarantees that materially increase sensitivity to economic scenarios); and

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- minimal asset-liability mismatch risk, such that liability and supporting asset cash flows are not expected to produce material asset-liability mismatch risk under a range of economic conditions.

The revisions also provide an alternative method for synthetic GICs to pass the stochastic exclusion test that includes certification that:

- there are contractual provisions that materially limit tail risk and pass back the risk to the contract holder through features such as benefit-responsive withdrawal restrictions, experience rating mechanisms or terminations provisions that significantly reduce the likelihood of adverse, path-dependent outcomes under stressed scenarios;
- risks are structurally constrained through cash flows driven by aggregate, plan-level activity across a large number of individual participants, and no single participant or contract holder has the discretion to exercise contractual features in a manner that would significantly alter contractual payments; and
- insurer is required to make cash payments for residual benefits only after plan or trust assets are depleted and the severity of the economic shock required for making such payments is beyond moderately adverse conditions.

The American Academy of Actuaries (the Academy) comments included statements that:

- specific product design and risk characteristics can be used in the exclusion criteria;
- insurer costs of bringing these products into VM-22 would vary by insurer because it would require additional modeling, disclosures and audit reviews, but it would improve consistency in reflecting interest rate and credit spread risks; and
- current formulaic approaches may already produce reasonable reserve outcomes for certain products, particularly where risks are limited or addressed through existing statutory frameworks.

Interested parties recommended an elective approach that allows insurers to notify their domiciliary regulator about applying VM-22 to these products while retaining existing VM-A and VM-C requirements to be the default.[24] They also suggested another approach that could be considered: allowing monthly valuation rates for GICs, SGICs and Stable Value contracts consistent with the approach taken for funding agreements when these contracts remain under VM-A/C.

Retrospective application of VM-22

Action. The VM-22 Subgroup exposed proposed required documentation for application of VM-22 to inforce policies by either 2031 or 2032. Comments are due October 30, 2026.

[24] VM-A, Appendix A – Requirements; VM-C, Appendix C – Actuarial Guidelines

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The exposure provides the following documentation that will be required for regulatory non-objection of transition from pre-PBR Commissioners Annuity Reserve Valuation Method (CARVM) requirements to VM-22 for existing non-variable annuity blocks:

- comparison of reserves under PBR and pre-PBR;
- attribution analysis and commentary;
- key metrics, such as duration, asset yield, sensitivity to interest rates/key assumptions, margins, drivers of reserve change and negative IMR allocation;
- sensitivity testing to determine changes due to underlying economics compared to insurance assumptions;
- narrative on anticipated company CFT impacts;
- list of existing reinsurance arrangements for which collateral levels would be impacted by moving to PBR requirements, specifically highlighting arrangements that are in scope of AG 55 requirements; and[25]
- explanation of key drivers of PBR changes for the inforce PBR block on a stand-alone basis in VM-31 for four years following initial implementation.

The exposure also asks for a:

- redline of changes to the NAIC Valuation Manual for VM-22 PBR to accommodate inforce contracts; and
- list of specific attribution categories and types of sensitivity testing to consider in the required documentation.

LATF heard responses to the previously exposed questions about insurers having the option to elect the VM-22 requirements instead of the pre-PBR CARVM requirements for a group of contracts.

Interested parties supported a flexible implementation approach, recommending that insurers have the ability to implement at different points in time rather than requiring a single, industry-wide date. Interested parties stated that this staggered approach would allow insurers to stage implementation, upgrade systems and transition smoothly to new asset portfolios.

The Academy stated that there are valid arguments for requiring a one-time option or allowing flexibility. Many regulators supported a one-time adoption and expressed concern with allowing insurers to move to VM-22 at future points because it will be difficult to monitor. However, others questioned what regulators may do if an insurer wanted to change after a specific date and if that could be considered a permitted practice. Regulators

[25] AG 55, Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties

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acknowledged that impact to reinsurance will need to be considered, specifically, effect on collateral.

Comments were also provided about the types of documentation that insurers should provide upon transition to PBR. The Academy suggested that for retrospective application, insurers provide reserve comparisons, attribution analyses of the change, key risks, economic metrics and sensitivity testing. It stated that the key risks and economic metrics would generally be consistent with information already produced for VM-31 documentation, rather than representing new reporting requirements.

