

Potential SSAP 109 Pilot

Life Actuarial Task Force

October 1, 2026

Background – Draft SSAP 109

- *SSAP No. 109—Asset Liability Management Derivatives*
 - **Scope:** interest-rate hedging derivatives used for ALM that do not qualify as accounting-effective hedges under *SSAP No. 86—Derivatives*. Includes dynamic hedging (rebalancing). Excludes asymmetric derivatives (e.g., options). Expected focus is on swaps, futures, and forwards without asymmetric features.
 - **Proposed Effective Date:** January 1, 2028
 - **Background:** Certain members of the life industry were allocating the gain or loss on these derivatives, which they considered economically effective (meaning effective in achieving the hedge intent), to IMR at termination for deferral and recognition into income over a period of time. With the IMR revisions, this will not be permitted. Instead, new guidance to prescribe specific accounting treatment for these derivatives is being considered. Transitional guidance (INT 23-01) applies in interim.

Background – Draft SSAP 109

- The draft *SSAP 109* would allow qualifying derivative structures to be held at amortized cost. Conceptually based in part on *SSAP 108 — Derivatives Hedging Variable Annuity Guarantees*.
- Gains or losses on terminated qualified derivatives would be amortized into income over the average life of the hedged liability portfolio, not to exceed 10 years.
- Statutory Accounting Principles (E) Working Group has exposed through October 2:
 - [Proposal 2024-15](#)
 - [SSAP 109](#)
 - [Issue Paper](#)

Background – Draft SSAP 109

- Regulator modifications in current draft include:
 - Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a **reinsurance** agreement.
 - Requirement to include derivative deferred gains and losses in **actuarial projections**, with reconciliation to amounts reflected in **principle-based reserving** and **cash flow testing**.
 - Elimination of the elective accelerated amortization provisions.

Background – Draft SSAP 109

- Like SSAP 108, requirements for SSAP 109:
 - Approval by the domiciliary state (without subsequent disallowance),
 - Clearly defined hedging strategy,
 - Certification by a financial officer on CDHS.
- Unlike SSAP 108, requirements for SSAP 109:
 - Are not only focused on amortizing temporary hedge mismatches.
 - Do not require a shortened 5-year amortization period for deferred assets and liabilities when hedging programs no longer qualify.
 - Require deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

Clearly Defined Hedging Strategy

- A hedging strategy being **clearly defined** means the following are documented:
 - a. The specific risks being hedged.
 - “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 hedge inception.”
 - “hedge the interest rate sensitivity, or a specific percentage of the interest rate sensitivity”
 - 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 the permitted tolerances from hedging objectives.
 - f. The metrics, criteria, and frequency for measuring hedging 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.
 - j. The circumstances under which the hedging strategy will not be effective in hedging the risks.

Draft SSAP 109 – Actuarial Considerations

What would
qualify for SSAP
109 treatment?

Highly-effective
derivative
structures...

Draft SSAP 109 – Actuarial Considerations



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**.

Depends on proportion of the mismatch being hedged (P%).



Assessed at least quarterly.

Draft SSAP 109 – Actuarial Considerations

Pre-Hedge

- Asset Portfolio: duration of X
- Liability Portfolio: duration $X+Y$

Hedge $P\%$
of duration
mismatch

Post-Hedge

- Asset Portfolio: duration range $[X+80\%*P\%*Y, X+125\%*P\%*Y]$
- Liability Portfolio: duration $X+Y$

Draft SSAP 109 – Actuarial Considerations

Pre-Hedge

- Asset Portfolio: duration of 9
- Liability Portfolio: duration 11

Hedge
50% of
duration
mismatch

Post-Hedge

- Asset Portfolio: duration range [9.8,10.25]
- Liability Portfolio: duration 11

Draft SSAP 109 – Actuarial Considerations

Modified Duration

- Effect of a 100-basis-point (1%) change in interest rates on price of an instrument (measured as percentage)

Macauley Duration

- Weighted average time until cash flows are received (measured in years)

Dollar Value One (DV01)

- Change in an instrument's price for a one basis point (0.01%) change in rates (measured in dollars)

SAPWG Referral to LATF

SAPWG requested LATF assistance

- facilitating a pilot project in early 2027 (or sooner)
- review and assess the proposed derivative guidance, particularly the specific hedge effectiveness tests
- consider **additional specifications** that should be included in the statutory guidance around how effectiveness testing should be performed

Pilot: Unaggregated Field Test Approach

Participating Companies will present in Regulator-Only Session

- Regulator-only since each company presents their specific experience and approach
- Can schedule multiple Companies per regulator-only LATF call, with controlled company entry/exit
- Company presentations to focus on:
 - CDHS documentation, with special focus on defining the risks being hedged.
 - Hedge effectiveness documentation, based on draft SSAP.
 - As regulators have identified the need for enhanced guidance and documentation on effectiveness, companies are strongly encouraged to present other analyses, metrics, or criteria the companies currently review to monitor economic effectiveness of these hedges.

Companies to submit drafts at least one week in advance of presentations for regulator review:

- The Disclosures under the Draft SSAP 109, Paragraph 22.
- Materials that would be provided to domiciliary state for initial consideration.

Pilot: Timing and Next Steps

Timeline Option 1 vs. Option 2

- Option 1 - Fast track - companies already largely prepared based on SAPWG discussions
- Option 2 - Normal pace - multiple interested companies were not aware of SAPWG discussions
- Timeline below are all expressed as **[Option 1 or Option 2]**.

Timing to Express Interest

- By **[10/8 or 10/21]**, companies should reach out to LATF NAIC support (Scott O'Neal) and identify:
 - When they would be able to provide the **advance documentation** for their ALM derivative program
 - When they would be able to **present** to LATF on hedge effectiveness

Timing to Suggest Consistent Presentation Content

- By **[10/15 or 10/30]**, regulators, companies, and interested parties should suggest any additional hedge effectiveness documentation to be included in presentations, beyond what is outlined in the existing draft SSAP.

Timing of Pilot

- **[late October-early November or late January – February]**
- Depending on Number of Participants and Availability