Draft date: 9/4/25

Virtual Meeting

STATUTORY ACCOUNTING PRINCIPLES (E) WORKING GROUP
Wednesday, September 10, 2025
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

Dale Bruggeman, Chair	Ohio	Steve Mayhew/Kristin Hynes	Michigan
Kevin Clark, Vice Chair	Iowa	Ned Cataldo	New Hampshire
Sheila Travis/Richard Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Levi Olson	Wisconsin
Melissa Gibson/Shantell Taylor	Louisiana		

NAIC Support Staff: Julie Gann/Robin Marcotte/Jake Stultz/Jason Farr/Wil Oden

AGENDA

1. Hear a Presentation from the American Council of Life Insurers (ACLI) on Asset-Liability Matching (ALM) Derivatives—*Dale Bruggeman (OH)*
   A. ACLI Presentation — Attachment 1
   B. ACLI Proposed Guidance: Fair Value Approach — Attachment 2
   C. ACLI Proposed Guidance: Amortized Cost Approach — Attachment 3

2. Discuss Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*

3. Adjournment

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Financial Security for Life

ALM Derivative SSAP Proposal

Last Updated 8/21/2025

Overview

- Consistent with industry's November 2024 comment letter, an ALM derivatives SSAP proposal is being submitted for your consideration

- As noted in last year's comment letter, ALM derivatives (a.k.a. asset liability management derivatives or duration derivatives) protect surplus by shielding insurance companies from negative impacts of interest rate changes
  - This preserves insurance company solvency and ensures policyowner benefits can be fulfilled (thereby benefitting policy holders, insurance companies, and regulators)

- Ultimately, this proposal will:
  - Significantly enhance the alignment of each company's reported surplus with its actual solvency and liquidation value; and
  - Avoid situations where financials contain inappropriate portrayals of surplus and illusory financial strength

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Background

- ALM derivatives are hedging instruments (a specified derivative or a portfolio of specified derivatives) that hedge the duration difference of the designated asset and liability portfolios

- Common duration measures include:
  - Modified Duration is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction)
  - Macaulay Duration is the weighted average time until cash flows are received and is measured in years
  - DV01 measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates

Background *(continued)*

- Entities hedge the duration difference between assets and liabilities to eliminate deficits in liquidation value and preserve surplus
  - For example:
    - BOP Fixed Income Assets = $100 (Modified Duration = 9)
    - BOP Hedged Liabilities = $100 (Modified Duration = 10)
    - BOP Fixed Income Assets & Liabilities' amortized cost = fair value
    - BOP ALM Derivatives amortized cost & fair value = 0

Liquidation Value *(amounts rounded for simplicity)*			
Liquidation Value *(fair value realization via asset sales, derivative settlement, reinsurance)* :			
	Assets	Liabilities	
BOP Fair Value (Liquidation Value)	100	100	*Net Flat Liquidation Value*
Value Change *(ex-derivatives)*	9	10	*Interest rates decrease 1%*
EOP Fair Value (Liquidation Value) *(ex-derivatives)*	109	110	*Net Liquidation Value changes due to duration difference (pre-hedging); also, bond reinvestment interest rates may not cover liabilities*
ALM Derivatives	1		*ALM derivatives (e.g., receive-fixed swaps in this scenario) will increase in value when rates fall (which offsets the above difference)*
EOP Liquidation Value *(w/derivatives)*	110	110	*BOP net flat Liquidation Value remains intact due to highly effective hedges*

Note: While the above duration difference can be filled with longer term/duration bonds, longer term bonds that match typical product liabilities (e.g., 30+ years) are limited in supply in the market

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Background *(continued)*

- Asset and liability durations evolve over time with product sales, benefit payments, asset maturities, etc.

- Also, durations can also grow further apart due to convexity (change in duration as interest rates change); for example:
  - An asset or liability has a modified duration of 5
  - If interest rates increase by 1%, the asset/liability price (fair value) is expected to decrease by approximately 5% (based on duration)
  - However (particularly for larger interest rate fluctuations) due to convexity, the actual price change might be slightly more or less than 5% (as the price/rate relationship isn't always perfectly linear for larger rate changes)

- Because of the above, hedging strategies need to be dynamic and cannot always be solved by buying and selling investments due to availability, tax costs, bid/ask spreads, etc.

Background *(continued)*

- Due to its importance around surplus preservation, ALM derivatives and duration hedging are common in the industry but often don't qualify for hedge accounting under SSAP86 or 108 (as those SSAP's parameters are different from duration constructs)
- The above results in many derivatives being marked-to-market in surplus, which (for highly effective duration hedges of amortized cost assets/liabilities) results in reported surplus that is not aligned with economics/liquidation value; i.e.
  - Surplus is inappropriately inflated from MTM derivatives in declining interest rate environments
  - Surplus is inappropriately deflated from MTM derivatives in increasing interest rate environments
- Also, an anomaly currently exists with IMR for terminated derivatives (per the INT for companies that had taken deferred gains to IMR historically) in that a derivative unrealized loss (negative to surplus) can be turned into an asset (positive surplus) and vice versa at the timing discretion of the insurance entity via derivative termination
- The above issues are essentially eliminated with the proposal on the subsequent slides

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Proposals

- Two versions of this SSAP draft proposal are being submitted:
  - Amortized Cost Method - favored by industry due to the following:
    - Minimizes operational complexity
    - More closely aligned to the hedged items (i.e., assets often recorded at amortized cost and liabilities typically recorded at “amortized cost” under the valuation manual basis with locked discount rates/mortality assumptions/etc. in most scenarios)
    - Ongoing deferred assets/liabilities are lower (since only includes terminated/matured/de-designated items, less volatility occurs in deferred accounts vs. fair value/mark & spread method where all FV fluctuations are taken to deferred accounts throughout the life)
  - Mark & Spread Method - offered as alternate option for regulators
- Due to the aforementioned dynamic nature of these hedging programs, multiple hedge effectiveness tests are required each quarter, and all must be passed to apply either of the above proposals
- Both proposals increase the accuracy of solvency reporting and claims paying ability, and encourage prudent risk management (therefore are in the best interest of policyholders, insurance companies, and ultimately regulators)

