Statutory Issue Paper No. 173

Interest Maintenance Reserve

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SUMMARY OF ISSUE

1. The guidance within this issue paper details the new statutory accounting concept revisions to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* pursuant to the Statutory Accounting Principles (E) Working Group's (Working Group) project to evaluate and conclude on long-term accounting and reporting provisions, including the potential admittance of net negative interest maintenance (IMR). The revisions and discussions detailed within this issue paper reflects a comprehensive review, referred to as the "Long-Term IMR Project" to assess various components of historical guidance and prior industry practices, which includes reporting realized gains and losses to the AVR or IMR, the impact to the IMR from reinsurance transactions and how the IMR should be reported in the general and separate accounts. Although this issue paper addresses some aspects pertaining to the AVR, the focus of the accounting and reporting provisions within is on the IMR.

SUMMARY CONCLUSION

2. The recognition of realized gains or losses from investment activity shall comply with the provisions of SSAP No. 7. This statement has been revised to include the accounting guidance, with the removal of accounting provisions from the annual statement instructions. Reporting guidance and illustrative examples retained within the annual statement instructions are not intended to conflict with the SSAP No. 7 accounting concepts. Pursuant to the Statutory Hierarchy, the SSAPs are the highest form of authoritative statutory guidance. Any potential conflict or inconsistency between the SSAP and the annual statement instructions shall follow the SSAP No. 7 provisions.

DISCUSSION

3. The discussion of IMR, and assessing admittance for net negative IMR, originally began in August 2023 with agenda item 2023-14: SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. That item was developed as a broad concept agenda item with the goal to incorporate accounting guidance for the IMR into SSAP No. 7, with removal of accounting guidance from the annual statement instructions, with direction to determine a long-term solution on the admittance of net negative IMR. Determining a long-term solution for net negative IMR was directed as part of the action from the August 2023 adoption of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That INT provided limited-time exception guidance to SSAP No. 7 and the annual statement instructions, which allowed limited admittance of net negative (disallowed) IMR as a short-term solution. With the adoption of the interpretation, the IMR Ad Hoc Group was formed, comprised of accounting and actuarial regulators and industry representatives. The ad hoc group met regularly, approximately every other week, to discuss IMR and the historical guidance for allocating realized gains and losses to the IMR, the impact of reinsurance, amortization, and other IMR accounting and reporting provisions.

4. In addition to the work of the ad hoc group, separate agenda items and actions were taken to the Statutory Accounting Principles (E) Working Group to address issues identified in the annual statement instructions related to the IMR:

a. Agenda item 2023-15: IMR/AVR Specific Allocations addressed annual statement instructions that appeared to direct allocation of non-interest related losses to the IMR rather than to the AVR. Revisions detailed in the agenda item were adopted December 1, 2023, and clarified that mortgage loans with realized gains or losses that more predominantly reflect interest related changes shall be taken to IMR, with identification of mortgage loan characteristics that shall result with reporting in the AVR. The revisions incorporated guidance for debt securities to specify that if there is a known credit impact that had not been reflected in the debt security's rating from a credit rating provider (CRP) or in the SVO designation, the resulting loss shall not be included in the IMR.

b. Agenda item 2023-29: IMR/AVR Preferred Stock updated guidance in the annual statement instructions for perpetual preferred stock, including SVO-Identified Preferred Stock ETFs, as the instructions had not been updated to reflect statutory accounting measurement revisions that required use of fair value for these investments. Revisions in the agenda item were adopted March 16, 2024, and removed the guidance that directed preferred stock allocation between IMR and AVR based on NAIC designation. The revisions clarified that gains and losses from perpetual preferred stock, including SVO-Identified Preferred Stock ETFs, and all mandatorily convertible preferred stock, which are held at fair value, shall be reported to the AVR.

c. Agenda item 2024-15: Asset Liability Management Derivatives was developed to consider new statutory accounting guidance that prescribes guidance for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*, that are used for asset-liability management (ALM). On March 24, 2025, the Working Group directed NAIC staff to research and develop potential guidance for these derivatives and remove guidance from the Annual Statement Instructions that has been interpreted to allow gains and losses related to these "non-accounting effective" derivative hedges to be allocated to the IMR.

5. With the ongoing discussions of the IMR Ad Hoc Group, as issues were finalized, certain conclusions were submitted to the Statutory Accounting Principles (E) Working Group for review and broad exposure. Although considered by the full Working Group and interested parties, these items were noted not to be final until the adoption of the revised SSAP No. 7 and would not go in effect until the implementation date of the revised standard. Edits to the concepts presented to the Working Group throughout the discussion process could occur as part of the SSAP No. 7 exposure and review process. The final adopted issue paper and SSAP would reflect the resulting conclusions. Concepts presented to the Working Group throughout the discussion process:

a. Agenda item 2025-03: IMR Definition was prepared and exposed March 24, 2025, to present proposed IMR definitions to the Working Group. An IMR definition, modified from the ACLI proposed definition, was considered and directed as a broad IMR definition during the 2025 Summer National Meeting to be used as the basis for SSAP No. 7 revisions. As detailed within this issue paper, subsequent clarification edits to the definition have been incorporated.

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b. A memorandum recommending the removal of hypothetical IMR was exposed March 24, 2025. This memorandum, and the initiative to remove the concept and recognition of hypothetical IMR, was supported during the 2025 Summer National Meeting.

c. Agenda item 2025-23: IMR Proof of Reinvestment detailing the background and proof of reinvestment calculation was exposed during the 2025 Fall National Meeting. During the 2026 Spring National Meeting, the Working Group supported the proof of reinvestment concept, which provides evidence that proceeds from the sale of fixed-income investments had been reinvested into higher-yielding fixed income investments. Companies that do not complete the proof of reinvestment or that do not pass the reinvestment tests, are limited to the extent they can recognize realized losses to the IMR.

d. Agenda item 2025-25: Separate Account Nonadmittance detailing the intent to incorporate reporting columns to identify nonadmitted assets on the separate account balance sheet was exposed during the 2025 Fall National Meeting. During the 2026 Spring National Meeting, the Working Group supported revisions to *SSAP No. 56—Separate Accounts* and to the separate account blank to incorporate the concept of nonadmitted assets on the separate account balance sheet for book-valued separate accounts, as well as other schedules consistent with the general account admittance limitations.

Discussion of IMR Concepts

Overview and IMR Definition

6. Life and accident and health companies, filing on the *Life, Accident and Health/Fraternal Annual Statement Blank*, shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and non-insulated separate accounts in accordance with key principles included in the revised SSAP No. 7[1].

7. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories, excluding cash, policy loans, premiums notes and income receivables.

8. Pursuant to the broad IMR definition supported by the Statutory Accounting Principles (E) Working Group in agenda item 2025-03, the IMR is a valuation adjustment to maintain consistency between the Valuation Manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls)[2].

9. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and

[1] Pursuant to *SSAP No. 56—Separate Accounts*, if AVR is required for investments held at book value or fair value in a separate account, it is combined with the general account AVR and accounted for in the general account statements. Guidance in SSAP No. 56 shall be followed for recognizing IMR for book value separate accounts

[2] Subsequent to the IMR definition discussion in agenda item 2025-03, clarification edits were incorporated. These edits clarify the valuation basis of the liabilities and assets, included direct reference to the discount rate of cash flows and portfolio yield, and specify that the definition focuses on interest rate related gains/losses with the intent to only defer non-economic gains and losses and not economic gains and losses.

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SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the Valuation Manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost basis of assets needed to support them (where the portfolio yield us updated any time there are fixed income realizations.) Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset).

10. The recognition of IMR stems from a reporting entity selling a fixed-income investment prior to the investment's scheduled maturity and incurring an interest-related gain or loss as the fair value proceeds received were above or below the reported book/adjusted carrying value (BACV) at the time of sale. Reporting IMR as an asset or liability is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5.

11. Although there are various debates on the historical, full concept of IMR, it is generally agreed that a key intent was to prevent insurance companies from recognizing a surplus benefit from the sale of investments in a gain position, caused by a decrease in interest rates (increase in fair value), when the funds received from the sale had to be reinvested at lower interest rates as sufficient assets would still be needed to satisfy future policyholder obligations. By recognizing such realized gains as an IMR liability, and amortizing that gain into surplus overtime, the reporting entities' surplus would not immediately benefit from actions to churn liabilities for gain potential from a decline in interest rates, where the insurance entity would ultimately result with lower-yielding assets. The regulatory priority for gains when IMR was originally established was due to the consistent decreasing interest rate environment at that time, as sales resulting in gains and the overstatement of surplus could mask solvency issues. Although there were much discussion and support submitted from 1992-2002 to various groups on the relevance of a negative IMR and symmetrical treatment, the resulting conclusions of the historical AVR/IMR Working Group noting concern that a negative IMR did not meet the definition of an asset, and nonadmittance of net negative IMR were reflected as the original statutory accounting conclusion. Subsequent consideration was suggested, but the project did not manifest before 2023 as a priority project of the Statutory Accounting Principles (E) Working Group.

12. With the ongoing discussions around the definition and purpose of IMR, ACLI comments were received that negative IMR (realized losses) should be supported as a recognized, admitted asset so, like positive IMR, surplus would not be misstated, as the IMR facilitates better alignment of the timing of interest rate related gain or loss realizations on certain fixed income investments with the interest rate assumptions embedded in policyholder liabilities that the assets support. These comments noted that inconsistent asset and liability valuations could provide false indicators of financial strength or weakness. Although these ACLI comments supported full admitted asset recognition of negative IMR, the proposed ACLI IMR definition was modified to not include statements implying support for the full admittance of negative IMR. As previously identified, neither negative IMR nor positive IMR reflects actual assets or liabilities and including these items in the financial statements as assets and liabilities may present an inaccurate presentation of the assets available to pay claims, as well as the actual obligations of the insurance reporting entity. The definition modifications reflected in agenda item 2025-03 removed the implied conclusion of net negative IMR admittance but allowed for further assessment to occur on the treatment. Although it was noted that the Working Group could decide to retain the current statutory recognition of IMR, discussion on the extent (if any) to which negative IMR is permitted as an admitted asset was identified as a key aspect that warranted specific focus, as realized losses recognized as assets are clearly not available to pay policyholder claims. As such, the proposed ACLI IMR definition was

supported without the inclusion of broad statements that implies negative IMR (realized losses) should always be permitted to reflect an admitted asset in the statutory financial statements and that the admittance of negative IMR always provides an appropriate reflection of statutory surplus.

