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

Issue: IMR Impact to Reinsurance Collateral

Check (applicable entity):

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

Description of Issue: This agenda item has been prepared to establish clear guidance in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and Schedule S, Part 4, on how IMR derecognized by the cedent pursuant to a reinsurance transaction should be reflected in determining the amount of reinsurance collateral required from the assuming entity to receive reinsurance credit. The requirement for collateral is only a component for assuming reinsurers that are unauthorized or certified for which full or partial collateral is required under the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). It does not apply to reciprocal jurisdiction reinsurers, authorized, accredited or licensed reinsurers where collateral is not required.

Although the existing guidance in SSAP No. 61 requires derecognized net <u>positive</u> IMR to be captured as an increase in the collateral requirement, from what industry communicated during the IMR Ad Hoc Group discussions, this SSAP No. 61 requirement has not been consistently followed. Industry representatives advised that the inclusion of derecognized net positive IMR in the collateral requirement has been driven by the terms of their reinsurance treaties. NAIC staff have highlighted that this is inconsistent with statutory accounting principles, and deviations should have been supported by a permitted or prescribed practice. Through discussions of the IMR Ad Hoc Group, consensus of the group was reached that SSAP No. 61 does appropriately require that any IMR associated with reinsured reserves be included in any collateral requirements under the Credit for Reinsurance Models.

However, there is no current mention of derecognized net negative IMR in the existing SSAP No. 61 for collateral requirements, and the IMR Ad Hoc Group has been discussing if/how derecognized net negative IMR should factor into the collateral requirement for reinsurance credit. If net negative IMR were to be included in the collateral requirement, it would reduce required collateral. As the ad hoc group was not able to arrive at a consensus position between regulators and industry on how this should be treated, this Form A includes two possible options for the Working Group to consider.

One point of note for which the ad hoc group was able to reach consensus was that the consideration of net negative IMR should not consider the admissibility of the IMR for the cedant prior to reinsurance. Rather, the balance should be either fully included or fully excluded from the collateral requirement. This is because the calculation of any surplus-based limitation of negative IMR admissibility would become circular after the reinsurance is in place and unable to be repeated from that point forward.

The question being presented to the Working Group to decide is as follows:

Should the treatment of derecognized net negative IMR reduce required collateral for reinsurance (i.e. be treated symmetrically with positive IMR? If the treatment is symmetrical, then derecognized net positive IMR increases the collateral requirement, and derecognized net negative IMR would decrease the collateral requirement. If the treatment is asymmetrical, derecognized net positive IMR still increases the collateral requirement, but derecognized net negative IMR would not decrease the collateral requirement.

The agenda item includes discussion and illustrations for the two potential options. The arguments for each option are summarized below:

- **Symmetrical Treatment:** Industry advocates for IMR to be treated symmetrically for reinsurance collateral requirements. The rationale for including IMR in the collateral requirement, whether positive or negative, is the view that it represents a valuation adjustment to the ceded reserves. It reflects the partial unlocking of the reserve valuation rate resulting from sales and reinvestments of the supporting fixed income investments. Therefore, the most accurate reflection of the value of the current reserves being ceded is inclusive of the IMR balance. For this reason, any collateral requirements should be inclusive of IMR regardless of direction. Asymmetrical treatment is generally viewed by industry as arbitrary and punitive and may have an unfavorable impact on reinsurance costs for ceding insurers.

- **Asymmetrical Treatment:** The alternative view which is supported by NAIC staff is that net negative IMR derecognized from a reinsurance transaction should not be permitted to influence the collateral required to receive reinsurance credit. In addition to the questions/issues on how this can be perceived to allow IMR to reflect a collateral asset, particularly as IMR (which reflects realized gains and losses) are not transferable assets, this is also recommended to prevent incentivizing reinsurance transactions to derecognize nonadmitted IMR. This is also perceived to be consistent with existing guidance as only IMR liability adjustments are currently captured in SSAP No. 61 and Schedule S.

This agenda item was driven from discussion at the IMR Ad Hoc Group. With differing opinions among staff, regulators and industry reps, it was requested that this issue be presented to the full Working Group.