Interested parties stated that it would suffice to provide detail on the reasonability of assumptions used, consistent with VM-31 documentation, and for non-PBR blocks demonstrating the appropriateness of reserves backing the block and ongoing aggregate asset adequacy testing. Interested parties suggested that application of VM-22 prospectively or retrospectively should not create new prescriptive requirements.

Additionally, to address asset allocation concerns, the Academy proposed specific safeguards, whereas interested parties suggested that existing reinvestment guardrails and aggregate testing are sufficient.

Regulators supported the requirements for documentation proposed by the Academy and discussed the extent of documentation that may be required at the time of adoption and on an on-going basis. Many believed that a detailed reserve comparison and attribution analysis would be performed at the time of adoption but also favoured an on-going analysis tracking impact of material assumption updates. They emphasized that understanding the movement of VM-22 assumptions from year to year is important for regulator review.

Pension risk transfer reinvestment guardrails

On a call before the Summer meeting, LATF discussed the proposal to modify the VM-22 reinvestment guardrail requirements for PRT annuities.

The proposed revisions to VM-22 would:

- enable an insurer to establish reserves for PRT annuities:
  - based on a calculation that considers the illiquidity of the business and other unique factors; and
  - considering a liquidity premium of 50 basis points in the insurer modeled strategy subject to a guardrail more closely aligned with the average industry investment portfolio and above investment grade credit ratings; and
- require appointed actuaries to justify insurer asset and reinvestment assumptions within VM-31.

Interested parties expressed support for introducing an illiquidity premium when it aligns with the types of liabilities that less-liquid assets support, including for products other than PRT that have similar characteristics. They

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questioned whether the liquidity premium cap should be fixed or dynamic and if a larger illiquidity premium should be considered based on liability characteristics.

Regulators expressed differing views about the scope and application of the illiquidity premium. While some regulators supported limiting the changes to PRT business to expedite a solution for a single product line, others preferred expanding the scope to include payout annuities without liability optionality. On the extent of changes, some regulators supported application of the additional illiquidity premium to the starting asset and reinvestment guardrails only, while others supported application to all assets, including both guardrail runs and insurer runs. Several regulators stated that a longer-term project, developed in coordination with the Academy, would be preferable to a near-term solution and expressed a preference to work towards a 2028 deadline.

Next steps. LATF deferred the proposal until after the Academy's study on spreads and defaults is completed.

Portfolio segmentation between principle-based reserves and pre-principles-based reserves lines of business

Action. LATF exposed a proposed concept for an amendment to VM-20, VM-21, VM-22, VM-30 and VM-31 to establish a PBR principle that requires consistency between the model portfolio and actual insurer management practices. Comments were due September 10, 2026.

The proposal would:

- apply to:
  - all starting assets, including both fixed-income and non-fixed-income assets, and negative IMR in general account portfolios; and
  - non-insulated separate accounts if there is asset segmentation to support different products or liabilities within a single account; and
- require documentation to support the asset segmentation within the model portfolio, including:
  - a prescribed spreadsheet template for VM-30 and VM-31 that maps between groups of assets and liabilities which they support, confirmation of mapping across PBR, CFT, ALM and non-guaranteed elements;
  - brief description of the ALM strategy, with supporting documentation, and investment governance structure;
  - attestation from an officer of an insurer that assets in the model portfolio are consistent with the actual investment practices;
  - minutes or materials from an investment governance committee that support model asset allocation being consistent with real practices;
  - documentation that the insurer is setting crediting rates, dividend surplus contributions or other non-guaranteed elements using asset segmentation that is consistent with the PBR and CFT models; and
  - disclosure for any changes made compared to the prior year.

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If an insurer does not meet these documentation requirements, the insurer would have to reflect a model portfolio that represents a pro rata slice of the entire actual general account portfolio. However, a pro rata slice would not be permitted if the insurer thinks its modeled reserve would be higher under actual ALM practices. A separate run to determine whether the pro rata or anticipated portfolio is greater would not be required.

The proposed concept provides the following exemptions:

- if an insurer brings all VM-22 inforce business into PBR, the disclosure requirements would apply to VM-21 or VM-22, with the exception of the attestation requirement; and
- if an insurer has no segment breaks and uses the full portfolio to support liabilities, only an attestation would be required.

The requirements in this proposal are post-reinsurance.