13. In addition, the ACLI proposed IMR definition discussed in agenda item 2025-03 was also modified to specifically eliminate reference to derivative hedging transactions as a source for IMR gains and losses. Under *SSAP No. 86—Derivatives*, gains and losses from highly effective accounting hedges are permitted to be recognized to the IMR if they are offsetting gains and losses recognized in IMR from the hedged item. With the discussion of IMR, it was identified that some reporting entities had interpreted an IMR annual statement instruction "hedging" reference to permit all derivatives used for hedging, regardless of if they qualified as accounting-effective under SSAP No. 86, to be taken to the IMR. This treatment was inconsistent with the intent of the guidance in SSAP No. 86. The Working Group permitted a continuation of this practice under INT 23-01, but only if the entity had a historical practice that included the deferral of realized gains through IMR for these non-accounting effective derivative hedges. With subsequent discussion, the Working Group directed a project to explicitly prohibit these non-accounting effective derivative gains and losses from being allocated to the IMR with consideration of new statutory accounting guidance for asset-liability management (ALM) derivatives. The determination of whether gains and losses for qualifying ALM derivative hedges are permitted to be deferred, with deferred losses shown as admitted assets, will be subject to separate discussion by the Working Group. If deferral and admitted asset provisions for these gains and losses, are supported, they will not flow through the IMR.

14. For historical purposes, the adopted definition, with tracked changes to show modifications from the ACLI proposal, can be obtained from the *NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-O*.

Allocation to IMR and AVR

15. This issue paper includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be recognized as either a change in net unrealized foreign exchange gains or losses or as realized foreign exchange capital gains or losses immediately (excluded from both IMR and AVR), with the remaining portion subject to the AVR/IMR requirements of the revised statement.

Allocation to AVR

16. The accounting and reporting guidance for the AVR is primarily contained within the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve and other relevant guidance. The AVR guidance contained in the revised statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the IMR. Unrealized gains and losses as referred to in this issue paper are those which are recorded in the financial statements in accordance with the applicable SSAPs.

17. All realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist.

18. With the widespread clarification, the following fixed-income instruments shall have realized gains and losses allocated to the AVR and not the IMR:

a. SVO Identified Bond ETFs in scope of *SSAP No. 26—Bonds* held at fair value.

b. Bonds in scope of SSAP No. 26 and *SSAP No. 43—Asset-Backed Securities* held at fair value, when fair value is less than amortized cost.

c. Mandatory convertible bonds in scope of SSAP No. 26 held at fair value, when fair value is less than amortized cost.

d. Non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets* held at fair value, when fair value is less than amortized cost.

e. Redeemable Preferred Stocks in scope of *SSAP No. 32—Preferred Stocks* held at fair value, when fair value is less than amortized cost.

f. Capital Notes and Surplus Notes in scope of *SSAP No. 41—Surplus Notes* with NAIC designations 3-6 (or without designations) held at fair value, when fair value is less than amortized cost.

19. The decision to allocate realized gains and losses from securities held at fair value to AVR, instead of retaining the prior historical threshold for investments with an NAIC 6 designation, was discussed and supported by the IMR Ad Hoc Group. This change allows consistency in reporting for all instances in which an investment is held at fair value, where fair value changes are unrealized prior to sale and then realized when the fixed-income instrument is sold. This prevents potential situations in which a recognized surplus impact (unrealized change) is reversed at the time of an investment sale, and then potentially deferred over time through the IMR. With the discussion, it was noted that the population of securities impacted by this wide-spread clarification is not significant, as bonds in scope of SSAP No. 26 and redeemable preferred stocks in scope of SSAP No. 32 with NAIC 6 designations had historically been excluded from the IMR. With the change, it is possible, but not expected to be common, for gains and losses from the sale of fixed-income investments with NAIC 6 designations to be allocated to the IMR. This would only occur if the investment was still held at amortized (as amortized cost is less than fair value), and the security had not incurred the number of designation declines to require AVR allocation. For these investments, the decision to utilize the fair value measurement method for AVR allocation instead of the NAIC designation 6 will be incorporated upon the effective date of the issued SSAP.

20. Unless a realized loss is attributed to the AVR, interest-related losses from qualifying fixed-income instruments not permitted to be allocated to the IMR shall not be allocated to AVR. These items shall be retained as immediate capital losses. For example, interest-related losses from investments in scope of *SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments* and investments in scope of *SSAP No. 105—Working Capital Finance Investments* shall not be allocated to the IMR. For these investments, and other items excluded from the IMR, the interest related loss shall not be taken to the AVR, but shall be retained as an immediate capital loss.

21. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 33 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following:

a. For those with NAIC designations[3](excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation categories and does not have an ending NAIC 1 designation.

[3] Mandatory convertible bonds in scope of SSAP No. 26 are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion and reported at amortized cost, the realized gain or

b. There was an acute credit event (a known event that significantly impacts the price of the security), that was not reflected in the credit rating provider (CRP) rating detail and/or within the SVO AVS+ (NAIC designation detail) at the time of the sale.

c. An other-than-temporary impairment is recognized because the insurer does not expect to collect all contractual amounts due from the issuer, regardless of the extent of NAIC designation changes. This provision is specific to credit-related impairments and is not intended to encompass situations in which an OTTI is recognized simply because a decision was made to sell the security at fair value, and that amount is below the book/adjusted carrying value (BACV) due to interest-related changes.

d. For mortgage loans:

i. Mortgage loan had an established valuation allowance under *SSAP No. 37—Mortgage Loans*,

ii. Interest was more than 90-days past due,

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

v. The terms of the loan have been restructured during the last two years.

Allocation to Interest Maintenance Reserve

22. Realized gains and losses from the list of qualifying fixed-income investments, identified in paragraph 33, shall be allocated to the IMR, subject to the other provisions and requirements of the revised standard. Investments not included on that list are not permitted to have realized gains or losses to be allocated to the IMR.

23. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during period in which the entity has incurred known liquidity sales.

24. Realized losses on sales of qualifying fixed income investment that have not experienced credit deterioration under paragraph 33, shall be allocated to the IMR, unless it represents a known liquidity sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4].

25. Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses on sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. Situations in which reinvestment may be known to not occur include, but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or

loss shall be fully allocated to the IMR. If reported at fair value at the time of sale, the realized gain or loss shall be fully allocated to the AVR.

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 33.g., shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

other needs that lead to a decision to sell investments. Additionally, reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures.

Net Negative IMR Recognition Restrictions

26. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or net positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general account and each filed separate account blank) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year.

a. Reporting entities with an ending net positive IMR position, after inclusion of expected amortization from the prior year IMR balance and current year realized gains and losses, are not required to complete the proof of reinvestment.

b. Reporting entities with an ending net negative IMR position that is a lesser net negative IMR position from the prior year (closer to zero), after inclusion of expected amortization from the prior year IMR balance, and current year realized gains and losses are not required to complete the proof of reinvestment.

27. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed-income investments is greater than the yield of fixed income investments sold.

28. Reporting entities (other than those described in paragraphs 26.a. and 26.b.) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realizes losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted because the net negative losses are not from the sale of a fixed-income investment; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculation.

a. Reporting entities are permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains.

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b. Reporting entities are permitted to recognize current year net negative IMR losses recognized from an assumed reinsurance arrangement beyond what is permitted as an offset to realized capital gains.

Illustrations on whether a proof of reinvestment is required in included in Appendix A.

29. The assessment of whether a company is in an ending net negative or net positive position and whether the proof of reinvestment is required shall be determined on an individual account basis (general account and each individual separate account). A reporting entity with an ending net negative IMR in the general account, when current year losses exceed gains, is required to complete the proof of reinvestment for the general account activity, regardless of whether a separate account is in a net positive IMR position. When a separate account has a net negative ending position and current year losses exceed gains, a proof of reinvestment is required for the book-valued assets within that separate account. If there is more than one separate account blank filed, then the proof of reinvestment is required to be assessed and completed separately for each separate account blank that has book-valued assets. Separate accounts that only hold assets at fair value shall not record IMR and are not required to complete the proof of reinvestment calculation.

30. The proof of reinvestment, and the removal of losses from IMR is a calendar-year calculation and assessment. It is not permissible to utilize prior or subsequent calendar year gains to support the reinstatement of realized losses in the IMR or to pass the proof of reinvestment calculation.

31. The calculated net IMR balance used to determine whether a proof of reinvestment is required will not reflect the year-end reported IMR balance, regardless of whether the proof is passed or failed, and if adjustment is needed to remove IMR losses. This is because the calculation to determine whether the proof is required only reflects the expected current-year amortization to adjust the beginning IMR balance. The year-end IMR reported in the financial statements shall reflect the IMR balance after actual current-year IMR amortization and any permitted current year deferrals.

32. To address questions on whether reporting entities could forgo allocating to the IMR throughout the year if they knew they were not going to complete (or pass) the proof of reinvestment, this is not permissible. All reporting entities are required to allocate interest-related gains and losses from qualifying investments pursuant to the adopted standard to the IMR throughout the year. Although the reporting entity could choose not to complete the proof of reinvestment at year-end, which would result in a failure of the reinvestment tests, the result of the failure is that if the reporting entity is in a net negative position, they would remove the realized losses that exceed realized gains. This would result with the company retaining a net zero or net positive IMR position. To ensure realized gains are properly allocated to IMR, and that realized losses are taken to IMR to offset those gains, reporting entities are required to allocate qualifying interest-related gains and losses throughout the year.

Fixed-Income Investments Subject to IMR:

33. When the provisions permit, allocation to IMR shall only include interest-related realized impacts from the sale of qualifying fixed-income investments. The following list details the fixed-income instruments for which qualifying interest-related realized gains and losses can be allocated to the IMR. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. In all instances, whether the realized gains and losses from the sale of these investments are permitted to the IMR are subject to the other provisions and requirements of the adopted guidance.

a. Debt Securities that do not Qualify as Bonds as defined in *SSAP No. 21—Other Admitted Assets*

b. Investments in scope of *SSAP No. 26—Bonds*

c. Investments in scope of *SSAP No. 43—Asset-Backed Securities*

d. Redeemable preferred stock in scope of *SSAP No. 32—Preferred Stock*

e. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans*

f. Investments in scope of *SSAP No. 41—Surplus Notes*

g. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

h. Terminated income generating derivatives in scope of SSAP No. 86 resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

i. Replication (synthetic asset) transactions in scope of SSAP No. 86 where the derivative is reported at amortized cost.

34. Realized capital gains and losses that result from the sale of investments in scope of *SSAP No. 2—Cash, Cash Equivalents, Bonds and Short-Term Investments* shall not be allocated to the IMR. The exclusions for these investments exist because if such items were allocated to IMR, the limited timeframe to maturity would be used as the amortization period, which would essentially have all amounts allocated to the IMR fully amortized within the next calendar year.

35. Historically, investments in scope of *SSAP No. 105—Working Capital Finance Investments* were identified to go to the IMR. However, revisions have been proposed as part of this IMR project to clarify that realized gains and losses from the sale of these investments shall be retained as immediate capital gains and losses. This change is supported because these investments are also short-term. Although they are specified for Schedule BA reporting, the "right to payment" that the insurer holds under SSAP No. 105 is a short-term obligation. If these were to be sold, and allocated to IMR, the amortization timeframe based on the remaining life of the investment would be less than one year. The removal of working capital finance investments from IMR allocation results in treatment consistent with other short-term investments.

36. For derivative instruments, the list of fixed-income instruments for which interest-related gains and losses are permitted to the IMR has been clarified. The permissible structures are limited to highly effective hedging derivatives that qualify for hedge accounting treatment (e.g. amortized cost accounting), terminated income-generating (written) derivative structures that are covered by an asset accounted for at amortized cost, and replication (synthetic asset) transactions where the derivative is reported at amortized cost. This guidance also clarifies that realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used for the cash component. The clarifications make it clear that any RSAT for which the derivative is held at fair value is not permitted to have realized gains and losses taken to IMR. Further discussion on derivative transactions begins at paragraph 53.