Discussion and illustration entries are presented to illustrate the impact of these options:

1. <u>Net Positive IMR Increases Collateral Requirements (current SSAP No. 61 guidance)</u>

Positive IMR is generated when a fixed-income asset is sold in a decreasing interest rate environment, in that the fair value of the sold investment is greater than the book/adjusted carrying value (BACV), resulting in a realized gain. When this occurs, although the entity may have received a gain from the sale, they will be reinvesting in a lower-yielding asset resulting in fewer cash flows over the asset's duration. Recognizing that the entity still has long-term obligations for which the asset should be matched, the realized gain is recognized as a liability (positive IMR) and amortized to income over the life of the originally held fixed-income investment.

Example: Cedent has $20 of positive IMR from the sale of a $100 fixed-income instrument for $120 in a declining interest rate environment. The entity then ceded the $100 reserve under an 80% coinsurance transaction. Assuming everything was equal:

- Remove $80 policy reserves ($100 * 80%)
- Remove $16 of positive IMR (liability) ($20 * 80%)
- Remove $96 of assets ($120 * 80%)

Prior to the transaction, the cedent had $96 reported as a total liability – the $80 reserve and the $16 IMR. For reinsurance collateral purposes, an amount of $96 is required to equal the cedent's liability that was established prior to the reinsurance transaction. If the positive IMR was not required to increase the collateral requirement, then the cedent would only have protection of $80 for the $96 in liability they had recognized prior to the reinsurance transaction. With the assumption that the specific assets backing the liability are transferred to the assuming entity, which equals $96 after the reinvestment and reinsurance transaction, and no additional amounts or different types of investments are required, by including the positive IMR in the collateral requirement, the transaction would be surplus neutral to the ceding entity. If the positive IMR was not included in the collateral requirement, then the reinsurer would be permitted to provide less collateral than what would be needed to cover the transferred policy reserves.

2. Net Negative IMR Decreases Collateral Requirements

Negative IMR is generated when a fixed-income asset is sold in an increasing interest rate environment, in that the fair value of the sold investment is lower than the book/adjusted carrying value (BACV), resulting in a realized loss. When this occurs, the reporting entity would be re-investing a lower amount into a higher-yielding asset, generating more cash flow over the asset's duration. (For example, if the asset was on book for $100 (with a fair value of $80) and paying 4% prior to the sale, after the sale/re-investment, the entity would have an asset on book for $80 and paying 6%.) If the loss qualifies for IMR under the guidance, the realized loss is recognized as an asset (negative IMR) and amortized to income over the life of the originally held fixed-income investment. Prior to 2023, this negative IMR asset was nonadmitted. Under the current INT 23-01, if the reporting entity qualifies, this negative IMR asset is admitted.

> Example: Cedent has $20 of admitted negative IMR from the sale of a $100 fixed-income instrument for $80 in a rising interest rate environment. The reporting entity then ceded the $100 reserve under an 80% coinsurance transaction. If everything is always equal:
>
> - Remove $80 policy reserves ($100 * 80%)
> - Remove $16 of negative IMR (asset) ($20 * 80%)
> - Remove $64 of assets ($80 * 80%)

In an example where everything is equal, it may appear that offsetting liabilities and assets of $80 were removed by the cedent in a surplus neutral transaction. However, the assuming entity only received $64 of hard assets that could be used to pay claims. The cedent's policy reserve was still $80, therefore if only $64 of assets were used to collateralize the transaction, the collateral does not provide protection for the full reserve. It should also be noted that non-US reinsurers would not be recognizing the IMR.

Including negative IMR into the calculation results with these questions / issues:

- It may be viewed that the negative IMR is being used as a collateral asset towards the full $80 policy reserve. Under the Model, IMR does not qualify as a collateral asset.
- If negative IMR is permitted, the collateral (hard assets) required is less than the cedent's recognized policy reserve prior to the transaction.

  Note: The ACLI position is that the IMR should be considered an adjustment to the cedent's recognized policy reserve. If this position is supported, then the IMR is not viewed as collateral and the amount of collateral required would equal the policy reserve ($64 in this example).
- If the assuming entity only received the $64 of hard assets, requiring the assuming entity to post collateral of $80 could make the transaction undesirable from a reinsurer perspective. However, there are questions whether reinsurers would accept only $64 in hard assets to assume the $80 policy reserve.
- IMR (either positive or negative) is not a transferable component. As previously noted, IMR does not qualify as an asset or liability under U.S. GAAP or SAP definitions. IMR is strictly a SAP concept that allows deferred recognition of realized gains and losses.