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4 Risk-based capital

RBC Preamble revisions

Action: On a call before the Summer meeting, the RBC Model Governance Task Force adopted revisions to the RBC Preamble.

The revised Preamble clarifies the purpose, limitations and appropriate context for RBC. The revisions address disclosure considerations and align the preamble with the RBC model governance principles adopted at the end of 2025.

The adopted Preamble included changes suggested by interested parties to remove references to precision, clarify confidentiality of insurer-specific RBC calculations, and add contextual language when RBC information is disclosed outside its stated regulatory purpose.

The RBC Model Governance Task Force did not make certain changes to the proposal that they believed were duplicative, overly narrow, too detailed or could create unintended implications. It stated that the final revised preamble incorporates RBC principles as a guiding framework for future changes, including purpose, use, materiality, objectivity, accuracy, transparency, process, prioritization, regulatory judgment and practical implementation.

Background:

On its calls, the Risk-Based Capital Model Governance Task Force and the Capital Adequacy Task Force discussed whether updates are needed to the preamble of the RBC formulas to better reflect current RBC usage and governance expectations. The proposed revisions to the preamble included a discussion about the limited use of RBC to address regulatory concerns of users unknowingly relying on RBC for purposes for which it is not currently being maintained.

In discussions, regulators stated that the primary goal of the revisions is to reinforce the intended use of RBC as a tool for identifying potentially weakly capitalized insurers to facilitate regulatory oversight and not as a tool to rank, rate or compare insurers. They expressed concerns that RBC is being used as a ranking tool or managed by insurers to achieve a certain level, instead of for its intended solvency monitoring purpose.

Collateralized loan obligations RBC structure

Action. On a call before the Summer meeting, the RBC IRE Working Group adopted a proposal to modify the RBC treatment of CLOs.

The adopted CLO factors represent modeled C-1 factors, initially presented by the Academy, adjusted for tax effect and:

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- bifurcated for tranches that are greater than and equal to or less than 4% thickness (a measurement of the losses the tranche could absorb);
- applied to middle-market CLOs, broadly syndicated loan (BSL) CLOs, collateralized bond obligations (CBOs) and collateralized debt obligations (CDOs);
- assessed a surcharge of 11.77% for BSL CLOs with NAIC Designation 2.C. or below and with tranche thickness equal to or below 4%; and
- retain:
  - a 45% pre-tax factor for CLO residual tranches; and
  - the portfolio adjustment factor for 2026 and continue to allow insurers to count CLOs in the traditional bond portfolio adjustment.

Interested parties supported the proposed factors for BSL CLOs but suggested that middle-market CLOs, CBOs and CDOs remain at current corporate bond factors until separate analyses are completed. This is because these assets have different risk characteristics. Interested parties also expressed concern with adding a corporate bond floor because, in their view, it is not analytically justified and would override asset-specific analysis. Additionally, they suggested further sensitivity analysis on key variables and recommended including CLO issuers in the bond portfolio adjustment factor to recognize diversification benefits.

The regulators stated that this broader scope is a significant improvement over the current framework and aligns with financial statement reporting, because these assets are grouped together in the Annual Statement. Regulators observed that requiring separate modeling studies for every structured security type is impractical because it would delay implementation. They also questioned whether breaking out BSL CLOs would create reporting challenges when connecting the Annual Statement to risk-based capital reports, and supported inclusion of middle market CLOs, CBOs and CDOs to maintain consistency in regulatory reporting and facilitate comparison, given how these assets are grouped in financial statements.

The Working Group expressed openness to revisit some of these decisions again if new information is presented or there is new guidance from their parent Task Force.

Collateral loan reporting

Action. On a call before the Summer meeting, the Life RBC Working Group adopted revisions to RBC charges for collateral loans reported on Schedule BA based on the type of underlying collateral and aligned RBC and AVR factors with the risk characteristics of those assets. The revisions are effective for year-end 2027 reporting.

The revisions assign RBC factors for collateral loans backed by limited partnerships, limited liability companies and joint venture interests between 15 and 30 percent and RBC factors for collateral loans backed by residuals

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between 22.5 and 45 percent based on LTV ratios and whether there is an independent verification.

Before the adoption of this proposal, collateral loans received a flat RBC factor of 6.8%. The adopted approach is consistent with the alternative proposed by interested parties allowing lower charges for higher levels of overcollateralization.