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SSAP Proposal – ALM Derivatives Amortized Cost Method

- Hedged Item:
  - Duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support)
- Hedging Instrument:
  - A specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios.
  - Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting in this proposal
- Clearly Defined Hedging Strategy
  - Required to be documented at inception and include specific risks being hedged (including hedge coverage, e.g., percentage of interest rate sensitivity being hedged), hedging objectives, material risks that are not hedged, instruments used to hedge the risks, metrics/criteria/frequency for measuring effectiveness, etc.
- Separate and distinct from SSAP86 & SSAP108

Amortized Cost Method
Assessing Hedge Effectiveness

- Hedge effectiveness must be assessed at least quarterly (e.g., at the beginning and end of each quarter)

- The hedging relationship must be highly effective in reducing duration differences and requires use of one of the following methods

  - Modified Duration example: if an asset portfolio has a Modified Duration of 9 and a liability portfolio has a Modified Duration of 10, a highly effective derivative portfolio hedging this difference would place the Modified Duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference)

  - Macaulay Duration example: if an asset portfolio has a Macaulay Duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley Duration difference)

  - DV01 example: if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference)

Amortized Cost Method
Assessing Hedge Effectiveness *(continued)*

- Partial Hedge Example - if asset portfolio modified duration is 9 and a liability modified duration is 11, an entity can elect to hedge only half the difference (in which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective)

- Entities must assess hedge effectiveness at inception and on an ongoing basis (i.e., beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective)

Amortized Cost Method Measurement/Recognition

- All designated highly effective hedging derivatives are reported in the financial statements at amortized cost
- Amortized cost treatment will discontinue in the following scenarios:
    - Maturities/Terminations - Derivatives that mature or are terminated (with a fair value) will be recognized as deferred assets (admitted) and deferred liabilities (i.e., derivative maturity/termination fair value would initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination)
    - De-Designation – For derivatives de-designated from a previous highly effective hedging relationship due to ineffectiveness or by election, the derivative fair value will be recognized as an asset/liability offset by a deferred asset (admitted) and deferred liability (i.e., fair value recognition is initially surplus neutral).
        - All prospective (post de-designation) derivative fair value changes are recognized as unrealized gains/losses without deferral unless included as part of a subsequent highly effective hedge.
        - Note – a deferred asset/liability can only be recognized for the fair value change up to the last measurement date indicating high effectiveness

Amortized Cost Method Measurement/Recognition *(continued)*

- As these are essentially quarterly hedges inside a clearly pre-defined program (with effectiveness tests each quarter), programs that fail effectiveness could only apply this guidance in subsequent quarters that effectiveness is achieved (if program parameters don't change materially)
  - If program parameters change materially, then that would represent a new program requiring new documentation, approvals, etc.
- Deferred assets/liabilities are amortized using a straight-line method into Net Gain from Operations ("NGO") over a finite amortization period
  - Amortization timeframe equals the weighted average life (WAL) of the hedged liability portfolio (not to exceed 10 years)
  - Amortization of deferred assets/liabilities for previously highly effective hedging strategies that are no longer highly effective are also over the liability WAL (not to exceed 5 years)
  - Entities may elect to terminate use of this accounting provision at any time, in which case, all deferred assets/liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed 5 years

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Amortized Cost Method Example Entries

Example Entries				
Change in Value				
	N/A			
Derivative Maturity/Termination *(if applicable)*				
	DR-CR: Cash			*surplus neutral*
	DR-CR: Deferred Asset/Liab			
Amortization *(subsequent quarters for maturities/terminations, as applicable)*				
	DR-CR: Deferred Asset/Liab			*surplus impact*
	DR-CR: Net Investment Income			*over amort period*

De-Designation Example Entries, if applicable:				
De-designation				
	DR-CR: Derivative Asset/Liab			*current value*
	DR-CR: Deferred Asset/Liab			*(surplus neutral)*
	Start amortizing			
Subsequent Accounting (MTM)				
	DR-CR: Derivative Asset/Liab			*(prospective MTM in URGL)*
	DR-CR: URGL (Surplus)			

SSAP Proposal – ALM Derivatives Mark & Spread Method

- Similar in nature and background as amortized cost method (i.e., same hedged item, hedging instrument, clearly defined hedging strategy, effectiveness test, etc.), but with different measurement/recognition and amortization starting point

- Under this method, all designated highly effective hedging derivatives are reported in the financial statements at fair value

  - Fair value fluctuations in the hedging instruments (clean value plus accrued income) attributable to the hedged risk are recognized as deferred assets (admitted) and deferred liabilities (i.e., derivative fair value changes would initially be surplus neutral with the derivative asset/liability fair value offset by the deferral account)

  - Note – a deferred asset/liability can only be recognized for the fair value change up to the last measurement date indicating high effectiveness as defined by this proposal

Mark & Spread Method *(continued)*

- Deferred assets/liabilities are amortized using a straight-line method into NGO over a finite amortization period
  - Amortization for a quarter's derivative fair value change will begin in the following quarter regardless if the derivative fair value change is realized or unrealized
  - Derivative income is included in the fair value change amortization amounts
  - Amortization timeframe equals the weighted average life of the hedged liability portfolio (not to exceed 10 years)
  - Other 5-year amortization period limit scenarios noted previously in the amortized cost method section also apply

Mark & Spread Method Example Entries

Example Entries:		
Change in Value		
	DR-CR: Derivative Asset/Liab	*surplus neutral*
	DR-CR: Deferred Asset/Liab	
Amortization (subsequent quarter)		
	DR-CR: Deferred Asset/Liab	*surplus impact*
	DR-CR: Net Investment Income	*over amort period*
Termination Example Entries:		
Termination		
	DR-CR: Cash	*surplus neutral*
	DR-CR: Derivative Asset/Liab	

De-Designation Example Entries (if applicable):		
De-designation		
	No entry or surplus impact (deferral already booked; amort. already occurring)	
Subsequent Accounting (MTM)		
	DR-CR: Derivative Asset/Liab	*(prospective MTM in URGL)*
	DR-CR: URGL (Surplus)	

Transition

- Guidance noted herein is proposed to be applied on a prospective basis for qualifying programs in place on or after the effective date
- Derivative gains/losses deferred in IMR prior to the effective date continue to be amortized over the remaining amortization period from their original amortization schedule
- Unrealized gains/losses recognized prior to the effective date from derivatives that qualify for the treatment in this proposal on the effective date remain in unrealized g/l and amortize into NGO (surplus neutral) over the WAL of the liabilities they support (subject to limits noted previously).