Determining Interest/Non-Interest -Related Realized Losses – Excluding ABS & Non-Bond Debt Securities

37. The distinction between IMR and AVR focuses on interest-related and non-interest-related (credit) changes, respectively. For simplicity, historical provisions have stipulated guidelines to use in determining whether the realized gain or loss shall be reported fully as interest or non-interest for issuer credit obligations (ICOs) in scope of *SSAP No. 26—Bonds* and redeemable preferred stocks in scope of *SSAP No. 32—Preferred Stocks*. These provisions have allowed companies to automate allocations within investment software programs. Items captured in *SSAP No. 43—Asset-Backed Securities* and non-bond securities in scope of *SSAP No. 21—Other Admitted Assets* have been required to be individually assessed by the reporting entity with bifurcated allocation of the interest and non-interest components of the realized gain or loss to the IMR and AVR.

38. For issuer credit obligations and redeemable preferred stock, the historical provisions have utilized a "more than one NAIC designation change" assessment in determining whether the realized gain or loss was interest or non-interest related. This has been measured from the designation at the beginning of the holding period to the designation at the end of the holding period, and if there was a change of "one or less" in the NAIC designation, the realized gain or loss was deemed to be fully interest related and taken to IMR. A "more than one" designation change would indicate a non-interest-related impact, and the realized gain or loss was fully taken to AVR. For illustration purposes, under the historical rules, a change in NAIC designation from 1 to 2 would have allowed IMR treatment, whereas a change from NAIC 1 to 3 would have required AVR treatment.

39. The historical designation change assessment was established when there were 6 bond designations and had not been reassessed since the expansion to the 20 designation categories. Even with the expanded designation categories, the ongoing interpretation of the historical guidance allowed IMR treatment as long as the numerical designation had not changed by more than one. With this interpretation, an investment could have experienced as many as nine designation declines (e.g., 1.A to 2.C) and still be interpreted to qualify for IMR treatment. As each designation decline reflects a credit (non-interest related) impact, the extent of declines permitted while still allowing IMR allocation of realized gains or losses was identified as needing to be reassessed as part of the IMR project in accordance with the expanded 20 designation categories.

40. Information provided by industry supported that a simple "more than one" designation change under the expanded designation categories (e.g., 1.A to 1.C) could result with interest-related impacts being incorrectly classified to AVR. To balance the impact, a compromise position was proposed, supporting a broad "three or less" designation change approach under the expanded designation categories.

41. The "three or less" designation category change concept was proposed as it reflects the number of designation declines that would be permitted to move from an NAIC 1.G to be within the NAIC 2 categories. A fourth designation change would move an NAIC 1.G designated investment to an NAIC 3.A, and that would reflect a "more than one" numerical designation change consistent with historical concepts. There are three designation categories within the broad NAIC 2, 3, 4 and 5 categories (e.g., A-C), therefore the number of credit declines permitted while staying within these numerical categories, before moving to the next numerical designation is consistent. With this approach, designation declines of "four or more" would require allocation of the entire realized loss to the AVR.

42. With the discussion of designation changes, an exception was incorporated for investments that end with an NAIC 1 designation as it was noted that this grouping reflects the highest quality, where investment risk is the lowest and the issuer's credit profile is stable. From a review of credit and interest

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spreads from 2018-2023, it was noted that investments within this NAIC 1 category, even with designation declines within the category, predominantly reflected interest related changes, and not credit impacts.

43. With the discussion, it was also noted that designation changes should not impact the allocation of realized gains. All realized gains, regardless of any designation change (upward or downward) shall be taken to the IMR. It was noted that there could be situations in which a realized gain was recognized after an investment incurred a realized loss from an other-than-temporary impairment (OTTI) that was taken to AVR, and a subsequent realized gain from the same security upon sale should theoretically offset the prior realized loss in the AVR. Although this would be the ideal approach in concept, it was also noted to hinder the automation in the allocation of IMR and AVR. As such, even if the security had a prior OTTI that was taken to AVR, any realized gain at the time of sale shall be taken to the IMR.

44. The broad concepts for allocating realized gains and losses on ICOs and redeemable preferred stocks to IMR and AVR are as follows:

a. All realized gains shall be allocated to the IMR regardless of beginning (when acquired) and ending (when disposed) NAIC designation category.

b. For investments with realized losses:

i. All realized losses from investments that end with an NAIC designation 1, regardless of beginning and ending designation shall be allocated to the IMR.

ii. If the investment had 3 or less designation category[5] declines and does not have an ending NAIC 1 designation, then the entire realized loss shall be allocated to the IMR. If the investment had a designation category improvement, it shall be considered to have 3 or less designation category declines, with the realized loss taken to IMR.

iii. If the investment had more than 3 designation category declines and does not have an ending NAIC 1 designation, then the entire realized loss shall be allocated to the AVR.

45. With this discussion, it was also noted that revisions will be incorporated to clarify that when an other-than-temporary impairment (OTTI) is recognized because the reporting entity does not expect to collect amounts due, that the realized loss from that the OTTI shall be allocated to AVR regardless of the extent of any designation category changes. The discussion at the IMR Ad Hoc Group noted that the revisions are consistent with broad industry practice, although the existing statutory guidance is not explicit on the requirement for AVR. This clarification impacts credit-related impairments recognized from the following individual-security scenarios:

a. Issuer credit obligations and redeemable preferred stock for OTTI's that are recognized based on the guidance in SSAP No. 26 and SSAP No. 32 because it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms in effect at the date of acquisition.

[5] The designation change guidance is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less designation declines at the time of sale.

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b. Asset-backed securities and non-bond debt securities for OTTI's that are recognized when an entity does not expect to recover the amortized cost basis, even if the entity does not intend to sell and the entity has the intent and ability to hold.

46. Further, the clarification of allocating credit-related OTTI losses to the AVR was noted to be consistent with revisions adopted in 2023 (agenda item 2023-15), for issuer credit obligations and redeemable preferred stocks. That adopted revision specified that regardless of the ending NAIC designation or change from the beginning designation, a reporting entity shall allocate a realized loss fully to the AVR if there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not reflected in the credit rating provider (CRP) feeds and/or the SVO feed (AVS+) at the time of the sale, and the resulting loss from the sale was predominantly credit related.

47. The following chart illustrates application of the change in designation category guidance:

Beginning NAIC Designation Category	Lowest Ending NAIC Designation Category for IMR Treatment	First NAIC Ending Designation Category that Requires Realized Loss AVR Allocation
1.A	1.G	Investments that end with NAIC 1 go to IMR.
1.B	1.G	
1.C	1.G	
1.D	1.G	2.A
1.E	2.A	2.B
1.F	2.B	2.C
1.G	2.C	3.A
2.A	3.A	3.B
2.B	3.B	3.C
2.C	3.C	4.A
3.A	4.A	4.B
3.B	4.B	4.C
3.C	4.C	5.A
4.A	5.A	5.B
4.B	5.B	5.C
4.C	5.C	6
5.A	5.C	6
5.B	5.C	6
5.C	5.C	6
6	All items held at fair value shall go to AVR.	

48. The allocation to IMR and AVR for realized gains or losses from the sale of mortgage loans shall also follow an all-allocation approach based on the whether the gains or losses predominantly reflect interest or non-interest related changes. By default, realized gains or losses attributed to mortgage loans with any of the characteristics detailed in the following subparagraphs shall not be considered interest related and shall not be allocated to the IMR. Realized gains and losses from the sale of mortgage loans with any of the following characteristics shall be fully allocated to the AVR:

a. Mortgage loan had an established valuation allowance under SSAP No. 37,

b. Interest is more than 90-days past due,

c. Loan is in process of foreclosure,

d. Loan is in course of voluntary conveyance, or

e. The terms of the loan have been restructured during the last two years.

49. Historically, guidance for specific investments has been captured in the annual statement instructions. In most instances, application of the designation change guidance shall address the allocation to IMR and AVR without retaining the specific investment guidance. The following details the application to items previously included in the annual statement instructions under the revised guidance:

a. SVO-Identified Bond ETFs reported in scope of SSAP No. 26 and held at systematic value shall follow the same NAIC designation change guidelines as issuer credit obligations in determining IMR and AVR treatment for realized gains and losses. If the ETF is removed from the SVO-Identified Bond ETF listing, it shall be reported in scope of *SSAP No. 30—Unaffiliated Common Stock*, with realized gains and losses reported to AVR, consistent with other equity investments. Unrealized and realized gains and losses from SVO-Identified Bond ETFs held at fair value shall be allocated to the AVR.

b. Issuer credit obligations that are terminated early from a call or tender offer shall follow the guidance in SSAP No. 26 for determining the amount allocated to investment income and realized gains or losses. For amounts reported as realized gains or losses, the entity shall follow the NAIC designation change guidance for determining IMR and AVR treatment.

c. Realized gains and losses from the sale of surplus notes and capital notes in scope of *SSAP No. 41—Surplus Notes* shall be fully allocated to the IMR if they have an NAIC designation of NAIC 1 and 2 at the time of the sale. (Under SSAP No. 41, investments with these designations are reported at amortized cost.) For surplus notes and capital notes with NAIC 3-6 designations or that are not rated, reporting is required at the lower of amortized cost or fair value. Items held at amortized cost shall follow the designation change guidance applied to issuer credit obligations for determining allocation to IMR or AVR. Unrealized and realized gains and losses from surplus notes and capital notes held at fair value shall be allocated to the AVR.

d. For ICOs and redeemable preferred stock, realized losses from the recognition of an OTTI because it is probable that the reporting entity will be unable to collect all amounts due accordingly to the contractual terms of the debt security shall be allocated to the AVR. For other OTTI situations, such as deciding to sell an investment prior to its maturity date at an amount below carrying value, shall be allocated to IMR or AVR in accordance with the NAIC designation change provisions. Although believed to be consistent with past application, this clarifies that credit (non-interest) related impairments shall be allocated to the AVR regardless of the change in NAIC designation. As OTTI assessments are completed on an individual investment basis, allocating realized losses for these OTTI situations to AVR shall be part of the OTTI recognition process.

e. Pursuant to SSAP No. 26, mandatory convertible bonds are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion, the allocation of realized gains and losses to IMR or AVR shall be determined based on whether the investment was held at amortized cost or fair value at the time of the sale. If held at amortized cost, the realized gain or loss shall

be fully allocated to the IMR, if held at fair value, the realized gains or loss shall be fully allocated to the AVR.

f. Proceeds from the sale of convertible bonds and redeemable preferred stock (excluding mandatory convertible) shall follow the NAIC designation change provisions with allocating the full realized gain or loss to IMR or AVR. If sold after conversion, these investments shall follow the IMR and AVR allocation provisions of the security held at the time of the sale. This provision is different from the historical guidance where assessment was based on whether the convertible was in/out of the money. Revising to conform to the NAIC designation change process results with concepts consistent with other investments and more efficient to apply.