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5 Invested assets

Credit rating provider due diligence framework

Action: On a call before the Summer meeting, the CRP Working Group exposed a CRP Due Diligence Framework.

The framework would introduce a structured risk-based approach to assess the reasonableness and consistency of ratings from CRPs and would be applicable to assets whose NAIC Designations are derived from CRP ratings, including rated, filing-exempt and private letter securities. The goal is to evaluate whether ratings that are mapped to the same NAIC designations behave consistently across CRPs. The four components of the framework are:

- scoping to classify asset segments into in-scope categories by conducting preliminary reviews of new assets, quantitative analyses of market exposure and qualitative assessments of rating reliability;
- risk assessment using quantitative and analytical tests for in-scope securities, intended to evaluate whether ratings that are mapped to the same NAIC designations are equivalent across the CRPs and will result the assignment of a risk classification to test segments, high-risk, moderate-risk or low-risk;
- detailed testing to evaluate whether the ratings assigned by a CRP are reasonable, consistently applied and supportive of the translation matrix outcomes that the NAIC relies on by performing:
  - a methodology walkthrough and discussion with the CRPs to understand how the CRP's methodology will operate in practice;
  - an independent review of selected securities and comparison of the NAIC assessment to the ratings assigned by CRP to evaluate whether the assigned rating will appear reasonable and consistent when assessed through an independent regulatory lens; and
  - a security-specific rating methodology review to evaluate whether the methodology selected by the CRP is appropriate for a security, whether inputs and assumptions are accurate and reasonable, and whether the methodology has been applied consistently with the CRP's stated approach; and
- governance to facilitate transparent structure of oversight, annual reporting and provisional acceptance criteria for credit rating providers.

Under the detailed testing component, the framework applies a three sub-notch materiality tolerance threshold to determine whether rating deviations are acceptable or require escalation, ensuring that oversight remains proportionate and focused on material or systemic inconsistencies.

At the Summer meeting, the Working Group heard comments about the proposed framework. Interested parties expressed support for the

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overarching objective of developing a robust credit rating provider due diligence process. However, they had concerns about the proposed framework, observing that certain elements could disrupt credit markets and stifle innovation. They expressed concerns about:

- the credit rating convergence and methodology standardization because rating differences are a natural and healthy feature of competitive markets;
- the proposed use of confidential, non-public regulatory examination findings because they are context-specific and unadjudicated;
- the adequacy of data-security protocols, prompting requests for robust protocols, data segregation and independent audits to protect submitted information; and
- the default classification of customized, single-rated private and emerging market assets to a high-risk category because it penalizes innovation.

Interested parties also requested that the framework:

- include formalized appeal processes, written findings of fact, clear de-admission/re-admission standards and adequate advance notice to protect legacy holding and prevent forced selling;
- explain the process for re-admission when a CRP is de-admitted; and
- clarify quantitative thresholds throughout the framework and publicly disclose quantitative testing.

The Working Group responded to interested parties' comments stating that:

- the framework:
  - allows for methodology variability and is intended to flag rating outcome outliers for purposes of supporting consistent translation of CRP ratings to NAIC designations;
  - includes a defined notice period expected to range from three-to-six-months, which is consistent with 120 days within which securities must be filed if NAIC CRP's withdraw a credit rating; and
  - intentionally does not specify quantitative tests and thresholds because they are intended to evolve over time;
- it will:
  - consider limiting the collection of regulatory examination findings to non-anonymized, final or fully adjudicated reports from the SEC or other regulators; and
  - change the high-risk label with a high-priority classification to avoid penalizing innovation, though these assets remain more likely to undergo detailed testing;

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- data-security safeguards are paramount, and these protocols will be addressed as the framework is built and implemented; and
- CRPs subject to de-admittance may be permitted to re-apply for CRP status at a later date, subject to applicable acceptance criteria that is stated in the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

Next steps. The Credit Rating Provider Working Group will consider comments from interested parties and will continue discussions over this topic on future calls.

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6

Other developments

AI risk evaluation supplement

The Big Data and Artificial Intelligence Working Group heard an update about the AI Risk Evaluation Supplement pilot process.

The pilot process has been in progress with twelve participating states since March 2026 and will continue through the end of September. Participating states have been using the tool as part of market conduct or financial exams while others have been using it as an ad-hoc questionnaire outside of typical exam process.