The questions / issues involving negative IMR in the reinsurance collateral calculation become more nuanced if the negative IMR did not qualify for admittance. The elimination of nonadmitted IMR results in a surplus bump to the ceding entity. This is shown as follows:

Example: Cedent has $20 of <u>nonadmitted</u> negative IMR from the sale of a $100 fixed-income instrument for $80 in a rising interest rate environment. The reporting entity then ceded the $100 reserve under an 80% coinsurance transaction. If everything was always equal:

- Remove $16 of negative IMR (asset) $(20 * 80%)
- Decrease $16 as nonadmitted assets, increasing cedent's surplus.
- Remove $80 policy reserves ($100 * 80%)
- Remove $64 of assets ($80 * 80%)

With this dynamic, the removal of the nonadmitted assets increases the company's surplus. Then, with the reinsurance arrangement the same questions arise as to whether the IMR should be a factor in the collateral of the reinsurance arrangement. If allowing the nonadmitted IMR to be included in the collateral calculation, the ceding entity has a benefit to their financial statements in a manner as though the IMR was always admitted. <u>This may incentivize reinsurance transactions for companies with nonadmitted negative IMR, particularly in situations when the IMR had exceeded admittance thresholds</u>.

Under the ACLI proposal, they do not believe the admittance/nonadmittance status at the ceding entity should impact the consideration of IMR in the collateral calculation. Rather, the calculation of nonadmittance would then be completed after the ceding transaction (and removal of IMR), recognizing that with less negative IMR, it would be more likely that a company would be within admittance parameters. As a very simple example, if a company had exceeded admittance thresholds by $10, and derecognized net negative IMR by $12 because of a reinsurance transaction, then the company would be fully able to admit the remaining net negative IMR after the result of the reinsurance transaction. Under the ACLI proposal, the derecognized nonadmitted IMR of $12 should still be considered as a reduction of the policy reserve. Therefore, if the policy reserves removed were $80, then only $68 would be required as collateral from the assuming entity.

Existing Authoritative Literature:

<u>SSAP No. 61—Life, Deposit-Type and Health Reinsurance</u>
Paragraphs 47 and 50 provides guidance for the collateral requirement for certified and unauthorized reinsurers to receive reinsurance credit. This guidance is specific that the collateral requirement is equal to the reserve credit taken. If the collateral requirement is not met, then the ceding entity must set up a net liability that includes the reserve credits taken, including any IMR liability adjustment as detailed in paragraphs 47a and 50a.

Reinsurance Ceded to a Certified Reinsurer

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **<u>In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer</u>**, which is equal to the following:

   a. **Reserve credits taken including <u>any Interest Maintenance Reserve (IMR) liability adjustment</u>; plus**

   b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less

d. Amounts contractually due the assuming entity.

Unauthorized Reinsurance

50. If the reinsurer is not authorized, otherwise approved or certified to do business, the reinsurance is considered to be unauthorized. A liability is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. **<u>Credit for reinsurance with unauthorized companies shall be permitted if the ceding entity holds securities or cash of the assuming entity equal to the reserve credit taken</u>**. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes. Other permissible arrangements include irrevocable trusts or "clean" letters of credit. **<u>If the assuming entity is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a net liability equal to the</u>** following:

a. Reserve credits taken including any <u>IMR liability</u> adjustment; plus

b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less

d. Deposits by or funds withheld from the reinsurer, as provided for in the reinsurance treaty and in compliance with the security requirements of Appendix A-785, pledged as security for the payment of reinsurance obligations. Such deposits or funds are typically held by the ceding entity or are placed in a trust or custodial account. Amounts placed in trust or custodial accounts are held subject to withdrawal by, and under the control of, the ceding entity; less

e. Amounts of reinsurance recoverables covered by a clean, irrevocable letter of credit issued by a qualified U.S. financial institution as defined in Appendix A-785; less

f. Amounts contractually due the assuming entity.

51. The net liability defined in paragraph 50 shall never be less than zero for any particular reinsurer. The change in liability for unauthorized reinsurance is a direct charge or credit to surplus.

<u>Annual Statement Instructions, Schedule S – Part 4 & Part 5</u>

Schedule S, Part 4: Reinsurance Ceded to Unauthorized Companies and Schedule S, Part 5: Reinsurance Ceded to Certified Reinsurers include reinsurance ceded data used in the development of the liability for reinsurance in unauthorized or certified companies.

- For unauthorized - The liability serves to offset those assets and liability reductions that reflect the result of reinsurance ceded with unauthorized companies.