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Statement of Statutory Accounting Principles No. 109 Draft-6/5/25 Mark & Spread Method

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue	Common Area
Issued	xxx xx, 202x
Effective Date	January 1, 2026
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

SCOPE OF STATEMENT

1. Current statutory accounting guidance for derivatives qualifying for hedging effectiveness is in *SSAP No. 86—Derivatives* and *SSAP No. 108-Derivatives Hedging Variable Annuity Guarantees*. This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity [a.k.a. asset liability management (ALM) derivatives]. The provisions within this statement are separate and distinct from the guidance in SSAP No. 86 and SSAP No. 108, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all of the components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

The statutory accounting guidance within this statement is considered a special accounting provision, only permitted if all the components in the standard are met and shall not be inferred as an acceptable statutory accounting approach for situations that do not meet the stated qualifications or that are not specifically addressed within this guidance.

Terms/Concepts (for purposes of this statement)

3. The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

a. Derivative Instrument: An agreement, instrument or series or combination thereof: (1) 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 (2) 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. Note: derivatives with asymmetrical payoff profiles and/or derivative premiums (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they don't contain the aforementioned).

b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item in order to adhere to the specified, documented hedging strategy.

c. Hedged Item: The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire book of business or declared components thereof[1].

d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

4. The special accounting provision within this statement permits reporting entities to utilize 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 (i.e., an ALM Hedge[2]), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as "CDHS" or "hedging strategy"). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at the hedge inception.

[1] Product liability contracts (e.g., PRT's) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance, and have historically closed at a near 100% success rate. For example, on January 1 the company signs a PRT contract that it will assume a client's portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the company meets the aforementioned probable criteria, the hedge can qualify for the treatment in this SSAP if it meets the other criteria in this SSAP, although the portfolio will not be assumed until March 31.

[2] As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch

5. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage[3] of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item in order to adhere to the specified, documented hedging strategy. Fair value fluctuations not attributed to the hedged risk, including fair value changes from excluded open components, shall be recognized as unrealized gains or losses.

6. With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.

b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) 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. This provision does not require reporting entities to use the special accounting provision within this standard.

[3] In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

7. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this SSAP allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),

b. The hedging objectives,

c. The material risks that are not hedged,

d. The financial instruments used to hedge the risks,

e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,

f. The metrics, criteria, and frequency for measuring effectiveness,

g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,

h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,

i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and

j. The circumstances under which hedging strategy will not be effective in hedging the risks.

8. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes a change in hedge target, shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

9. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 10, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with on-going assessment consistent with the originally documented risk management strategy.

10. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, then this special accounting provision can be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

11. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. For example:

a. Modified Duration is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a Modified Duration of 9 and a liability portfolio has a Modified Duration of 10, a highly effective derivative portfolio hedging this difference would place the Modified Duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (in which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective).

b. Macaulay Duration is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay Duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley Duration difference).

c. DV01 measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

Measurement/Recognition of Gains and Losses of Derivative Instruments

12. All designated hedging instruments (all derivatives, including those reflected in portfolios) shall be reported in the financial statements at fair value.

13. Fair value fluctuations in the measurement of all designated derivatives within a highly effective hedging strategy shall be reflected as follows:

a. Fair value fluctuations in the hedging instruments (clean value plus accrued income) attributable to the hedged risk shall be recognized as deferred assets (admitted) and deferred liabilities (i.e., derivative fair value changes would initially be surplus neutral with the derivative asset/liability fair value offset by the deferral account). The ability to recognize a deferred asset and deferred liability is limited to only the portion of the hedging instruments that are attributed to the hedged risk. Note – a deferred asset/liability can only be recognized for the fair value change up to the last measurement date indicating high effectiveness as defined by this SSAP.

b. An amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

c. As detailed previously, portions of hedging instruments that are not attributable to the hedged risk, shall be recognized as unrealized gains or unrealized losses. Also, as these are essentially quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter), programs that fail effectiveness could only apply the provisions of this SSAP within the subsequent quarters that effectiveness is achieved (if program parameters did not change materially). If program parameters change materially, then this represents a new program requiring new documentation, approvals, etc.

14. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into NGO over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization for a quarter's derivative fair value change will begin in the following quarter regardless if the derivative fair value change is realized or unrealized.

a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.

b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. (Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.)

c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into NGO at any time in advance of the scheduled amortization period.

i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.

ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability[4].) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.

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[4] The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

15. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (rebalanced), subsequent gains and losses from fair value fluctuations shall not impact the previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities for these derivative instruments shall be "locked" and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, all fair value fluctuations from the outstanding derivative instruments would be subject to the guidance in SSAP No. 86 and recognized as unrealized gains and/or unrealized losses. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement.

16. For a hedging strategy that no longer qualifies within scope of this standard or is no longer a highly effective hedge, any non-amortized deferred assets or deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five-years. Reallocating assets/derivatives/liabilities in ALM hedging relationships does not indicate no longer qualifying within scope or no longer highly effective (as long as a significant amount of the assets/derivatives/liabilities are included in the hedging relationships before and after reallocation (and the relationship is highly effective before and after reallocation). If the deferred assets/deferred liabilities have a remaining amortization period that is less than the shortened timeframe, amortization shall continue over the remaining period. If the remaining amortization period is greater than 5-years at the time of the program no longer qualifies, or is no longer highly effective, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately recognized in NGO or have accelerated amortization (less than 5-years). (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) All future fair value fluctuations for these derivative instruments would be subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses unless the instrument is subsequently designated as part of a highly effective hedging strategy within scope of this statement. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement.

