Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: SSAP *No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☐
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed as a broad concept agenda item with the ultimate goal to incorporate accounting guidance for the asset valuation reserve (AVR) and the interest maintenance reserve (IMR) into *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Historically, this statement has included brief overview of the AVR and IMR with the calculation and reporting guidance determined as directed by individual SSAPs or in accordance with the Annual Statement (A/S) Instructions for Life, Accident and Health / Fraternal Companies. As the SSAPs are highest in the statutory hierarchy as level 1, and the A/S instructions are level 3, the governing accounting concepts should be captured in the SSAPs.

It has also been noted that there are some disconnects between the SSAPs and the IMR/AVR guidance included in the Annual Statement Instructions. This is likely due to SSAP accounting revisions, such as with the measurement of preferred stock, not being carried to the specific IMR/AVR guidance in the Annual Statement. This agenda item, and the intent to ensure accounting concepts are in the SSAPs, intends to address those aspects and should help mitigate future disconnects with guidance going forward.

Lastly, it has also been identified that there are limited financial reporting cross-checks to the reporting within the AVR. Although the instructions are specific as to how reporting lines should map to the AVR, instances have been noted in which a company has reported on one specific line for the investment schedule and then did not carry those amounts to the appropriate AVR reporting category. Although these may be inadvertent reporting errors, as the RBC for life companies pulls from the AVR reporting, it is imperative that the reporting per the investment schedules be reflected properly in the AVR. As such, this agenda item also proposes cross-checks to ensure consistent and accurate reporting.

Existing Authoritative Literature:

- ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (included in entirety)**

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies, excluding separate accounts. Separate account AVR/IMR reporting is addressed in *SSAP No. 56—Separate Accounts.*

SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize liabilities for an AVR and an IMR. The AVR is intended to establish a reserve to offset potential credit-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. The IMR defers recognition of the realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the investments sold. The IMR also applies to certain liability gains/losses related to changes in interest rates. These gains and losses shall be amortized into investment income over the expected remaining life of the liability released.

3. The IMR and AVR shall be calculated and reported as determined per guidance in the SSAP for the specific type of investment (e.g., SSAP No. 43R for loan-backed and structured securities), or if not

specifically stated in the respective SSAP, in accordance with the NAIC *Annual Statement Instructions* for Life and Accident and Health Insurance Companies.

Effective Date and Transition

4. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

- ***SSAP No. 56—Separate Accounts*** **(Excerpt for AVR and IMR included)**

Separate Account AVR and IMR Reporting

18. An AVR is generally required for separate accounts when the insurer, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss. An AVR is required unless:

    a. The asset default or fair value risk is borne directly by the policyholders; or

    b. The regulatory authority for such separate accounts already explicitly provides for a reserve for asset default risk, where such reserves are essentially equivalent to the AVR.

19. Assets supporting traditional variable annuities and variable life insurance generally do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, an AVR is required for that portion of the assets representing the insurer's equity interest in the investments of the separate account (e.g., seed money).

20. Assets supporting typical modified guaranteed contracts, market value adjusted contracts, and contracts with book value guarantees similar to contracts generally found in the general account do require an AVR because the insurer is responsible for credit related asset or fair value loss.

21. Certain separate accounts are also required to maintain an Interest Maintenance Reserve (IMR). The IMR requirements for investments held in separate accounts are applied on an account by account basis. If an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

22. An IMR is required for separate accounts with assets recorded at book value, but is not required for separate accounts with assets recorded at fair value. For example, separate accounts for traditional variable annuities or variable life insurance do not require an IMR because assets and liabilities are valued at fair value.

23. If an IMR is required for investments held by separate accounts, it is kept separate from the general account IMR and accounted for in the separate accounts statement.

24. The AVR and IMR shall be calculated and reported in accordance with the NAIC *Annual* Statement Instructions *for Life, Accident and Health Insurance Companies*.