- For certified – The liability serves to offset those assets and liability reductions that reflect the result of reinsurer ceded with certified reinsurers that is not properly collateralized in accordance with the rating assigned to the certified reinsurer by the commissioner of the reporting company's state of domicile.

These schedules include the following columns:

Part 4 – Column 5 / Part 5 – Column 9: Reserve Credit Taken

This column includes the amount by which aggregate reserve for life contracts, deposit-type contracts, and accident and health companies has been reduced on account of reinsurance with unauthorized (or certified) companies. The amounts by company should be the same as those shown for life reinsurance ceded in Schedule S, Part 3, Section 1, Column 9 and for accident and health reinsurance ceded in Schedule S, Part 3, Section 2, Columns 9 & 10.

Part 4 – Column 6 / Part 5 – Column 10: Paid and Unpaid Recoverable, Including IBNR

This column is to include all paid and unpaid losses recoverable, including IBNR. It shall include the reduction in claim liability on account of reinsurance on incurred but not reported claims (estimated).

Part 4 – Column 7 / Part 5 – Column 11: Paid and Unpaid Recoverable, Including IBNR

This column is include all asset and liability reductions resulting from reinsurance ceded to unauthorized (or certified) reinsurers not included in columns 5 or 6 (or 9 or 10 for certified). Examples of items included in the column include:

- **Unamortized Interest Maintenance Reserve (IMR) liability adjustment**, if any, of the ceding company.
- Commissions and expense allowances due the ceding company.
- Modified coinsurance reserve adjustments due.
- Experience rating refunds due.

Both Schedule S Part 4 & Part 5 have explicit summary instructions that the securities held on deposit or held in a trust account should be valued at fair market value. This is also reiterated in the following instructions:

Column 12 (Part 4) and Column 20 (Part 5): Funds Deposited by and Withheld from Reinsurers

Where permissible to be taken as credit against the loss and reserve liabilities in Column 8 (Total of Columns 5, 6 & 7), amounts deposited by the reinsurer with or for the reporting insurance company, letters of credit, and trust agreements. Securities held on deposit or held in a trust fund should be valued at fair market value.

NAIC Note: Clarification on the fair value reporting requirements has been highlighted for a separate agenda item.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Pursuant to the IMR Ad Hoc Group call on July 28, the issue of whether negative IMR should be a factor in determining the extent of reinsurance collateral required was directed to the full Statutory Accounting Principles (E) Working Group. The ad hoc group did not reach a consensus between industry and regulators, as industry supported symmetrical treatment with positive IMR (both impacting the reinsurance collateral) whereas regulators noted concern with this approach, particularly if negative IMR was nonadmitted by the ceding entity. It was noted that if nonadmitted negative IMR could be used to reduce collateral requirements, reporting entities could be incentivized to enter reinsurance transactions for the surplus bump they would receive.

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

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing categorized as a SAP clarification and expose proposed revisions to SSAP No. 61 to clarify how IMR derecognized as part of a reinsurance transaction should influence the reinsurance collateral required to receive reinsurance credit. <u>These revisions reiterate the current requirement to increase reinsurance collateral requirements for net positive IMR derecognized from a reinsurance transaction and the staff recommendation to prohibit a decrease in reinsurance collateral requirements from the derecognition of net negative IMR</u>.

With this exposure, regulators are asked to comment on whether different IMR treatment should be considered from what is recommended. Specifically, instead of the asymmetrical approach, whether both positive and negative IMR derecognized from reinsurance transactions should impact the reinsurance collateral treatment (symmetrical treatment). Additionally, with exposure, a referral is recommended to the Reinsurance (E) Task Force to provide notice of this discussion and request comments.

As discussed within, the recommendation for asymmetrical treatment is supported by NAIC staff for the following reasons:

- **Positive IMR: Both the policy reserve and IMR are needed in the collateral requirement to ensure that the collateral equals the established cedent's liability prior to the reinsurance transaction.**

- **Negative IMR: By including negative IMR derecognized from a reinsurance transaction, the collateral required drops below the required policy reserve. IMR is not permitted to reflect a collateral asset, and as negative IMR simply reflects previously recognized realized losses, IMR is not a transferable asset. Further, if negative IMR was nonadmitted, the process to include negative IMR as a reduction of the collateral requirement could incentivize reinsurance transactions to obtain a surplus bump from the elimination of the nonadmitted IMR.**

Proposed Revisions to SSAP No. 61 to paragraphs 47a and 50a for both certified and unauthorized reinsurers and the calculation of the reserve credits: (Remaining subparagraphs excluded for brevity.)