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17. Reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five-years. If the deferred assets/deferred liabilities have an amortization period that is less than the shortened 5-year timeframe, amortization shall continue over the established period. If the remaining amortization period is greater than 5-years at the time of termination, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately eliminated or have accelerated amortization (less than 5-years) with recognition in NGO. (An election to immediate eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) Once the special accounting provision is terminated, unless re-designated by the reporting entity, subsequent accounting of the derivatives in a hedging strategy that would be captured within this statement shall follow the fair value accounting approach in SSAP No. 86[5].

[5] Macro-hedges and the ability to rebalance hedging instruments are not provisions permitted within "effective" hedges in scope of SSAP No. 86. As such, hedging strategies with these components accounted for under SSAP No. 86 shall follow the fair value accounting approach detailed in that standard.

Measurement/Recognition of Realized Gains or Losses of Expired Derivatives

18. With the aforementioned model of amortizing fair value changes (whether unrealized or realized, which prevents manipulation), this guidance allows for individual derivative instruments to expire and/or be removed from the portfolio of the hedging instrument (as effectiveness is tested each quarter and hedges and hedged items changing each quarter as part of dynamic hedging strategies).

19. Pursuant to the provisions in paragraph 14.c., reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities from expired derivatives into NGO in advance of the scheduled amortization period.

20. Consistent with the guidance in paragraph 17, reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed 5-years. If the deferred assets/deferred liabilities had an amortization period that was less than the shortened timeframe, amortization shall continue over the established period. If the amortization period was greater than 5-years at the time of termination, the amortization schedule would be revised to require full amortization within the shortened timeframe. If elected by the reporting entity, the deferred assets and deferred liabilities may be immediately eliminated, or have accelerated amortization, with recognition in NGO. An election to immediate eliminate or accelerate amortization (less than 5 years) must follow the provisions in paragraph 14.c.)

Derivative Income

21. Derivative income under this accounting provision is included the fair value change amortization amounts.

22. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

Disclosures

23. A reporting entity that has any derivatives accounted for under this special accounting provision, or that has unamortized deferred assets and/or deferred liabilities (representing previously unrecognized qualifying fair value fluctuations) under the special accounting provision shall disclose the following within the financial statements:

a. For each hedge program under this SSAP, discussion of hedged item, including information on the liabilities' duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy (including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the "Clearly Defined Hedging Strategy". Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period. Additionally, disclose the fair value of the hedged item, the change in fair value from the prior reporting period, and the portion of the fair value change attributed to the hedged risk.

c. Schedule showing the aggregate fair value change from the prior reporting period for the designated components for all hedging instruments, with identification of the fair value change reflected in deferred assets, and deferred liabilities. This schedule shall also show the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities. This schedule shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also include:

   i. Identification of outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.

   ii. Deferred assets and deferred liabilities previously recognized when the program was highly effective, with a schedule that shows the amortization that would have occurred if the program had remained highly effective, the amount of original amortization as well as a schedule that details the amortization that will occur as the program is no longer highly effective (maximum five-year timeframe).

   iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and how the election impacts the scheduled amortization.

e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also include:

i. Identification of outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated.

ii. Deferred assets and deferred liabilities previously recognized under the hedging strategy and/or program, with a schedule that shows the amortization that would have occurred if the strategy and/or program had remained highly effective, as well as a schedule that details the amortization that will occur with the termination of the strategy and/or program (maximum five-year timeframe).

iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and the resulting impact to the scheduled amortization.

Effective Date and Transition

24. This statement is effective January 1, 2026. The guidance in this SSAP is required to be applied on a prospective basis for qualifying hedge programs in place on or after the effective date. This prospective application prohibits deferred asset and deferred liability recognition from fair value fluctuations previously recognized as unrealized gains or losses that occurred prior to the effective date of the guidance.

25. Derivative gains/losses deferred in IMR prior to the effective date of this guidance shall continue to be amortized over the remaining amortization period from their original amortization schedule. Unrealized gains/losses recognized prior to the effective date of this SSAP from derivatives that utilize/qualify for the SSAP's accounting treatment on the above effective date shall remain in unrealized gains/losses and amortize into NGO (i.e., surplus neutral) over the weighted average life of the liabilities they support (subject to the limits noted in previously in this SSAP). Reporting entities that have previously received permitted or prescribed practices for qualifying hedge programs, resulting with the recognition of deferred assets/deferred liabilities from unrecognized fair value fluctuations, shall work with their domiciliary state regulator to determine the appropriate method in transitioning from previously approved permitted practices. The reporting entity shall include disclosure of the transition approach approved by the domiciliary state in their financial statements in the first year of application. The approved transition approach is not considered a permitted practice as long as the reporting entity is fully compliant with the provisions of this statement after implementation. After the effective date of this statement, domiciliary state provisions that differ from this statement must be disclosed as a permitted or prescribed practice pursuant to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*.

REFERENCES

RELEVANT ISSUE PAPERS

- *Issue Paper No. 159—Special Accounting Treatment for Limited Derivatives*

EXHIBIT A – EXAMPLE

Under the accounting provisions within this SSAP, all designated highly effective hedging instruments shall initially be reported in the financial statements at fair value. Fair value fluctuations in the hedging instruments attributable to the hedged risk shall be recognized as deferred assets (admitted) and deferred liabilities (i.e., derivative fair value changes would be initially surplus neutral with the derivative asset/liability fair value offset by the deferral account, which is to be amortized per paragraph 14). The aforementioned treatment will discontinue upon de-designation due to ineffectiveness or election; at which time, all future fair value fluctuations for these derivatives would be subject to SSAP No. 86 and recognized as unrealized gains/losses. Note: for derivatives de- designated due to ineffectiveness, the treatment from this SSAP can only be applied to fair value changes up to the date the derivatives met the highly effective criteria (after which, all prospective changes in fair value should be record in unrealized gains/losses).