- **A/S Instructions – Life, Accident and Health / Fraternal Companies**

  (Due to the size of the instructions, these have not been duplicated within this agenda item.)

- **A/S Instructions – Separate Account**
  Instructions within the Separate Account section of the Life instructions also exist and are provided below:

    Interest Maintenance Reserve (IMR) requirements for investments reported in the Separate Accounts Statement are applied on an account-by-account basis. If an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

    An IMR is required for separate accounts valued at book but is not required for separate accounts valued at market. For example, separate accounts for traditional variable annuities, or variable life insurance do not require an IMR because assets and liabilities are valued at market.

    If an IMR is required for investments in the Separate Accounts Statement, it is kept separate from the General Account IMR and accounted for in the Separate Accounts Statement.

    The instructions for completion of the IMR for the Separate Accounts Statement are incorporated in the instructions for completion of the IMR of the General Account Statement. Refer to those instructions for guidance.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Agenda item 2022-19: Negative IMR, identified that the accounting guidance for IMR, including the provisions on negative IMR, are currently captured in the Annual Statement Instructions. *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, points to the Annual Statement Instructions for the IMR and AVR calculation.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): NA

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a new SAP concept and expose this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although it is anticipated that this project may take time, particularly with the assessment of admittance / nonadmittance for negative IMR as a long-term concept, it is noted that interim revisions (within specific agenda items) will be proposed to ensure progress towards consistent application and address potential areas where credit losses may be reported as IMR.

Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the A/S instructions when incorporating SSAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions.

Discussion topics expected to include as part of the broad project, include but are not limited to:

- **Absolutes in Allocating between IMR and AVR**
  With the recent focus of IMR admittance, NAIC staff has been contacted with questions to verify the allocation to IMR because a company was successful in selling a bond prior to the official NAIC designation downgrade (regional bank failures) and when a mortgage loan with an established valuation allowance (as the reporting entity does not expect to collect all amounts due according to the terms of the agreement) is sold before it is formally 90-days past due. These instances clearly reflect credit declines, but with the existing IMR instructions, there is guidance that direct these allocations to IMR instead of AVR.

- **Bond IMR / AVR Allocation**
  The current guidance in *SSAP No. 26R—Bonds* allocates all gains or losses to the IMR or the AVR based on whether there has been more than one NAIC designation change. This is different from *SSAP No. 43R—Loan-Backed and Structured Securities* in which all actions that result in realized gains / losses (sales / OTTI) are reviewed and bifurcated and/or divided between IMR and AVR. Furthermore, with the guidance to expand to 20 NAIC designations, the current A/S instructions are not clear as to what constitutes a designation change. Under current interpretation, a security could move through many levels from changes in the designation modifiers, which reflect credit changes, but not be considered to have moved beyond more than 1 designation. The non-bifurcation approach that currently exists for bonds, as well as the potential for many credit-quality changes within a designation level, may result with credit-related losses being captured in IMR. (The IMR/AVR instructions also continue to reference bond mutual funds, but that classification has been eliminated from statutory accounting.)

- **Allocation of Perpetual Preferred Stock**
  The IMR/AVR guidance for perpetual preferred stock has not been reviewed since the adoption of guidance that prescribes fair value for perpetual preferred stock. The guidance is still allocated entirely based on the NAIC designation. For preferred stock, a designation of 4-6, at any time during the holding period for both redeemable and perpetual, results in an allocation to AVR.

- **Delineation of Non-Interest (Credit) / Interest and Realized / Unrealized**
  The IMR/AVR guidance is predicated on a division between interest and non-interest changes, as well as the reporting of unrealized and realized changes. For the long-term project, it is proposed that principle-based concepts be established to assist with the allocation between IMR/AVR based on these fundamental concepts to ensure consistency and verification of allocation across reporting entities.