Determining Interest/Non-Interest-Related Realized Losses – ABS & Non-Bond Debt Securities

50. Investments in scope of *SSAP No. 43—Asset-Backed Securities* and securities that fail the principles-based bond definition and represent non-bond debt securities in scope of *SSAP No. 21—Other Admitted Assets* not held at fair value have been required to allocate realized gains and losses between IMR and AVR in accordance with the reporting entity's individual security assessment to bifurcate interest and non-interest factors. (For items in scope of SSAP No. 43, this bifurcated assessment began in 2010.) For these securities, the guidance did not permit utilization of the NAIC designation change approach in determining allocation to IMR or AVR. The bifurcated allocation of interest and non-interest factors to IMR and AVR was to occur regardless of whether the realized gain or loss was caused from a sale or from an other-than temporary impairment.

51. With the IMR Ad Hoc Group discussions, the individual security assessment for ABS and non-bond debt securities was reassessed. This discussion noted the impracticability of individual security assessments for all sales and recognized that materiality thresholds and/or other practical expedients have been incorporated into insurance reporting entity processes. This discussion highlighted that the use of the NAIC designation category change approach, consistent with bond investments captured in SSAP No. 26 and redeemable preferred stock in SSAP No. 32, would allow for similar conclusions across companies and allow for investment system automation. This change was supported by the IMR Ad Hoc Group and proposed to be captured as part of the revisions incorporated under the IMR project. Consistent with other investments and prior discussion in this issue paper, if the ABS or non-bond debt security was held at fair value at the time of the sale, the entire realized loss shall be allocated to the AVR.

52. With this change, the existing SSAP No. 43 guidance for bifurcating IMR and AVR will be deleted and replaced with consistent language to refer to the SSAP No. 7 for the allocation of gains and losses to the IMR. SSAP revisions incorporated with the adoption of this issue paper are detailed in Appendix D.

Determining Interest/Non-Interest-Related Realized Losses – Derivatives

53. Historically, the guidance in *SSAP No. 86—Derivatives* has permitted allocation of gains and losses to IMR for derivatives that qualify for "hedge accounting" as a highly-effective hedge if the realized gain or loss for the hedged item was taken to IMR. With this treatment, a realized gain recognized on the hedged item, offset by the realized loss of a highly effective hedging derivative (or vice versa), would virtually be offset in the IMR. There is no proposed change to this guidance.

54. With the original discussion of net negative IMR in 2023, it was identified that some reporting entities were allocating realized gains and losses to IMR from derivatives that did not qualify for "hedge accounting" as defined under SSAP No. 86. These companies noted that the annual statement IMR instructions referred to "hedging" transactions, and some companies took the position that their

derivatives were hedging transactions although they did not qualify as highly effective hedges that could follow the "hedge accounting" measurement method prescribed in SSAP No. 86. As these derivative transactions did not qualify for "hedge accounting" they were reported at fair value, with changes in fair value recognized as unrealized changes to surplus. These unrealized changes were allocated to the AVR. However, under the company's interpretation of the annual statement instruction "hedging" reference, upon termination of the derivative, the reporting entities reversed the surplus and AVR impacts and recognized the realized gain or loss to IMR where it would be deferred and amortized over time. With the adoption of *INT 23-01: Net Negative (Disallowed) IMR*, an interim provision was permitted to allow companies that had taken this interpretation to continue that process and admit net negative IMR generated from these derivatives as permitted in the INT, as long as the company had historical documentation of also taking realized gains from these derivative transactions to IMR and not just realized losses. Subsequently, in March 2025, the Statutory Accounting Principles (E) Working Group agreed that realized gains and losses from non-accounting effective hedging derivatives shall not be reversed from AVR and allocated to the IMR and directed a separate project for asset-liability management derivatives (ALM). As such, with the implementation of the revised SSAP No. 7, regardless of the status of the ALM derivative project, only realized gains and losses from specifically permitted derivative transactions noted in the adopted guidance shall be allocated to IMR.

55. For derivatives which qualify as highly effective hedges under SSAP No. 86, reported under the hedge accounting measurement method (e.g., amortized cost), upon termination of the derivative, if the realized gain or loss from the hedged item was taken to IMR, the realized gain or loss on the highly effective hedging derivative shall also be subject to the IMR upon termination. Under SSAP No. 86, this IMR treatment was an election that was supposed to be consistently followed. The proposed revisions to SSAP No. 86 to clarify derivatives eligible for IMR allocation eliminates the optionality and requires IMR allocation in all instances in which the gain or loss from the hedged item is allocated to IMR.

56. For income generation transactions under SSAP No. 86 (which are derivatives written or sold by the reporting entity to generate additional income or equity), only a realized gain or loss incurred at termination or closed without exercise of the derivative can be considered for IMR allocation. To allocate to IMR, the realized gain or loss must be interest related and the covering asset or underlying interest shall be subject to IMR. If the covering asset or underlying interest is subject to the IMR, but the realized gain or loss is not interest rate related, then the realized gain or loss shall be allocated to the AVR. If the covering asset or underlying interest is not subject to IMR, then the realized gain or loss shall be recognized as an immediate capital gain or loss.

57. Pursuant to SSAP No. 86, when a written derivative option is exercised, the remaining premium shall adjust the proceeds (cost) associated with the exercise resulting in no explicit gain or loss reported for the derivative.

58. For income generation transactions with realized gains or losses that go to IMR, the amortization timeframe shall follow the remaining useful life of the covering asset, underlying interest or derivative contract maturity as follows:

a. For written fixed income covered options, realized gains and losses taken to IMR shall be amortized over the remaining life of the covered asset or underlying interest. This is a slight change from the existing guidance in SSAP No. 86 that stipulates that the callable bond rules should be used to determine the remaining life.

b. For written covered put options, realized gains and losses taken to IMR shall be amortized over the remaining life of the underlying interest.

c. For written fixed income caps and floors, realized gains and losses taken to IMR shall be amortized over the expected derivative contract's maturity.

59. For replication (synthetic asset) transactions (RSATs), under existing guidance in *SSAP No. 86—Derivatives*, there is no prescribed IMR treatment. Historically, the guidance in the annual statement instructions has been utilized to determine IMR or AVR treatment for these transactions. It is proposed that revisions be captured to both SSAP No. 86 and in the IMR guidance to provide clear guidance on how IMR or AVR is impacted with realized gains and losses from RSAT transactions.

60. SSAP No. 86 provides guidance for determining the measurement method for RSATs. This determination is based on whether the RSAT asset and cash instrument used are held at amortized cost or fair value. Only RSAT transactions where both the RSAT asset and cash instrument would be held at amortized cost is the derivative permitted to be held at amortized cost. In all other situations, the derivative is required to be held at fair value. This IMR project incorporates revisions to SSAP No. 86 to clarify that only realized gains and losses from terminated RSATs where the derivative is held at amortized cost could be allocated to the IMR. Consistent with prior discussions, unrealized gains and losses for items held at fair value have a surplus impact and go to the AVR. Upon realization, these items shall continue in the AVR and shall not be reversed and deferred over time in the IMR.

61. For qualifying RSAT derivatives held at amortized cost, upon termination, the realized gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO. The RSAT designation is updated annually as all RSATs are required to be submitted to the SVO for review, and the SVO provides SVO-Assigned NAIC Designations for RSAT transactions.

62. For RSATs, the amortization timeframe for realized gains and losses allocated to IMR shall be based on the remaining life of the referenced asset.

63. For RSATs, it is important to highlight that there are no sales proceeds that are reinvested to support the deferral and amortization of IMR. However, the recognition of IMR from the RSAT transaction is consistent with would have occurred if the entity had initially acquired a bond (rather than the forward agreement) and had sold the bond for a realized loss (receiving proceeds) prior to its maturity date. The RSAT transaction intends to replicate the holdings and actions that would have occurred if the acquisition occurred. An example RSAT transaction and realized gain or loss recognition is detailed as follows:

a. Reporting entity enters a 5-year forward replication to purchase a 20-year treasury bond at a fixed price of 107. The cash instrument for the RSAT is a 5-year treasury.

b. As the replication asset (20-year treasury bond) would be reported at amortized cost, and the cash instrument is reported at amortized cost, the derivative qualifies for amortized cost accounting under SSAP No. 86. As such, at inception (trade date), the RSAT transaction is reported at $0 as there is no upfront cost. This reporting and measurement method continues as long as the RSAT is held unless the cash instrument would be disqualified for amortized cost treatment. (This would be highly unlikely when treasury bonds are used as the cash instrument, but any asset can be used for the cash instrument under SSAP No. 86, and other assets may not qualify for amortized cost.)

c. In year 5 with termination, the realized gain or loss would be determined based on the bond price at that time. If the bond price increased to 109, the reporting entity would

recognize a realized gain of $400,000, as they would be able to acquire the bond at the forward price of 107.

d. Although a reporting entity could acquire the bond, it is perceived that in most RSAT transactions, the bond is not acquired and the cash to settle the RSAT transaction is simply received. This illustration would be shown as follows:

Cash		400,000	
	Realized Gain		400,000
Realized Gain		400,000	
	IMR		400,000

e. With the referenced asset reflecting a 20-year treasury bond, the realized gain taken to IMR would be amortized over 20-years.

f. The same concepts and amortization timeframe would be applicable if after 5 years at termination, the bond price decreased to 105 and the entity recognized a realized loss, as they would have been able to acquire the bond for less than the forward price of 107:

Realized Loss		400,000	
	Cash		400,000
IMR		400,000	
	Realized Loss		400,000

64. SSAP revisions incorporated to SSAP No. 86 to clarify the accounting and reporting of IMR with the adoption of this issue paper are detailed in Appendix D.

General Account and Separate Account IMR Allocation:

65. Under historical concepts, IMR was calculated and retained separately between the general account and separate account. However, the balances in each account were compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability on the liability page instead of an asset if the separate account IMR was in an offsetting positive balance (or vice versa). This guidance has been noted to be confusing with some using the term "disallowed" to mean "nonadmitted." Further, this guidance has been identified as flawed, as it would not be possible for an insulated separate account IMR balance to be allocated to the general account. The insulated classification requires isolation of the separate account assets from being used for general account purposes.

66. In accordance with the IMR Ad Hoc Group discussions, revisions have been incorporated to require all IMR assessments to be separately contained with each general and filed separate account blank, and the reporting shall be based on the position of the IMR in each account. With these revisions, the concept of reporting IMR as a contra-liability has been eliminated along with the term "disallowed" IMR.

67. The guidance requires that IMR be determined and recognized in the general account and each filed insulated and non-insulated separate account blank pursuant to the provisions of the revised statement. The determination and recognition of IMR shall be restricted to the account in which it is generated. For example, a negative IMR in a separate account shall not impact the recognition of a positive IMR in the general account.

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68. Furthermore, whether realized gains and losses are permitted to be allocated to the IMR shall be separately assessed for each account individually. This means that the "proof of reinvestment" must be met for each account for the allocation of IMR. A reporting entity that qualifies with "proof of reinvestment" in the general account but fails the "proof of reinvestment" in a filed separate account is only permitted to allocate additional qualifying realized losses that exceed realized gains to the IMR in the general account. A reporting entity that has more than one filed separate account blank shall complete the proof of reinvestment calculation and determine the ability to allocate qualifying realized gains and losses for each individual filed separate account blank.