Under this SSAP, the ability to recognize derivative fair value changes as a deferred asset/liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and meets the highly effective criteria. As detailed in this standard, the hedged risk may be designated as a specific component of the hedged item. For example, an entity may designate the duration difference between a portfolio of fixed income investments and a group of future annuity payments in a pension risk transfer (PRT) and/or structured settlements block of liabilities.

Unless a different method has been approved by the domiciliary state commissioner, reporting entities shall utilize the calculations detailed in paragraph 11 to determine if the hedging relationship meets the highly effective criteria. For example:

- Clearly Defined Hedging Strategy (CDHS) characteristics:
    - Hedged item – Structured settlement liability net cash flows
    - Hedged risk – Duration difference between hedged item and designated fixed income asset portfolio supporting the hedged item
- On July 1, 202x, the company's documented/defined hedged liability item had a Modified Duration of 10 (i.e., a 1% change in interest rates will cause a 10% change in fair value in the opposite direction), while the documented/defined supporting asset portfolio had a Modified Duration of 9.
    - The company designates a portfolio of derivatives to eliminate 100% of this duration difference (i.e., a highly effective derivative portfolio hedging this difference would place the Modified Duration of the fixed income assets with derivatives at between 9.8 and 10.25, which is 80%-125% of the modified duration difference). The company measures the effectiveness on July 1, 202x, and determines the hedge is highly effective (Modified Duration of supporting fixed income asset portfolio with derivatives = 10; Modified Duration of hedged liability = 10).
- On September 30, 202x, the company measures the effectiveness of the hedge program. Note: throughout the 3-month period, the company may have added various supporting fixed income assets, derivatives, and liability cash flows to this hedging relationship (all of which were clearly identified and classified as part of this linked portfolio at each inception). The hedge effectiveness is determined to be highly effective (e.g., Modified Duration of supporting fixed income asset portfolio with derivatives = 10; Modified Duration of hedged liability = 10).
- Example journal entries related to the above are as follows:

SSAP109 Example

Mark & Spread (MTM and defer each quarter, begin amortization the following quarter regardless of termination)

July 1, 202x:
- Fixed Income Assets = $100 (Modified Duration = 9)
- Hedged Liabilities = $100 (Modified Duration = 10)
- Fixed Income Assets Modified Duration w/derivatives = 10
- FI Assets & Liabilities' amortized cost = fair value
- Derivatives amortized cost & fair value = 0

Sept. 30, 202x:

Example Entries:

Change in Value
- DR-CR: Derivative Asset/Liab
- DR-CR: Deferred Asset/Liab

surplus neutral

Change in value includes entire fair value of derivative instrument
(clean value plus accrued income)

Amortization (subsequent quarter)
- DR-CR: Deferred Asset/Liab
- DR-CR: Net Investment Income

surplus impact
over amort period

derivative is remeasured each reporting period, with any chg in value
amortized starting in the subsequent qtr (regardless of termination)

Termination Example Entries:

Termination
- DR-CR: Cash
- DR-CR: Derivative Asset/Liab

surplus neutral

Amortization (subsequent quarter)
- N/A (already occurring)

Notes-amortization is independent of termination, so discretionary surplus changes eliminated
At termination, any change in value (realized gain/loss) would continue to be recognized in the Deferred Asset/Liab account and amortized

Liquidation Value Check *(amounts rounded for simplicity)*

Liquidation Value *(fair value realization via asset sales, derivative settlement, reinsurance)* :

	Assets	Liabilities	
BOP	100	100	
Value Change *(ex derivatives)*	(9)	(10)	*int. rates Increase 1%*
Subtotal EOP	91	90	
Derivative Value Change	(1)		
Liquidation Value	90	90	*flat*
Balance Sheet Value			
BOP	100	100	*flat*
EOP *(amort cost-ex derivatives)*	100	100	
EOP *(derivatives pre-amort)*	1	1	*per above journal entry; (DR-CR: Derivative Asset/Liab; DR-CR: Deferred)*
EOP Balance Sheet Total	101	101	*flat (reflects highly effective hedge); defferal of asset/liab brings balance sheet surplus equal to liquidation value*

De-Designation Example Entries (if applicable):

De-designation
- *No entry or surplus impact (deferral already booked; amort. already occurring)*

Subsequent Accounting (MTM)
- DR-CR: Derivative Asset/Liab
- DR-CR: URGL (Surplus)

(prospective MTM in URGL)

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Statement of Statutory Accounting Principles No. 109 Draft-6/5/25 Amortized Cost Method

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue	Common Area
Issued	xxx xx, 202x
Effective Date	January 1, 2026
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

SCOPE OF STATEMENT

1. Current statutory accounting guidance for derivatives qualifying for hedging effectiveness is in *SSAP No. 86—Derivatives* and *SSAP No. 108-Derivatives Hedging Variable Annuity Guarantees*. This statement allows special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity [a.k.a. asset liability management (ALM) derivatives]. The provisions within this statement are separate and distinct from the guidance in SSAP No. 86 and SSAP No. 108, as the items subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under SSAP No. 86 or SSAP No. 108. The provisions provided within this statement are only permitted if all of the components of the statement are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.

SUMMARY CONCLUSION

2. This statement establishes statutory accounting principles to address derivative transactions hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity.

The statutory accounting guidance within this statement is considered a special accounting provision, only permitted if all the components in the standard are met and shall not be inferred as an acceptable statutory accounting approach for situations that do not meet the stated qualifications or that are not specifically addressed within this guidance.

Terms/Concepts (for purposes of this statement)

3. The following terms reflect concepts specific to this statement. This listing only details the key concepts. Specific guidelines are reflected throughout the guidance.

a. Derivative Instrument: An agreement, instrument or series or combination thereof: (1) 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 (2) 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. Note: derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they don't contain the aforementioned).

b. Dynamic Hedging Approach: A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item in order to adhere to the specified, documented hedging strategy.

c. Hedged Item: The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire book of business or declared components thereof[1].

d. Hedging Instrument: The hedging instrument shall reflect a specified derivative, or a portfolio of specified derivatives, that hedges the duration difference of the designated asset and liability portfolios. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item.