- **Derivative Guidance**
  There is ambiguity on intended guidance detailed in the A/S instructions and the guidance in *SSAP No. 86—Derivatives* for the allocation of derivatives held at fair value that are deemed to be hedging interest rate risk. (These derivatives do not qualify as effective derivatives under SSAP No. 86.)

- **Reinsurance Ceded / Assumed**
  Although the A/S instructions include guidance for removal of IMR for reinsurance ceded, and the acquisition of IMR for reinsurance assumed, the impact of reinsurance – particularly with the dissolution of reinsurance agreements when IMR had initially been transferred – is a common question on determining IMR and AVR for reporting entities.

- **AVR / IMR Cross Checks**
  The AVR is often used as the direct pull to the RBC instructions for life companies. It has been identified that there are no crosschecks to ensure that items are being mapped to the AVR correctly from other schedules. For example, residuals reported on Schedule BA should map to the residual reporting lines in the AVR. However, it was identified that there were variations between Schedule BA and the AVR for the residual lines. As the AVR reporting is pulled for RBC, it is important for the reporting in the AVR to correctly reflect what is in the schedules to ensure that the appropriate charges are applied. Cross checks are expected to ensure the reporting flows through the schedules as intended.

- **Overall IMR and AVR Reporting in the General and Separate Accounts**
  The reporting of IMR and AVR, including how positive balances in one account impacts negative balances in another account, as well as the treatment of net negative IMR, are expected as a long-term focus. It is anticipated that the complete guidance for both general accounts and separate accounts, once established, will be captured in SSAP No. 7, with a reference from *SSAP No. 56—Separate Accounts* to SSAP No. 7.

Staff Review Completed by: Julie Gann - NAIC Staff, July 2023

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a new SAP concept and exposed this agenda item with the overall concept for a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the annual statement instructions when incorporating SAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions. The agenda item identifies discussion topics to be included in this project.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group established a long-term project to incorporate accounting guidance for AVR and IMR.

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed a hypothetical IMR memorandum which details the discussions and recommended conclusion of the Interest Maintenance Reserve (IMR) ad hoc group to remove hypothetical IMR. This item was exposed at the full Working Group level to request feedback. It is anticipated that if supported, the concepts and conclusions within the memo will be included in the IMR issue paper and revised statutory accounting guidance.

On August 11, 2025, the Statutory Accounting Principles (E) Working Group agreed with the resulting conclusion of the hypothetical memo and directed NAIC staff to remove the concept of hypothetical IMR in the issue paper and proposed edits to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* being developed as part of the IMR project. It was noted that future revisions could be considered as part of the issue paper and SSAP exposures, but the intent from the discussion to remove the concept of hypothetical IMR.

On April 22, 2026, the Statutory Accounting Principles (E) Working Group exposed by evote a revised SSAP No. 7 to capture accounting guidance within the SSAP instead of the annual statement instructions, pursuant to the December 1, 2023, Working Group direction. The draft SSAP reflects conclusion reached by the IMR Ad Hoc Group, which includes various revisions to historical guidance. In addition to the revised SSAP, the exposure included an issue paper that details the discussions and conclusions of the IMR Ad Hoc Group, proposed revisions to other SSAPs related to IMR, and proposed reporting changes. The comment deadline for the exposure is June 22, 2026.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group took the following actions:

1) Adopted an extension to the effective date of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* through December 31, 2027. The INT is nullified on January 1, 2028. The proposed *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* will reflect an effective date of January 1, 2028.

2) Exposed a revised SSAP No. 7, issue paper, proposed revisions to other SSAPs and reporting changes with edits recommended by NAIC staff. With exposure, continued interim work with industry was supported.

3) Requested industry to develop a plan to ensure compliance and accuracy of reporting for subsequent consideration. This industry request included the development of a disclosure or reporting component for inclusion in the statutory financial statements that would allow on-going verification of how admitted net negative IMR has been included in actuarial provisions and reconciliations.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Adoptions/23-14 - IMR AVR.docx