Background. The Big Data and Artificial Intelligence Working Group developed the AI risk evaluation supplement to help regulators understand how insurers are using artificial intelligence. It is designed to supplement existing examination procedures and includes optional exhibits that allow regulators to determine the extent of AI systems usage for an insurer and whether additional analysis is needed focusing on financial and consumer risk. The pilot program was developed to test the tool's practical application and generate insights to:

- determine whether the tool helps:
  - insurers clearly explain their AI governance systems to regulators; and
  - regulators better understand how insurers use AI systems and how those insurers apply standard governance practices;
- support the ongoing improvement and development of the tool;
- help create long-term recommendations for market conduct and financial risk assessment review processes; and
- identify what additional regulator training may be needed in the future.

Next steps. The Working Group stated that an updated version of the supplement will be shared in September, followed by public exposure to provide ample opportunity for public input. It plans to consider the updated tool for adoption at the Fall 2026 meeting.

Third-party data framework for property and casualty insurers

Before the Summer meeting, based on comments received, the Third-Party Data and Models Working Group decided to narrow the scope of the third-party data and models regulatory framework to initially focus on third party data and models used in the property and casualty pricing and underwriting. The Working Group originally considered broader scope, including claims

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handling, utilization review, marketing and fraud detection. It stated that the current draft represents phase one of the broader effort.

The purpose of the framework is to:

- facilitate a process by which states are able to make sure that insurers' use of third-party data and models complies with state insurance laws and regulations;
- encourage robust third-party data and model governance standards; and
- provide state insurance regulators with a comprehensive awareness of the third parties that play a material role in property and casualty pricing and underwriting functions along with direct access to third-party data and models.

The framework includes:

- definitions for models and data;
- support for third-party data and model vendors to voluntarily register through a shared multi-state registry hosted by the NAIC;
- requirement that an insurer continue to file its rates and underwriting rules in accordance with each state's laws and regulations, including third-party data or models; and
- request for vendors to submit to the registry material modifications to a dataset or model, including decommissioning of a model.

The framework also:

- states that if a third-party data or model vendor does not provide a regulator with requested data or model information, it may result in the regulator prohibiting insurers from using the data or model for pricing or underwriting any property and casualty insurance product offered in the state; and
- stresses that regulatory oversight of third-party data and model vendors and the data and models does not reduce insurer accountability.

At the Summer meeting the Working Group heard comments about the proposed regulatory framework for third-party data and model vendors for property and casualty pricing and underwriting.

Interested parties raised concerns, including that the framework:

- is duplicative to existing state and federal regulations and insurer-led due-diligence processes;
- lacks clear benefits or incentives for vendors to register;
- creates pressure that could result in the framework being compulsory because regulators can prohibit insurers from using non-registered vendors;

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- does not provide strong enough confidentiality protection for vendors' intellectual property, trade secrets and sensitive customer lists from public disclosure; and
- may be impractical and overreaching by requiring venders to attest that data and models comply with insurance laws in every state.

To improve the framework, interested party suggestions included:

- establishing a split attestation model where vendors attest only to their own internal governance and model design, while insurers attest to how the model is specifically used and integrated;
- allowing for a higher-level registration of a core software platform rather than requiring a separate filing for every single model version;
- recognizing a single ’vendor-of-record’ when a model embeds various smaller third-party data components to prevent endless sub-vendor filings;
- using a ’material change’ trigger for updates, provided that term is strictly defined, rather than a calendar-based annual attestation cycle;
- avoiding duplication of existing regulatory processes where insurers already file model information;
- adopting a tiered framework where regulatory requirements and obligations are scaled based on the consumer impact and the complexity of the model; and
- focusing on a practical framework that protects confidential information and keeps the responsibility for compliance attestation with licensed insurers.

Next steps. The Third-Party Data and Models Working Group will continue discussions about this topic on its calls.

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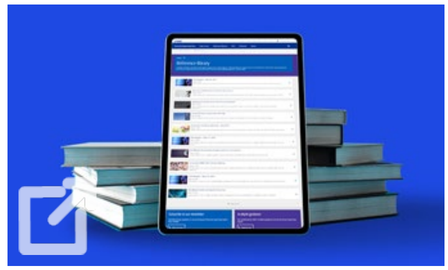

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