Proposed Revisions to SSAP No. 61:

Reinsurance Ceded to a Certified Reinsurer

47. A liability is established by the ceding entity to offset credit taken in various balance sheet accounts for reinsurance ceded to a certified reinsurer in an amount proportionate to any deficiency in the amount of acceptable security that is provided by the certified reinsurer as compared to the amount of security that is required to be provided in accordance with the certified reinsurer's rating. **<u>In determining the amount of this liability, the ceding insurance entity must first determine the net obligations subject to collateral from the certified reinsurer</u>**, which is equal to the following:

a. Reserve credits taken<u>, which shall include all net positive Interest Maintenance Reserve (IMR) derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR</u>

derecognized as a result of the reinsurance transactions[1] ~~including any Interest Maintenance Reserve (IMR) liability adjustment~~; plus

b. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

c. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less

d. Amounts contractually due the assuming entity.

Unauthorized Reinsurance

50. If the reinsurer is not authorized, otherwise approved or certified to do business, the reinsurance is considered to be unauthorized. A liability is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. Credit for reinsurance with unauthorized companies shall be permitted if the ceding entity holds securities or cash of the assuming entity equal to the reserve credit taken. Such deposits are to be held under the control of the ceding entity. Additionally, any securities held under such an arrangement must be investments that the ceding entity is allowed to make under the provision of the investment sections of the insurance statutes. Other permissible arrangements include irrevocable trusts or "clean" letters of credit. If the assuming entity is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a net liability equal to the following:

e. Reserve credits taken, which shall include all net positive IMR derecognized as a result of the reinsurance transaction, but shall exclude all net negative IMR derecognized as a result of the reinsurance transactions[2]; ~~including any IMR liability adjustment;~~ plus

f. Claim liability credits taken on paid and unpaid (in course of settlement) claims recoverable; plus

g. Other asset increases or liability reductions resulting from amounts recoverable from the assuming entity including commissions, expense allowances, modified coinsurance reserve adjustments, experience rating refunds, and estimated incurred but not reported claim liabilities; less

h. Deposits by or funds withheld from the reinsurer, as provided for in the reinsurance treaty and in compliance with the security requirements of Appendix A-785, pledged as security for the payment of reinsurance obligations. Such deposits or funds are typically held by the ceding entity or are placed in a trust or custodial account. Amounts placed in trust or custodial accounts are held subject to withdrawal by, and under the control of, the ceding entity; less

[1] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

[2] The guidance for derecognized net positive and net negative IMR is required in the collateral requirement calculation for all cedents regardless of the reinsurance treaty terms.

i. Amounts of reinsurance recoverables covered by a clean, irrevocable letter of credit issued by a qualified U.S. financial institution as defined in Appendix A-785; less

j. Amounts contractually due the assuming entity.

51. The net liability defined in paragraph 50 shall never be less than zero for any particular reinsurer. The change in liability for unauthorized reinsurance is a direct charge or credit to surplus.

Staff Review Completed by: Julie Gann, NAIC Staff—August 2025

Status:
On December 9, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 61 to clarify how IMR that has been derecognized as part of a reinsurance transaction should impact the reinsurance collateral required to receive credit for reinsurance. The exposed revisions reflect the asymmetrical proposal, in which derecognized positive IMR increased collateral requirements, but that derecognized negative IMR does not decrease collateral requirements. Comments on the symmetrical and asymmetrical approaches as well as the proposed revisions are requested.

On March 23, 2026, the Statutory Accounting Principles (E) Working Group heard public comments on this agenda item and deferred action, pending a response from the Reinsurance (E) Task Force.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group adopted, as final, revisions to *SSAP No. 61—Life, Deposit-Type and Health Reinsurance* to clarify how IMR derecognized as part of a reinsurance transaction should influence the reinsurance collateral required to receive reinsurance credit. These revisions clarify that derecognized IMR shall have an asymmetrical effect on reinsurance collateral requirements, meaning reinsurance collateral requirements are increased in response to net positive IMR derecognized from a reinsurance transaction but reinsurance collateral requirements cannot be decreased in response to derecognition of net negative IMR.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2026/08-12-26 Summer National Meeting/Adoptions/25-22 - Reins Collateral.docx