69. Reporting entities that have IMR recognized in a separate account shall follow the same provisions that exist for general account. To ensure the ability to identify nonadmitted IMR (as well as other nonadmitted assets), a revision to the separate account blank is being incorporated to capture "nonadmitted assets" on the balance sheet. This reporting will allow for consistent treatment of IMR as a nonadmitted asset in the separate account when threshold limits are breached. This reporting change will also allow for the clear identification of other nonadmitted assets held in the separate account. With the increase in book-value separate accounts, which are separate accounts used to segregate specific general account products, the book-value assets shall be subject to the same statutory accounting admittance requirements as if they were in the general account. Without the nonadmitted asset column, there is no mechanism to identify nonadmitted assets reported on the separate account balance sheet.

IMR Adjustments – Market Value Adjustments

70. Gains and losses resulting from market value adjustments (MVA), net of the marginal federal tax impact, shall be captured in the IMR as they are incurred throughout the year[6]. Reporting entities that have recognized known liquidity sale losses in the current year are permitted to reclassify current year net MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses.

71. For MVA liability taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a MVA, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a MVA that would have incurred a MVA if surrendered through 2015, has five calendar years to expected maturity.

72. The historical rationale to include realized gains and losses from market value adjustments in the IMR is predicated on the concept that the surrender of a policy requires the insurer to sell a fixed-income instrument, recognizing an offsetting gain or loss, that was taken to IMR. Although the realized gains and losses from the two transactions may not have exactly offset, taking the fixed income investment realized gain or loss to IMR without the market value adjustment would result in contrasting recognition in the financial statements (deferral through the IMR and immediate recognition in income).

73. However, it has been identified that it is common for surrenders with market value adjustments to not be accompanied by the sale of a fixed income instrument. Rather, reporting entities use alternative ways to cover the surrenders, including utilizing new premiums as the source of funds to cash out policies instead of liquidating existing assets. By using new premium, reporting entities forego potential increased yields that would have been obtained if the premium was used to acquire new fixed-income investments.

[6] MVAs shall only be deferred for book-valued separate account and general account products. No MVAs shall be deferred in the IMR for separate accounts held at fair value

Although the use of new premium does not result in a realized loss that is taken to IMR, by forgoing the purchase of a new bond and obtaining a then-current interest rate, there is spread compression from what the entity is receiving from their asset portfolio and what they are crediting policyholders. For these situations, taking the MVA gain to IMR and amortizing it essentially offsets the spread compression overtime.

74. The prominent disconnect for allocating market value adjustments to IMR results when coupled with a known liquidity sale resulting in a realized loss, as such losses are not permitted to be allocated to the IMR. This dynamic results in a reporting mismatch, as the market value adjustment gain is deferred and amortized overtime in the IMR, but the realized loss is immediately recognized as a net capital loss. This discussion noted that if market value adjustment gains were recognized immediately (and not deferred in the IMR), it would provide a surplus benefit, and this is not an acceptable accounting solution unless a corresponding loss from the forced sale was also recognized immediately.

75. With the discussion, and to ensure conservative accounting and to minimize reporting disconnects, the IMR Ad Hoc Group agreed to incorporate guidance that would require all market value adjustments to be taken to the IMR as incurred throughout the year. However, reporting entities would be permitted, but not required, to reclassify at year-end market value adjustment gains allocated to the IMR in the current year to net realized capital gains and losses to the extent that realized losses were recognized in the current year from known liquidity sales. A disclosure intends to capture realized losses from known liquidity sales taken directly to net realized capital gains and losses, therefore a direct comparison of what is permitted as a market value adjustment reclassification from IMR will be identifiable in the financial statements. The reclassification allows reporting entities to offset market value adjustment gains and realized losses from known liquidity sales concurrently in the same reporting category for year-end reporting. The reclassification is not required, as deferring MVA gains in the IMR while recognizing realized losses immediately as a capital loss provides a more conservative financial statement presentation.

76. The materiality threshold previously captured in the annual statement instructions for allocating market value adjustments in the IMR has been eliminated as a result of the IMR project. All market value adjustments shall be initially allocated to the IMR. It is uncertain the extent the materiality threshold, previously established as a gain or loss that exceeded both 0.01% of liabilities and $1,000,000, was a factor in allocating market value adjustments to the IMR. Presumably, it would have often resulted in many market value adjustments being immediately recognized to income. This would create a disconnect if the realized loss from the investment sale to pay the surrender was taken to IMR, and the realized gain from the reduced payout obligation was immediately recognized in income, which has been identified as an unacceptable accounting provision. For consistency purposes, all market value adjustments shall be taken to the IMR without a prescribed materiality threshold.

Reinsurance Adjustments:

77. At inception of the reinsurance agreement, an insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most yearly-renewable term (YRT) agreements, shall derecognize the associated IMR at the time the business is ceded unless the transaction is a modified coinsurance (modco) or coinsurance with funds withheld (FWH) agreement. An insurer (ceding entity) shall derecognize the associated IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been derecognized.

a. Past Sales Attributed to Reinsured Block of Business: Remaining, unamortized, interest related realized gains and losses allocated to IMR from prior asset sales associated with the reinsured block of liabilities shall be derecognized from the IMR as part of the reinsurance transaction. If the ceding entity had not been tracking assets specific to the block, the entity shall identify the assets (and the unamortized realized gains/losses remaining in the IMR from those assets) using methodologies in line with the insurer's existing practices, for example, proportionate to reserves ceded.

b. Current Sales Incurred or the Transfer of Assets to Provide Reinsurance Premium[7]: Interest-rate realized gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction shall be recognized initially in the IMR and then derecognized as part of the reinsurance transaction.

78. For insurers ceding business under a modco or FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the Annual Statement Instructions for ceding/assuming reinsurance business using a modco or FWH agreement.

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 77. An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under modco or FWH reinsurance agreements. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Write-Ins for Deductions.

b. For agreements that settle realized gains and losses with the reinsurer over time through inclusion of the IMR amortization, an insurer (ceding entity) shall retain the IMR attributed to the reinsured business and pass through the associated IMR amortization through an adjustment to the FWH liability or modco reserve on an ongoing basis. An insurer (ceding entity) that retains the IMR and passes through the amortization shall continue to recognize the IMR from any fixed-income investments sales incurred for investments held under the modco or FWH reinsurance agreement. The amortization of the IMR shall be passed through as an adjustment to the FWH liability or modco reserve.

79. Similar to the treatment of MVA, the materiality threshold previously captured in the IMR annual statement instructions for reinsurance transactions has been eliminated as part of the IMR project. Under the past historical provisions, the guidance only required the elimination of IMR for reinsurance ceding transactions above a materiality threshold. (That threshold was more than 1% of the ceding company's GA liabilities per page 3, line 26 unless a lower threshold had been established by the reporting entity.)

[7] Reporting entities are presumed to sell the associated assets and transfer cash to the assuming insurer. If a reporting entity transfers assets to the assuming entity, the transfer and calculation of realized gain or loss shall be completed at fair value unless the transaction reflects a non-economic transaction between related parties pursuant to paragraph 20.b. of *SSAP No. 25—Affiliates and Other Related Parties*. In those situations, the transfer shall occur at the lower of book value or fair value. For these non-economic transactions, there will either be no realized gain or loss (transfer at book), or the reporting entity will have a realized loss on the transfer (transfer at the lower fair value).

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Pursuant to the principal concept, IMR shall not be retained or recognized[8] if the policy reserves related to the recognition of IMR have been eliminated. With the potential ability to admit negative IMR, it is important to ensure removal of negative IMR balances from reinsurance transactions, therefore the historical materiality threshold has been eliminated. Elimination of the materiality threshold also enables consistent treatment across transaction types

80. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equivocal amount of IMR derecognized by the ceding entity. This IMR recognition shall reflect the unamortized IMR balance of realized gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation.

81. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, is required. In the event the reinsurance transaction is recaptured, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. As IMR is strictly a statutory-accounting concept, non-U.S. domiciled insurance reporting entities would not be subject to the recognition of IMR. If an assuming entity is not required to maintain IMR (i.e., non-U.S. domiciled insurance reporting entities), and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date.

82. The above assuming-entity concepts in paragraphs 80-81 have been revised and clarified from the prior annual statement instructions. The prior guidance for the assuming entity was specific to IMR liabilities (and did not address IMR assets), with adjustments for IMR recognition based on the establishment of policyholder reserves. From the IMR Ad Hoc Group review, there was uncertainty as to the practical application of the noted adjustments, as well as a lack of understanding when they should be required. From information gathered, there were no known situations in which the adjustments detailed in the prior annual statement instructions were reflected. The ad hoc group supported simplifying the concepts with focus on the complementary recognition by the U.S. domiciled assuming entity and clarification for non-US entities not required to recognize IMR, particularly with the use of reasonable methodologies in the event the ceding entity must reestablish IMR.

Elimination of Excess Withdrawal Guidance:

83. During the IMR Ad Hoc discussions, ACLI representatives presented information highlighting that the historical excess withdrawal guidance may inappropriately permit or prevent a company from deferring realized gains and losses to the IMR. With the information presented, supported by the requirement to prove reinvestment when deferring losses that result in (or increase) a net negative IMR balance, the ad hoc group supported the elimination of the historical excess withdrawal guidance. This elimination was supported on the basis that reporting entities would include an attestation that assets sales did not reflect known liquidity sales to fund liabilities that are no longer recognized as insurance

[8] The concept of hypothetical IMR has been removed in accordance with this issue paper. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block a business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. Discussion of the rationale supporting this position is retained in the *NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-N*.

obligations and/or known liquidity sales were not in response to other liquidity needs, such as to provide derivative collateral. Further, the attestation shall identify that the company has a documented process to identify forced sales that would be subject to examination.

84. With the elimination of the excess withdrawal guidance, reporting entities will be required to recognize the realized losses from all known liquidity sales immediately. All realized gains on sales of qualifying fixed income investments are to be allocated to the IMR..

85. With the elimination of the excess withdrawal guidance, reporting entities will be required to provide the following attestation each year in the statutory financial statements:

a. The reporting entity has a documented process to identify material known liquidity sale losses, including but not limited to, sales used to fund surrenders/withdrawals as well as other liquidity needs (e.g., derivative collateral calls or other business entity expenses).

b. The reporting entity has not allocated any material realized losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

c. The reporting entity has disclosed all known liquidity sale losses recognized in income.