Special Accounting Provision

4. The special accounting provision within this statement permits reporting entities to utilize 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 (i.e., an ALM Hedge[2]), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as "CDHS" or "hedging strategy"). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at the hedge inception.

[1] Product liability contracts (e.g., PRT's) that have been signed/executed are eligible as the hedged item if highly probable of closing in the near term, include disincentives for non-performance and have historically closed at a near 100% success rate. For example, on January 1, the company signs a PRT contract that it will assume a client's portfolio assets and pension liabilities on March 31. The agreed upon portfolio assets have a different duration than the liabilities, so the company proceeds with hedging the difference on January 1. If the transaction meets the aforementioned probable criteria, the hedge can qualify for the treatment in this SSAP if it meets the other criteria in this SSAP, although the portfolio will not be assumed until March 31.

[2] As detailed in paragraph 10, these hedges are required to be highly effective in achieving the elimination of the duration mismatch between the designated asset and liability portfolios during documented hedge period.

5. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage[3] of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item in order to adhere to the specified, documented hedging strategy. Fair value fluctuations not attributed to the hedged risk, including fair value changes from excluded open components, shall be recognized as unrealized gains or losses.

6. With the provisions in this standard to allow for flexibility in the hedged item coupled with a dynamic hedging approach (rebalancing of derivative hedging instruments), there is a greater risk of misrepresentation of successful risk management and achievement of a highly effective hedging relationship. Although this risk cannot be eliminated, the following provisions intend to ensure governance of the program and provide sufficient tools to allow for regulator review:

a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.

b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) 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. This provision does not require reporting entities to use the special accounting provision within this standard.

[3] In identifying the hedged risk, reporting entities must identify whether they are hedging the full, or a portion of (e.g., 40%), the interest rate sensitivity.

7. Eligibility for the special accounting provision within this standard is strictly limited to highly effective ALM derivatives that follow a Clearly Defined Hedging Strategy, meeting all the required provisions of this SSAP allowing the reporting entity to reduce the duration differences between the designated asset and liability portfolios. In order to qualify as a Clearly Defined Hedging Strategy (which may be dynamic, static, or a combination thereof), the strategy shall at a minimum, identify:

a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),

b. The hedging objectives,

c. The material risks that are not hedged,

d. The financial instruments used to hedge the risks,

e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,

f. The metrics, criteria, and frequency for measuring effectiveness,

g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,

h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,

i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and

j. The circumstances under which hedging strategy will not be effective in hedging the risks.

8. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes a change in hedge target, shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

9. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 10, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with on-going assessment consistent with the originally documented risk management strategy.

10. Both at inception, and on an ongoing basis, the hedging relationship must be highly effective in reducing duration differences between designated asset and liability portfolios during the period that the hedge is designated. Reporting entities electing to use this special accounting provision must calculate the duration of the hedged item (liability portfolio) and compare it to the duration of the designated supporting asset portfolio with and without the designated hedging derivatives at inception and on an ongoing basis (i.e., at the beginning and end of each quarter, since asset/derivative/liability amounts may change during the normal course of business with the dynamic hedge strategy needing to remain highly effective). Only if the designated hedging derivatives are highly effective at reducing the duration difference between the asset and liability portfolios at the beginning and end of each quarter, then this special accounting provision can be utilized. This comparison is specific to the designated hedged risks and exposures; therefore, if only a portion of the duration/interest rate risk is hedged or if the designated hedge only includes specific components of the hedged liabilities, for determining hedge effectiveness, the effectiveness comparisons are limited to those designated items. If an entity's defined risk management strategy for a particular hedging relationship excludes specific components of the hedging derivative from the assessment of hedge effectiveness, the excluded open components shall be reported at fair value with gains or losses recognized as unrealized gains or losses.

11. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. For example:

a. Modified Duration is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a Modified Duration of 9 and a liability portfolio has a Modified Duration of 10, a highly effective derivative portfolio hedging this difference would place the Modified Duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (in which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective).

b. Macaulay Duration is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay Duration of 9 years and a liability portfolio has a Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley Duration difference).

c. DV01 measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of $9M and a liability portfolio has a DV01 of $10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between $9.8M and $10.25M (80%-125% of the DV01 difference).

Measurement/Recognition of Gains and Losses of Derivative Instruments

12. All designated highly effective hedging instruments (all derivatives, including those reflected in portfolios) shall be reported in the financial statements at amortized cost.

13. Amortized cost treatment will discontinue in the following scenarios:

a. Maturities/Terminations - Derivatives that mature or are terminated with a fair value will be recognized as deferred assets (admitted) and deferred liabilities (i.e., derivative maturity/termination fair value would initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination).

b. De-Designation – For derivatives de-designated from a previous highly effective hedging relationship due to ineffectiveness or by election, the derivative fair value will be recognized as an asset/liability offset by a deferred asset (admitted) and deferred liability (i.e., fair value recognition is initially surplus neutral). All prospective (post de-designation) derivative fair value changes are recognized as unrealized gains/losses without deferral unless included as part of a subsequent highly effective hedge (see 13.c below). Note – a deferred asset/liability can only be recognized for the fair value change up to the last measurement date indicating high effectiveness as defined by this SSAP.

c. Note - An amount equal to the net deferred asset and deferred liability (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus. Also, as detailed previously, portions of hedging instruments that are not attributable to the hedged risk, shall be recognized as unrealized gains or unrealized losses. The ability to recognize a deferred asset/liability is limited to only the portion of the hedging instruments that are attributed to the hedged risk. Lastly, as these are essentially quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter), programs that fail effectiveness could only apply the provisions of this SSAP within the subsequent quarters that effectiveness is achieved (if program parameters did not change materially). If program parameters change materially, then this represents a new program requiring new documentation, approvals, etc.

14. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into NGO over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization for a quarter's derivative fair value recognition will begin in the following quarter regardless if the derivative fair value recognition is realized or unrealized.

a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, of the deferred assets and deferred liabilities recognized and outstanding at each reporting date.

b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. (Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.)

c. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into NGO at any time in advance of the scheduled amortization period.

i. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.

ii. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally to a program with a deferred asset that best corresponds to the deferred liability[4].) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.