86. As historical support for the elimination of the excess withdrawal language, the following scenarios identify concerns with the existing formulaic excess withdrawal calculation. If a decision was made to retain a specific calculation, revisions to the approach would need to consider these dynamics:

a. False positives created by low surrender levels followed by normal surrender levels: There may be timeframes in which a reporting entity experiences a period of lower-then-expected surrenders. Using the formula approach that creates a baseline from past year experience, if surrender activity returns to normal or expected levels in the following year, the excess withdrawal safeguard may be inadvertently triggered.

b. False positives created by expected elevated surrenders: Reporting entities offer a variety and multitude of products. For example, these could include single premium deferred annuities (SPDAs) or guaranteed investment contracts (GICs) that have a high initial guaranteed rate, followed by a low renewal rate after the initial guaranteed period. In such cases, reporting entities should fully expect that a high proportion of policyholders will surrender their policies at the end of the guaranteed period to seek higher yields elsewhere. Reporting entities that manage this expectation will align their asset strategy with expected surrenders, so that asset maturities coincide with the guaranteed period. This prevents the need to sell assets as known liquidity sales for withdrawals. Even with this preplanning, with the formulaic excess withdrawal calculation, the reporting entity could still trigger an excess withdrawal in the year that the guaranteed period ended. With the multitude (and ongoing issuance) of products, a reporting entity could be experiencing asset sales for reinvestment purposes for different product offerings while the SPDA or GIC's initial guaranteed rate was ending and expected policyholder withdrawals were occurring. Although no known liquidity sales may occur, under the formulaic approach, the reporting entity would be identified as incurring excess withdrawals and the gains and losses from the asset sales unrelated to the liabilities that triggered the excess withdrawal safeguard would also be excluded from IMR. That

exclusion would be inappropriate if those asset sales were focused on reinvestment related to a different set of product liabilities.

c. False negative from understated IMR exclusions caused by arbitrary calendar year allocation: The historical excess withdrawal calculation utilizes a calendar year allocation that may not be in line with actual activity of the reporting entity. For example, if a reporting entity was to anticipate elevated surrender activity, they could sell assets in the current year, prior to the actual occurrence of the actual surrender activity in the subsequent year. This action would permit the gains and losses to be allocated to IMR as the reporting entity would not have triggered the formulaic excess withdrawal safeguard in the year in which the sales occurred. Once the surrenders occurred in the following year, there would be gains and losses remaining in IMR from the prior anticipated asset sales that no longer match remaining policyholder obligations.

d. False negative caused by elevated prior year withdrawals: If prior year withdrawals are elevated and the current year withdrawal rate is consistent or lower, this would not trigger the excess withdrawal safeguard. This would be inappropriate if the current year surrenders were in excess of expected withdrawals.

e. Distorted calculation results from reinsurance: It was identified that the use of and comparison to the "beginning of year withdrawable reserves" would be distorted by reinsurance assumed and ceded, which could result in either false positives or false negatives as the reserve comparison would no longer be equivalent.

f. Distortions caused by capturing all products in a single calculation: The prior formulaic approach captures all products within a single calculation. Therefore, a product line with excess withdrawals could be masked by other products that had less surrenders than expected. Such an approach would allow gains and losses from the product with excess withdrawals to be deferred in IMR when the policyholder obligations no longer exist.

g. Arbitrary threshold withdrawal level: The historical calculation used 150% as the percentage used to determine the "threshold withdrawal level." The 150% determinant is not supported by any historical metric and is considered a very arbitrary number.

h. Known liquidity sales occur for reasons outside of excess withdrawals: The historical excess withdrawal calculation focuses on unscheduled withdrawals and surrenders. However, known liquidity sales can occur for other reasons that have nothing to do with excess withdrawals. For example, known liquidity sales could occur to meet derivative collateral requirements. These sales are not captured in the excess withdrawal calculation, allowing gains and losses from such sales to be allocated to the IMR although they were not reinvested to support future policyholder obligations.

Tax Impact:

87. The realized capital gains and losses that result from changes in the overall level of interest rates allocated to IMR shall be net of tax, using the federal marginal tax rate. By capturing the realized capital gains and losses net of tax, the capital gains tax associated with those capital gains/losses due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization. This guidance is consistent with what has been historically captured in the IMR instructions.

Amortization of IMR Into Income:

88. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses net of capital gains tax, are grouped according to the number of calendar years to expected maturity[9] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year to maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity.

89. The guidance in paragraph 88 has been revised from historical provisions. Historically, there were three prescribed methods for calculating the amortization schedule. Under the prior guidance, a reporting entity could select either the seriatim method or one of two grouped methods for calculating IMR amortization. In the past, a company was not precluded from changing methods on a prospective basis, but the overriding consideration for such a decision would have been the reasonableness of the amortization. Once a method had been selected for a particular year's capital gains (losses), the amortization would be locked in and could not be changed without specific approval by the domiciliary state commissioner. The historical approaches are detailed as follows:

a. Seriatim Method: The amount of each capital gain or loss, net of capital gains tax, amortized in a given year using the seriatim method is the excess of the amount of income which would have been reported in that year, had the asset not been disposed of, over the amount of income which would have been reported had the asset been repurchased at its sale price. The capital gains tax associated with each gain or loss is amortized in proportion to the amortization of the gain or loss. For asset-backed securities, the reporting entity uses an amortization schedule developed based on anticipated future cash flows of the sold security consistent with the prepayment assumptions that would have been used to value the security had the security been purchased at its sale price.

b. Grouped Method – Option 1: Reporting entities use a method to amortize interest-related capital gains or losses among lines of business and policyholders in accordance with the investment income allocation process approved by the domiciliary state insurance commissioner.

c. Group Method – Option 2: As an alternative, reporting entities use a standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity. (The calendar years to expected maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity.) The NAIC publishes the "Grouped Amortization Schedule" in July of each year. Amortization of current year gains and losses is based on prior year's amortization factors until the current table is published. Amortization of each year's gains and losses for future years must be based on the amortization table applicable to that year. (For example, for 2006 gains and losses, use the 2006 table). The groupings are in bands of five (5) calendar years, except that an investment with one (1) calendar year to expected maturity are grouped separately from those with two (2) to five (5) calendar years to maturity, as shown below:

[9] For fixed income investments with fixed contractual repayment dates and amounts, the term "expected maturity" shall be consistent with the "effective date of maturity" defined in SSAP No. 26 for callable bonds under the yield-to-worst concept. This requires amortization to the call or maturity value/date that produces the lowest asset value. The annual statement instructions include further guidance on the application of "expected maturity" for specific investments.

d.

0	calendar years to expected maturity,
1	calendar year to expected maturity,
2 to 5	calendar years to expected maturity,
6 to 10	calendar years to expected maturity,
11 to 15	calendar years to expected maturity,
16 to 20	calendar years to expected maturity,
21 to 25	calendar years to expected maturity,
over 25	calendar years to expected maturity.

90. Pursuant to the discussion of the IMR Ad Hoc Group, the "Group Method – Option 2" is the prominent method for calculating the amortization timeframe into IMR. With an initiative to streamline the guidance, as well as make it consistent across reporting entities, revisions are incorporated to mandate use of the "Group Method – Option 2" for IMR amortization. Reporting entities that had previously used the seriatim method or the group option 1 method will be permitted to continue that amortization method for existing IMR balances until those balances have been fully amortized, but all new realized gains and losses taken to IMR shall be amortized under the "Group Method – Option 2" approach.

91. For fixed income instructions with fixed contractual repayment dates and amounts, the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or "yield to worst"). As such, the retirement date shall reflect the first call or maturity date that reflects the lowest amortization value.

Admittance of IMR:

92. The interest-related realized gains and losses allocated to the IMR shall be reported net as either a positive or negative IMR separately for the general account and each separate account based on the IMR position in each account. The amount reported as the reserve in the account's IMR schedule shall agree to the liability page (positive IMR) or as a write-in on the asset page (negative IMR).

93. Reporting entities that report net negative IMR in the general account and/or in separate accounts shall aggregate the total negative IMR and determine whether the amount qualifies to be admitted pursuant to the restrictions in this issue paper. A positive IMR in any account does not impact the aggregation for total negative IMR and in determining the admittance limits of net negative IMR.

94. Reporting entities that meet the requirements of paragraph 95 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[10] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the reporting entity has experienced a decline in capital and surplus and/or had significant increases in net admitted IMR in the current period,

[10] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account)

a. For the adjusted capital and surplus calculation: Capital and surplus shall be adjusted to exclude any admitted net positive goodwill, electronic data processing (EDP) equipment and operating system software, net deferred tax assets (DTAs) and net negative IMR. The adjusted capital and surplus calculation shall reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR as reported in the third quarter financial.)

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and asset adequacy testing pursuant to paragraph 95.c. Rather, any reconciliation difference from the admitted IMR originally determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

95. Requirements to admit net negative IMR:

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures required in the revised SSAP No. 7. If a reporting entity does not fully complete the data-captured disclosures[11] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT) pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, VM-21: Requirements for Principle-Based Reserves for Variable Annuities, VM-22: Requirements for Principles-Based Reserves for Non-Variable Annuities* and *VM-30:*

11 Reporting entities that complete narrative disclosures in lieu of the data-captured templates, even if reporting equivalent information, are not permitted to admit negative IMR.

Actuarial Opinion and Memorandum Requirements. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and AAT to ensure reserves are not overstated.

96. The requirements to admit net negative IMR detailed in paragraph 95 are virtually identical to what was required under INT 23-01 as revised in August 2025. Excerpt from paragraph 9 of INT 23-01:

9. Reporting entities are permitted to admit net negative (disallowed) IMR with the following restrictions:

a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general account[12] capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted[13] net negative (disallowed) IMR. The adjusted capital and surplus calculation intends to reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative (disallowed) IMR as reported in the third quarter financial statements to determine the limit for year-end.) However, to safeguard from situations in which the company has experienced a decline in capital and surplus and/or had significant increases in net admitted (disallowed) IMR in the current period, the admittance of net negative (disallowed) IMR shall also not exceed 10% of the current period unadjusted capital and surplus.

b. Reporting entities applying this interpretation are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative (disallowed) IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative (disallowed) IMR is reported as an admitted asset in the general account or recognized as an asset in the separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative (disallowed) IMR in the general account or recognize IMR assets in the separate accounts.

c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination[14] unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a

[12] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

[13] As the separate account does not have "admitted" assets, broad reference to "admitted net negative (disallowed) IMR" throughout this interpretation includes what is admitted in the general account and what is recognized as an asset in the separate accounts.

[14] Reference to derivative termination throughout this interpretation includes all actions that close out a derivative, including, but not limited to, termination, expiration, settlement, or sale.

requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.

d. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a. through 9.c. shall fully complete the data-captured disclosures described in paragraph 13. If a reporting entity does not fully complete the data-captured disclosures or provide narrative disclosures containing equivalent information in lieu of the data-capture template, it shall nonadmit all net negative (disallowed) IMR.

e. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a. through 9.c. shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/cash flow testing (CFT) pursuant to Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, Section 7.D.7 and VM-30: Actuarial Opinion and Memorandum Requirements, Section 3.B.5. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are not overstated.[15]

97. On August 12, 2026, the Statutory Accounting Principles (E) Working Group heard comments supporting the elimination of the net negative IMR admittance limit. Pursuant to the discussion that occurred during that meeting, the Working Group agreed to retain the net negative IMR admittance limit as established within INT 23-01. Subsequent consideration of a change in the net negative IMR admittance limit may occur after the effective date of the guidance and after demonstrated compliance with the established SSAP No. 7 provisions for the recognition and disclosure of IMR as well as proper inclusion in actuarial reconciliations and assessments.