[4] The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.

15. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (rebalanced), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be "locked" and amortized under the remaining schedule unless the reporting entity elects to terminate or accelerate amortization. Subsequent to the removal from a highly effective strategy, all fair value fluctuations from the outstanding derivative instruments would be subject to the guidance in SSAP No. 86 and recognized as unrealized gains and/or unrealized losses. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement.

16. For a hedging strategy that no longer qualifies within scope of this standard or is no longer a highly effective hedge, any non-amortized deferred assets or deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five-years. Reallocating assets/derivatives/liabilities in ALM hedging relationships does not indicate no longer qualifying within scope or no longer highly effective (as long as a significant amount of the assets/derivatives/liabilities are included in the hedging relationships before and after reallocation; and the relationship is highly effective before and after reallocation). If the deferred assets/deferred liabilities have a remaining amortization period that is less than the shortened timeframe, amortization shall continue over the remaining period. If the remaining amortization period is greater than 5-years at the time of the program no longer qualifies, or is no longer highly effective, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately recognized in NGO or have accelerated amortization (less than 5-years). (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) All future fair value fluctuations for these derivative instruments would be subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses unless the instrument is subsequently designated as part of a highly effective hedging strategy within scope of this statement. If the derivative is re-designated as part of a highly effective hedging strategy qualifying under this standard, subsequent fair value fluctuations (after the re-designation) may be accounted for under the special accounting provision detailed in this statement.

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17. Reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed five-years. If the deferred assets/deferred liabilities have an amortization period that is less than the shortened 5-year timeframe, amortization shall continue over the established period. If the remaining amortization period is greater than 5-years at the time of termination, the amortization schedule shall be revised to require full amortization within the shortened 5-year timeframe. If elected by the reporting entity, deferred assets and deferred liabilities may be immediately eliminated or have accelerated amortization (less than 5-years) with recognition in NGO. (An election to immediately eliminate or accelerate amortization must follow the provisions in paragraph 14.c.) Once the special accounting provision is terminated, unless re-designated by the reporting entity, subsequent accounting of the derivatives in a hedging strategy that would be captured within this statement shall follow the fair value accounting approach in SSAP No. 86[5].

[5] Macro-hedges and the ability to rebalance hedging instruments are not provisions permitted within "effective" hedges in scope of SSAP No. 86. As such, hedging strategies with these components accounted for under SSAP No. 86 shall follow the fair value accounting approach detailed in that standard.

Measurement/Recognition of Realized Gains or Losses of Expired Derivatives

18. This guidance allows for individual derivative instruments to expire and/or be removed from the portfolio of the hedging instrument (as effectiveness is tested each quarter and hedges and hedged items changing each quarter as part of dynamic hedging strategies).

19. Pursuant to the provisions in paragraph 14.c., reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities from expired derivatives into NGO in advance of the scheduled amortization period.

20. Consistent with the guidance in paragraph 17, reporting entities may elect to terminate use of this special accounting provision at any time. In those instances, all deferred assets and deferred liabilities shall be amortized to NGO over the remaining amortization timeframe, not to exceed 5-years. If the deferred assets/deferred liabilities had an amortization period that was less than the shortened timeframe, amortization shall continue over the established period. If the amortization period was greater than 5-years at the time of termination, the amortization schedule would be revised to require full amortization within the shortened timeframe. If elected by the reporting entity, the deferred assets and deferred liabilities may be immediately eliminated, or have accelerated amortization, with recognition in NGO. An election to immediate eliminate or accelerate amortization (less than 5 years) must follow the provisions in paragraph 14.c.)

Derivative Income

21. Derivative income under this accounting provision is included in NGO pursuant to SSAP86.

22. Pursuant to the documented hedging strategy as an ALM Hedge, derivative income shall be considered as part of the overall hedging strategy and included in the assessments on whether the strategy is highly effective.

Disclosures

23. A reporting entity that has any derivatives accounted for under this special accounting provision, or that has unamortized deferred assets and/or deferred liabilities (representing previously unrecognized qualifying fair value fluctuations) under the special accounting provision shall disclose the following within the financial statements:

a. For each hedge program under this SSAP, discussion of hedged item, including information on the liabilities' duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy (including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the "Clearly Defined Hedging Strategy". Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period. Additionally, disclose the fair value of the hedged item, the change in fair value from the prior reporting period, and the portion of the fair value change attributed to the hedged risk.

c. Schedule showing the aggregate fair value change from the prior reporting period for the designated components for all hedging instruments, with identification of the fair value change reflected in deferred assets, and deferred liabilities. This schedule shall also show the current period amortization, including any accelerated amortization elected by the reporting entity, and the future scheduled amortization of the deferred assets and deferred liabilities. This schedule shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.

d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also include:

i. Identification of outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.

ii. Deferred assets and deferred liabilities previously recognized when the program was highly effective, with a schedule that shows the amortization that would have occurred if the program had remained highly effective, the amount of original amortization as well as a schedule that details the amortization that will occur as the program is no longer highly effective (maximum five-year timeframe).

iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and how the election impacts the scheduled amortization.

e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting's entity' decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also include:

i. Identification of outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated.

ii. Deferred assets and deferred liabilities previously recognized under the hedging strategy and/or program, with a schedule that shows the amortization that would have occurred if the strategy and/or program had remained highly effective, as well as a schedule that details the amortization that will occur with the termination of the strategy and/or program (maximum five-year timeframe).

iii. Disclosure on whether the reporting entity is electing to accelerate amortization (in advance of the remaining scheduled amortization or the maximum five-year timeframe), along with amounts immediately recognized to unrealized gains/losses, and the resulting impact to the scheduled amortization.

Effective Date and Transition

24. This statement is effective January 1, 2026. The guidance in this SSAP is required to be applied on a prospective basis for qualifying hedge programs in place on or after the effective date. This prospective application prohibits deferred asset and deferred liability recognition from fair value fluctuations previously recognized as unrealized gains or losses that occurred prior to the effective date of the guidance.

25. Derivative gains/losses deferred in IMR prior to the effective date of this guidance shall continue to be amortized over the remaining amortization period from their original amortization schedule. Unrealized gains/losses recognized prior to the effective date of this SSAP from derivatives that utilize/qualify for the SSAP's accounting treatment on the above effective date shall remain in unrealized gains/losses and amortize into NGO (i.e., surplus neutral) over the weighted average life of the liabilities they support (subject to the limits noted in previously in this SSAP). Reporting entities that have previously received permitted or prescribed practices for qualifying hedge programs, resulting with the recognition of deferred assets/deferred liabilities from unrecognized fair value fluctuations, shall work with their domiciliary state regulator to determine the appropriate method in transitioning from previously approved permitted practices. The reporting entity shall include disclosure of the transition approach approved by the domiciliary state in their financial statements in the first year of application. The approved transition approach is not considered a permitted practice as long as the reporting entity is fully compliant with the provisions of this statement after implementation. After the effective date of this statement, domiciliary state provisions that differ from this statement must be disclosed as a permitted or prescribed practice pursuant to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures*.

REFERENCES

RELEVANT ISSUE PAPERS

- *Issue Paper No. 159—Special Accounting Treatment for Limited Derivatives*

EXHIBIT A - EXAMPLE

Under the accounting provisions within this SSAP, all designated highly effective hedging instruments shall initially be reported in the financial statements at amortized cost. Amortized cost treatment will discontinue upon derivative maturity/termination (or de-designation due to ineffectiveness or election); at which time, the derivative fair value will be recognized as an asset or liability offset by a deferred asset (admitted) or deferred liability (i.e., fair value recognition is initially surplus neutral). Note: for derivatives de-designated due to ineffectiveness, amortized cost/deferral treatment can only be applied to fair value changes up to the date the derivatives met the highly effective criteria (after which, all prospective changes in fair value should be record in surplus-unrealized gains/losses).

Under this SSAP, the ability to recognize a derivative at amortized cost or as a deferred asset/liability is limited to only the portion of the fair value fluctuation in the hedging instruments that is attributed to the hedged risk and meets the highly effective criteria. As detailed in this standard, the hedged risk may be designated as a specific component of the hedged item. For example, an entity may designate the duration difference between a portfolio of fixed income investments and a group of future annuity payments in a pension risk transfer (PRT) and/or structured settlements block of liabilities.

Unless a different method has been approved by the domiciliary state commissioner, reporting entities shall utilize the calculations detailed in paragraph 11 to determine if the hedging relationship meets the highly effective criteria. For example:

- Clearly Defined Hedging Strategy (CDHS) characteristics:
    - Hedged item – Structured settlement liability net cash flows
    - Hedged risk – Duration difference between hedged item and designated fixed income asset portfolio supporting the hedged item
- On July 1, 202x, the company's documented/defined hedged liability item had a Modified Duration of 10 (i.e., a 1% change in interest rates will cause a 10% change in fair value in the opposite direction), while the documented/defined supporting asset portfolio had a Modified Duration of 9.
    - The company designates a portfolio of derivatives to eliminate 100% of this duration difference (i.e., a highly effective derivative portfolio hedging this difference would place the Modified Duration of the fixed income assets with derivatives at between 9.8 and 10.25, which is 80%-125% of the modified duration difference). The company measures the effectiveness on July 1, 202x, and determines the hedge is highly effective (Modified Duration of supporting fixed income asset portfolio with derivatives = 10; Modified Duration of hedged liability = 10).
- On September 30, 202x, the company measures the effectiveness of the hedge program. Note: throughout the 3-month period, the company may have added various supporting fixed income assets, derivatives, and liability cash flows to this hedging relationship (all of which were clearly identified and classified as part of this linked portfolio at each inception). The hedge effectiveness is determined to be highly effective (e.g., Modified Duration of supporting fixed income asset portfolio with derivatives = 10; Modified Duration of hedged liability = 10).
- Example journal entries related to the above are as follows:

SSAP109 Example

Amortized Cost Method

July 1, 202x:	Fixed Income Assets = $100 (Modified Duration = 9)			
	Hedged Liabilities = $100 (Modified Duration = 10)			
	Fixed Income Assets Modified Duration w/derivatives = 10			
	FI Assets & Liabilities' amortized cost = fair value			
	Derivatives amortized cost & fair value = 0			
Sept. 30, 202x:				
Example Entries				
Change in Value				
	N/A			
Derivative Maturity/Termination *(if applicable)*				
	DR-CR: Cash			*surplus neutral*
	DR-CR: Deferred Asset/Liab			
Amortization *(subsequent quarters for maturities/terminations, as applicable)*				
	DR-CR: Deferred Asset/Liab			*surplus impact*
	DR-CR: Net Investment Income			*over amort period*
Liquidation Value Check *(amounts rounded for simplicity)*				
Liquidation Value *(fair value realization via asset sales, derivative settlement, reinsurance)* :				
		Assets	Liabilities	
BOP		100	100	
Value Change *(ex derivatives)*		(9)	(10)	*int. rates Increase 1%*
Subtotal EOP		91	90	
Derivative Value Change		(1)		*assume all maturities*
Liquidation Value		90	90	*flat*
Balance Sheet Value				
BOP		100	100	*flat*
EOP *(amort cost-ex derivatives)*		100	100	
EOP *(derivative maturities)*		1	1	*per above journal entry (DR-CR: Cash; DR-CR: Deferred)*
EOP Balance Sheet Total		101	101	*flat (reflects highly effective hedge); deferral of asset/ liab brings balance sheet surplus equal to liquidation value*

De-Designation Example Entries, if applicable (using SSAP No. 86 as a guide):

De-designation			
	DR-CR: Derivative Asset/Liab		*current value*
	DR-CR: Deferred Asset/Liab		*(surplus neutral)*
	Start amortizing		
Subsequent Accounting (MTM)			
	DR-CR: Derivative Asset/Liab		*(prospective MTM in URGL)*
	DR-CR: URGL (Surplus)		