98. Reporting entities are permitted to admit net negative IMR in the general account and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph 94. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request.

99. Reporting entities shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.

[15] An optional template to assist with the IMR reconciliation is available on the NAIC Principles-Based Reserving web page: https://content.naic.org/pbr_data.htm. It is available as a template to VM-31.

100. Although INT 23-01 required reporting entities to admit net negative IMR first in the general account until admittance limits were reached, with proportional recognition in insulated and non-insulated separate accounts to the extent the entity was still below admittance limits, this guidance was revised in the updated statement. This revision was considered appropriate due to the inclusion of the nonadmitted reporting revisions in the separate account, as well as to ensure that the admittance of IMR occurs consistently with the reporting entity's operations. Prior to the inclusion of nonadmitted reporting in the separate account, negative IMR was immediately charged off against surplus. With the provisions permitted under INT 23-01, reporting entities were allowed to reinstate this IMR if they were under the admittance thresholds. With the inclusion of the nonadmitted concept, net negative IMR will simply be nonadmitted, similar to the general account, allowing for easier management and tracking of IMR balances.

101. In addition to the nonadmittance reporting in the separate accounting, Reporting revisions under the long-term IMR project is proposed to include a specific IMR reporting line on the asset page for both general and separate accounts. With the inclusion of these reporting changes, reporting entities will report net negative IMR on the dedicated asset line and identify it as admitted or nonadmitted on the balance sheet consistent with other assets. With the inclusion of these reporting changes, the guidance in INT 23-01 on how reporting entities shall report admittance will be eliminated.

Disclosures / Reporting:

102. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are required to complete the IMR rollforward and amortization schedule[16] in the annual financial statements.

103. Consistent with what was established in INT 23-01, reporting entities with admitted negative IMR are required to complete a note disclosure that details the following:

a. Total net negative IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,

b. Amounts of negative IMR admitted in the general account and in the separate account insulated and non-insulated blank,

c. The calculated adjusted capital and surplus; and

d. Percentage of adjusted capital and surplus for which the admitted net negative IMR represents (including what is admitted in the general account and in the separate accounts).

104. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses:

a. The reporting entity has a documented process to identify material known liquidity sale losses, as addressed in paragraph 25.

[16] For reporting entities subject to paragraph 105, the annual IMR amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

b. The reporting entity has not allocated any material realized losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

c. The reporting entity has disclosed all known liquidity sale losses recognized in income.

105. Reporting entities that have moved from a net positive IMR position to a net negative position or that has increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative balance. Reporting entities that fair the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (Further discussion on the proof of reinvestment is detailed in paragraphs 108-110.)

106. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years.

a. As discussed in paragraphs 53-63, only qualifying derivative structures specified in the revised guidance shall have realized gains and losses allocated to the IMR. This is different from prior industry interpretations in which "hedging" derivatives held at fair value were taken to IMR upon termination. Transition provisions have been incorporated to allow reporting entities that have taken realized gains and losses IMR for non-qualifying derivative structures to amortize these balances over 10 years rather than an immediate impact to capital gains and losses. Reporting entities that have derivative gains and losses impacted by this guidance shall disclose the unamortized balances in IMR separately between gains and losses and the amortization projection to eliminate those remaining balances within 10 years.

107. Reporting entities are required to disclose the reconciliation of admitted IMR used for PBR and AAT. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy testing reconciliation to the admitted IMR ultimately shown in the annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually.

Proof of Reinvestment

108. As discussed in paragraphs 26-32, reporting entities with a net negative balance, for which current year losses exceed gains, in any general or separate account, are required to complete the "proof of reinvestment.[17]" This is a new disclosure template required in the annual financial statements that reporting entities are required to complete when their year-end IMR balance initially goes net negative, or when their year-end net negative balance has increased from their prior year net negative balance. This disclosure is required regardless of any admittance of net negative IMR. This template provides

[17] Separate templates exist for general accounts and separate accounts.

support that a reporting entity has reinvested the proceeds from sold fixed-income investments into new, higher-yielding, fixed-income investments. The concept of IMR, which defers and amortizes interest-related gains and losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that reinvestment of proceeds into fixed-income securities with higher yields has occurred. This reinvestment presumably allows reporting entities to acquire more-desirable assets that support existing liabilities for policyholder obligations. Key concepts within the proof of reinvestment calculation and the specific sources for the data as initially developed include:

a. Key Rationale: Overall calculation intends to identify whether acquisitions of fixed-income investments are greater than proceeds from fixed-income sales and investable premium. The key rationale is that maturities of fixed-income investments are expected to cover claims (if perfectly matched) and cash proceeds from fixed-income sales and premiums need to be invested.

b. Acquisitions of Investments: Investments acquired focus on bonds and mortgage loans as the primary sources of fixed-income investments that comprise IMR[18]. The cost of these investments is pulled directly from the cash flow statement Rows 13.1 and 13.3.

c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgages loans in the proof is then adjusted to the proceeds of all known liquidity sales in which a realized capital loss was recognized, where the proceeds were not reinvested into new qualifying fixed-income investments.

d. Investable Premium: Premiums are used for many purposes, therefore adjustments to total premium are necessary to determine "investable premium." Adjustments are captured in the calculation as follows:

i. Remove commissions and expenses as premiums are used to pay commissions and expenses. This subtraction should agree to the Cash Flow Statement, Row 7: Commissions, Expenses Paid and Aggregate Write-In for Deductions.

ii. Remove premiums for the company's allocation of equity and other investments, recognizing that companies do not invest all investable premium into bonds and mortgage loans. To make this adjustment, reporting entities calculate the percentage of bonds and mortgage loans to the total invested assets from their balance sheet and then reduce the investable premium by the percentage difference (invested assets not reflecting bonds or mortgage loans).

[18] The proof of reinvestment only focuses on bonds and mortgage loans as they represent the majority of fixed-income items acquired and sold by reporting entities. Consideration was given to requiring an assessment of other fixed-income investments if they represented 10% or more of a reporting entity's fixed-income sales for a given year, however, with the decision to require AVR allocation for items held at fair value, this provision was eliminated. If included, it would have a required a manual adjustment to the proof by the reporting entity.

iii. Remove premiums that are allocated to the separate account. This subtraction is modified to add-back "premium" transfers to the separate accounts that reflect "assets in-kind" (non-cash asset transfers from the general account to the separate account). A reporting entity is required to complete separate templates to prove reinvestment when required based on the net negative IMR position of any separate account.

iv. Remove premiums received on certain short-term accident and health (A&H) businesses (excluding premiums received for long-term care and disability) and received on "YRT – Mortality Risk Only" business. For the specific short-term business excluded, monthly premiums are largely used to pay claims as the liabilities are short-term. To the extent reserves are generated, they generally complete very quickly, with their claims reserves being more a reserve for payable items than a long-term premium retention reserve that one would expect to cause an inflow into long-term fixed investments. For these companies, the loss ratios are generally much higher year-to-year than new business written in more traditional life/annuity products, and including their gross premium far exceeds any expectation of retained profits that may cause an investable need. Therefore, these premiums are excluded from the proof of reinvestment calculation.

e. Calculated Result of Acquisitions to Sales: The cost of the mortgage loans and bonds purchased less sales and investable premium is calculated.

f. Calculated Result of Compared Weighted Average Yields: In addition to the reinvestment verification, a reporting entity shall also identify the weighted average yield of the investments purchased and sold during the year. The difference of these two weighted average yields is then calculated.

109. A reporting entity only passes the proof of reinvestment if the results from the calculated results of acquisitions to sales and investable premium and the comparison of weighted average yields are both positive. Even if one aspect is positive, and the other is negative, the company does not pass the proof of reinvestment. A reporting entity is only able to increase an IMR net negative position from current year IMR realized losses beyond what would be offset beyond current year IMR realized gains if they pass the proof of reinvestment. Reporting entities that had allocated current year negative realized losses to the IMR in any account that does not pass proof of reinvestment are required to eliminate the current year realized losses that are not offset by gains and recognize the current year realized losses as immediate capital losses. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. As detailed in paragraph 28, reporting entities that fail the proof are still permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and separate account and from assumed reinsurance arrangements.

110. After the completion of the proof of reinvestment, and any modifications to eliminate losses from the IMR, the reporting entity shall update and recognize the full and complete IMR amortization required for the IMR balance, including the appropriate portion of amortization attributed to the realized losses and gains added to the IMR balance throughout the current year.

Effective Date and Transition

111. Revisions to SSAP No. 7, adopted November 2026, that incorporate revisions reflecting a comprehensive review of the IMR, are effective January 1, 2028, and shall be applied prospectively from

the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items in the following subparagraphs.

a. Designation Change Guidance: The NAIC designation category change guidance incorporated within this statement is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less designation declines at the time of sale. These changes also revised the guidance to require allocation to the AVR for fixed-income instruments held at fair value, instead of using the NAIC 6 designation and incorporated the designation category change guidance for all investments with NAIC designations. This was a change for asset-backed securities and non-bond debt securities that previously required individual assessment and bifurcation of interest and non-interest components.

b. Disallowed IMR: Prior the effective date of this statement, IMR in the general account and the separate accounts was compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability instead of a nonadmitted asset if the separate account IMR was in an offsetting positive balance. With the changes reflected, IMR shall be separately contained within each account and the reporting shall be based on the position of IMR in each account. The provisions of this statement do not allow reporting of the IMR as a contra-liability, and the concept of "disallowed" IMR has been eliminated.

c. IMR Amortization: Prior to the effective date of this statement, reporting entities had three options in determining IMR amortization. With the revisions, all reporting entities shall follow the standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to maturity and shall follow the NAIC "Grouped Amortization Schedule" published annually. Reporting entities that had elected a different amortization approach for previously recognized IMR are permitted to continue to follow that amortization schedule until the associated IMR has fully amortized. All IMR recognized after the effective date of the revised statement shall follow the simplified group method for amortization.

d. IMR from Hedging Derivatives: Although SSAP No. 86 only referenced IMR allocation for realized gains and losses from highly effective accounting hedges, an industry interpretation of the annual statement instructions resulted with some companies allocating gains and losses from non-accounting effective hedging derivatives to the IMR. With the revisions in this statement, only realized gains and losses from highly effective hedges that qualify under the "hedge accounting method" under SSAP No. 86 are permitted to be allocated to the IMR. Reporting entities that had previously allocated realized gains and losses to IMR from non-qualifying hedging derivatives shall amortize those IMR balances over a period not to exceed 10 years.

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block of business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. (Discussion of this rationale is included for historical purposes in the NAIC

Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-N.)

f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital gains and losses from forced sales and not defer through the IMR.

g. Market Value Adjustments: The inclusion of all MVAs in IMR is a change from historical guidance where they were only included in accordance with a materiality threshold. With the revisions, reporting of market value adjustments is separately divided between realized gains and losses om the IMR schedule.

Revisions to Other SSAPs:

112. The conclusions in this issue paper will be incorporated into a revised SSAP No. 7. Additionally, revisions to other SSAPs will be included as follows:

a. *SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions will clarify the AVR/IMR treatment for both cash equivalents and short-term investments. The changes indicate that non-interest-related losses shall be taken to the AVR, but other realized gains and losses shall be retained as immediate impacts to capital gain and loss.

b. *SSAP No. 21—Other Admitted Assets*: No explicit revisions are proposed to this SSAP, however, the revisions to SSAP No. 43 will impact non-bond debt securities through an existing SSAP No. 21 reference to the SSAP No. 43 guidance.

c. *SSAP No. 26—Bonds*: Revisions clarify existing guidance and reiterate the provision from SSAP No. 7 that realized losses from an other-than-temporary impairment because it is probable the reporting entity will be unable to collect all amounts due (credit-impairment) shall be fully taken to the AVR.

d. *SSAP No. 32—Preferred Stock*: Revisions 1) incorporate guidance IMR/AVR guidance for sales of redeemable preferred stock, 2) clarify AVR treatment for unrealized gains and losses, and 3) clarify the OTTI guidance for redeemable preferred stock to mirror the bond guidance.

e. *SSAP No. 37—Mortgage Loans*: Revisions incorporate guidance IMR/AVR guidance mortgage loans and the treatment of AVR for unrealized gains and losses and after a write-down.

f. *SSAP No. 41—Surplus Notes*: Revisions incorporate clarifying guidance for IMR/AVR.

g. *SSAP No. 43—Asset-Backed Securities*: Revisions eliminate prior guidance on the bifurcation of IMR and AVR and incorporate language consistent with SSAP No. 26.

h. *SSAP No*. 61—Life, Deposit-Type and Accident and Health Reinsurance: Revisions incorporate reference to SSAP No. 7 rather than the Annual Statement Instructions.

i. *SSAP No. 86—Derivatives*: Revisions are proposed to 1) eliminate the optionality for when accounting-effective hedges are taken to IMR, and 2) Incorporate updates to revise and clarify IMR and AVR guidance for RSATs.

j. *SSAP No. 105—Working Capital Finance Investments*: Revisions eliminate existing guidance for IMR and direct all realized capital gains and losses to be retained as immediate capital gains and losses.

Reporting Revisions:

113. This issue paper results supports reporting revisions to improve reporting clarity and transparency in the statutory financial statements for IMR:

a. *Asset and Liability Page*: Revisions will incorporate a distinct "interest maintenance reserve" reporting line on the asset page as well as a "deferred derivative" reporting line for both the asset and liability page. *(The intent is for the deferred derivative line to include items captured under both SSAP No. 108 and the new ALM derivative SSAP with a separate disclosure that identifies the balance under each SSAP unless there is support to have two separate reporting lines.)*

b. *Exhibit of Capital Gains & Losses:* Revisions propose to 1) expand this schedule to have the reporting categories mirror investment categories and 2) to expand columns / directions to have all realized losses be captured as "realized capital gain and loss" with columns to identify what is allocated to IMR and AVR before arriving at the net realized capital gains and losses that agrees to the Summary of Operations.

c. *Interest Maintenance Reserve – Form for Calculating the IMR*: Proposed to expand the reporting lines to separate adjustments to the reserve to include reinsurance ceded, reinsurance assumed, market value adjustment (gains) and market value adjustment (losses). This reporting change will provide more clarity and transparency as to the various items impacting the IMR.

d. *SSAP No. 7 Disclosures*: New disclosure templates, notes and general interrogatory attestations to converge with the new SSAP No. 7 disclosures.

e. *Annual Statement IMR Instructions*: Revisions are proposed to eliminate most of the prior annual statement instructions with new instructions to correspond to the reporting changes. Items proposed to remain within the instructions (with revisions accordingly) include the following:

i. Investment specific maturity timeframes for amortization purposes.

ii. Revised example for reinsurance adjustments released from reserve. (The prior example included hypothetical IMR.)

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Appendix A – Examples to Determine When the Proof of Reinvestment Is Required

	1	2	3	4	5
Beginning IMR Balance	50.00	50.00	(50.00)	(50.00)	(50.00)
IMR Expected Amortization[1]	(20.00)	(20.00)	20.00	20.00	20.00
Subtotal	**30.00**	**30.00**	**(30.00)**	**(30.00)**	**(30.00)**
Current Year IMR Gains	15.00	15.00	15.00	45.00	15.00
Current Year IMR Losses	(50.00)	(30.00)	(50.00)	(30.00)	(15.00)
IMR Preliminary Balance	**(5.00)**	**15.00**	**(65.00)**	**(15.00)**	**(30.00)**
Proof	Required	Not Required	Required	Not Required	Not Required
Fail Proof: Remove from IMR:	(5.00)	N/A	(35.00)	N/A	N/A
IMR After Adjustment & Before Current Year Amortization	**-**	**15.00**	**(30.00)**	**(15.00)**	**(30.00)**

FN 1: IMR expected amortization shall be a direct pull from the prior year-end IMR amortization schedule.

Example 1: Proof is required as the entity has gone net negative with losses exceeding gains. If the entity fails the proof, the entity must remove IMR losses to either eliminate the net negative position, or to eliminate the increase of a net negative position. For this example, the removal would eliminate the net negative position, resulting with a year-end IMR position of net zero.

Example 2: Proof is not required as the entity has not gone net negative, even though the entity had more IMR losses than IMR gains.

Example 3: Proof is required as the entity has increased their prior net negative position. If the entity fails the proof, the entity must remove IMR losses to eliminate the current year increase of a net negative position. With the removal of $35 in losses, the net negative position equals the beginning balance after the expected amortization from prior year established IMR.

Example 4: Proof is not required as the entity has not increased their prior-year net negative position.

Example 4: Proof is not required as the entity has not increased their prior-year net negative position.

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Appendix B – Proof of Reinvestment Disclosure Illustration – General Account

Line	Data Source	Description	2024 YTD
1	CF Stmt - Row 13.1	Cost of investments acquired (long-term only) - Bonds	103,056,000
2	CF Stmt - Row 13.3	Cost of investments acquired (long-term only) - Mortgage Loans	14,181,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**117,237,000**
4	Note 5D(6) – Column 1 Total	Proceeds from FI investments sold – Debt Securities	39,861,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	3,831,000
6	New Disclosure	Proceeds of known liquidity sales where a realized capital loss was recognized	2,000,000
7	Sum of lines 4 + 5 - 6	**Total proceeds from Fixed Income Investments Sold**	**41,692,000**
8	CF Stmt - Row 1	Premiums collected net of reinsurance	52,020,000
9	CF Stmt - Row 7	Commissions, expenses paid and aggregate write-ins for deductions	11,062,000
10	Annual Statement - Note 35 Separate Account	Total premiums, considerations or deposits as of the end of current period	15,000,000
11	Internal Systems	Assets in kind received in line 9 above	3,000,000
12	Annual Statement - Analysis of operations by lines of business - A&H: Column 1 minus column 11^ minus column 12; plus, Annual Statement – Analysis of operations by line of business – Summary: Column 9	Premiums for accident and health contracts (short-term) and premiums for YRT – Mortality Risk Only	5,000,000
13	Line 8 -line 9 -line 10 + line 11 - line 12	**Investable Premiums Before Other Investment Adjustment**	**23,958,000**
14	B/S - Row 1	Bonds - Net Admitted	130,000,000
15	B/S - Row 3.1	First Lien Mortgages - Net Admitted	20,000,000
16	B/S - Row 3.2	Other than First Lien Mortgages - Net Admitted	10,000,000
17	Sum of lines 14, 15, & 16	**Investments Subject to Proof of Reinvestment**	**160,000,000**
18	B/S - Row 12	Subtotal, Cash and Invested Assets	200,000,000
19	Line 18 - Line 17	**Allocation for Investment for Other Assets**	**40,000,000**
20	Line 19Divided by Line 18	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**20%**
21	Line 13 multiplied by Line 20	**Investable Premium Adjustment**	**4,791,600**
22	Line 13 - Line 21	**Investable Premiums**	**19,166,400**
23	Line 3 - line 7 - line 22	**Investments Purchased less Investments Sold and Investable Premiums**	**56,378,600**
24	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.57%**
25	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line 7) during the year	**3.96%**

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26	Line 24 - line 25	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**0.61%**
		Sufficient evidence of reinvestment of fixed income investments	
27	**Test 1**	Is line 23 positive?	**Yes**
28	**Test 2**	Is line 26 positive?	**Yes**
	If lines 27 & 28 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		
	^Column 11 is for disability business that includes both long and short term disability. RBC is determined based on this differentiation in LR 19 where total earned premiums are broken out between long and short term and are a close approximation of column 11 premiums in aggregate. Only the long-term premium categories (i.e., lines 21 through 26) included in LR 19 are to be subtracted for purposes of this test.		

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Appendix C – Proof of Reinvestment Disclosure Illustration – Separate Account

Line	Data Source	Description	2024 YTD
1	Internal Systems	Cost of investments acquired (long-term only) - Bonds	430,000
2	Internal Systems	Cost of investments acquired (long-term only) - Mortgage Loans	128,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**558,000**
4	Internal Systems	Proceeds from FI investments sold - Bonds	502,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	14,000
6	New Disclosure	Known liquidity sales recognized as immediate capital losses	16,000
7	Sum of lines 4 + 5-6	**Total proceeds from Fixed Income Investments Sold**	**500,000**
8	Blue Book Note 35B / Internal Systems	Book value separate accounts premiums	7,000
9	Internal Systems	Assets in kind received in line 7 above	-
10	Line 8 -line 9	**Investable Premiums Before Other Investment Adjustment**	**7,000**
11	Green Book - B/S Row 1	Bonds (General Account Basis Only) - Net Admitted	2,450,000
12	Green Book - B/S Row 3	Mortgages (General Account Basis Only) - Net Admitted	570,000
13	Line 11+ line 12	**Investments Subject to Proof of Reinvestment**	**3,020,000**
14	Green Book - B/S Row 11	Subtotal, Cash and Invested Assets	3,124,000
15	Line 14 - Line 13	**Allocation for Investment for Other Assets**	**104,000**
16	Line 15 Divided by Line 14	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**3%**
17	Line 10 multiplied by Line 16	**Investable Premium Adjustment**	**233**
18	Line 10- Line 17	**Investable Premiums**	**6,767**
19	Line 3 - line 7 - line 18	**Investments Purchased less Investments Sold and Investable Premiums**	**51,233**
20	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.00%**
21	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line 7) during the year	**3.00%**
22	Line 20 - line 21	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**1.00%**
		Sufficient evidence of reinvestment of fixed income investments	
24	**Test 1**	Is line 19 positive?	**Yes**
25	**Test 2**	Is line 22 positive?	**Yes**
	If lines 23 & 24 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		

Appendix D – Revisions to Other SSAPs

The revisions to other SSAPs are in a separate document and will be incorporated into this Issue Paper for historical reference prior to inclusion for the "As of March 2028" *NAIC Accounting Practices and Procedures Manual.*

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/11-15-26 fall national meeting/adoptions/23-14 - imr issue paper - revised 10.5.2026.docx