

On the 10/1 LATF call, For the SSAP 109 Pilot Project, it was decided to tentatively target 12/31 for companies to submit their SSAP 109 documentation and late January-February for company presentations. Based on that timeline, LATF is requesting:

- By **10/21**, companies should reach out to LATF NAIC support (Scott O'Neal) and signal their interest in participating in the pilot, confirming:
 - When they would be able to provide the **advance documentation** for their ALM derivative program
 - When they would be able to **present** to LATF on their ALM derivative program and specifically their hedge effectiveness
- By **10/30**, regulators, companies, and interested parties should suggest any additional hedge effectiveness documentation, or hedge documentation more broadly, to be included in company materials and presentations, beyond what is outlined in the existing draft SSAP.

Attachment 1: SAPWG to LATF – ALM Derivatives

Attachment 2: SSAP 109 Overview for LATF

Attachment 3: SSAP No. 109 Draft

Attachment 4: Issue Paper

Attachment 5: 2024-15 ALM Derivatives

To: Rachel Hemphill, Chair of the Life Actuarial (A) Task Force
Craig Chupp, Vice Chair of the Life Actuarial (A) Task Force

From: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair of the Statutory Accounting Principles (E) Working Group

Re: Asset Liability Management Derivatives (SAPWG Ref #2024-15)

Date: August 17, 2026

This referral intends to inform the Life Actuarial (A) Task Force of the Statutory Accounting Principles (E) Working Group's project to establish new statutory accounting provisions for "asset liability management (ALM) derivatives" with a request for assistance in reviewing and assessing the guidance prior to its adoption. Specifically, the Working Group requests that the Task Force consider facilitating a pilot project in early 2027 (or sooner if preferred) to ensure regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests proposed to be used by industry, with consideration of additional specifications that should be included in the statutory guidance around how effectiveness testing should be performed.

As background, the proposed guidance intends to address interest-rate hedging derivatives that do not qualify as accounting-effective hedges under *SSAP No. 86—Derivatives*, but that are used for asset liability management. The discussion originated from the interest maintenance reserve (IMR) project, as it was identified that certain members of the life industry were allocating the gain or loss on these derivatives, which they considered economically effective, to IMR at termination. As the derivatives did not qualify as accounting-effective, they were held at fair value throughout the life of the derivative, with fair value changes reflected in surplus. At termination, the resulting gain or loss (already reflected in surplus), was reversed and allocated to IMR for deferral and recognition into income over a period of time. With the IMR revisions, clarifications have been included that these derivative structures will not be permitted allocation to the IMR. Rather, the development of new guidance to prescribe specific accounting treatment for these derivatives is being considered.

The proposed guidance in the draft new *SSAP No. 109—Asset Liability Management Derivatives* (SSAP No. 109) would allow qualifying derivative structures to be held at amortized cost. A derivative structure that qualified as highly effective at the time of termination or removal from the derivative program with a realized gain or loss would result with allocation of the realized gain or loss to a deferred derivative account with amortization into income over the average life of the hedged liability portfolio, not to exceed 10 years.

A key aspect of the guidance is the assessment of whether the derivative is highly effective. The draft guidance currently permits one of three methods to be designated for this assessment:

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:
 - a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the

modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.

- b. “Macaulay Duration” is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macaulay duration difference).
- c. “Dollar Value One (DV01)” measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

In addition to the direction of this Task Force referral, during the 2026 Summer National Meeting the Working Group exposed a revised SSAP and issue paper with an effective date of January 1, 2028. Although the ACLI communicated support for adoption, comments received from regulators requested additional modifications, which are reflected in the exposure draft. These modifications include:

- Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.
- Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.
- Elimination of the elective accelerated amortization provisions.

The Statutory Accounting Principles (E) Working Group appreciates your attention to this referral and welcomes comments on the SSAP No. 109 proposed hedge-effectiveness tests, as well as on any aspects of the draft guidance. This new standard is expected to have a meaningful impact on life insurance companies’ financial statements and operations, so therefore full consideration by regulators and actuaries is desired prior to adoption and implementation.

Please contact NAIC staff Julie Gann (jgann@naic.org) if you have any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr, Scott O’Neal, Amy Fitzpatrick

Attachments:

- SAPWG Ref# 2024-15
- *SSAP No. 109—Asset Liability Management Derivatives* (Summer NM Exposure Draft)
- *Issue Paper – Asset Liability Management Derivatives* (Summer NM Exposure Draft)

Potential SSAP 109 Pilot

Life Actuarial Task Force

October 1, 2026

Background – Draft SSAP 109

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

Background – Draft SSAP 109

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

Background – Draft SSAP 109

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

Background – Draft SSAP 109

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

Clearly Defined Hedging Strategy

- A hedging strategy being **clearly defined** means the following are documented:
 - a. The specific risks being hedged.
 - “In designating the hedged item, reporting entities are permitted to exclude specific **components** of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception.”
 - “hedge the interest rate sensitivity, or a specific percentage of the interest rate sensitivity”
 - b. The hedging objectives.
 - c. The material risks that are not hedged.
 - d. The financial instruments used to hedge the risks.
 - e. The hedging strategy’s trading rules, including the permitted tolerances from hedging objectives.
 - f. The metrics, criteria, and frequency for measuring hedging effectiveness.
 - g. The conditions under which hedging will not take place and for how long the lack of hedging can persist.
 - h. The group or area, including whether internal or external, responsible for implementing the hedging strategy.
 - i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified.
 - j. The circumstances under which the hedging strategy will not be effective in hedging the risks.

Draft SSAP 109 – Actuarial Considerations

What would
qualify for SSAP
109 treatment?

Highly-effective
derivative
structures...

Draft SSAP 109 – Actuarial Considerations



The term “highly effective” describes a **reduction of the duration difference** between the asset and liability portfolios that is accomplished by the hedging derivatives with between an **80%-125% effective rate**.

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



Assessed at least quarterly.

Draft SSAP 109 – Actuarial Considerations

Pre-Hedge

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

Hedge $P\%$
of duration
mismatch

Post-Hedge

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

Draft SSAP 109 – Actuarial Considerations

Pre-Hedge

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

Hedge
50% of
duration
mismatch

Post-Hedge

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

Draft SSAP 109 – Actuarial Considerations

Modified Duration

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

Macauley Duration

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

Dollar Value One (DV01)

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

SAPWG Referral to LATF

SAPWG requested LATF assistance

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

Pilot: Unaggregated Field Test Approach

Participating Companies will present in Regulator-Only Session

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

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

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

Pilot: Timing and Next Steps

Timeline Option 1 vs. Option 2

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

Timing to Express Interest

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

Timing to Suggest Consistent Presentation Content

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

Timing of Pilot

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

Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

STATUS

Type of Issue.....	Common Area
Issued	2026 Summer National Exposure Draft
Effective Date	January 1, 2027 2028
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	No other pronouncements
Relevant Appendix A Guidance	None

STATUS.....	1
SCOPE OF STATEMENT	1
SUMMARY CONCLUSION.....	1
Terms/Concepts (for purposes of this statement)	2
Special Accounting Provision	3
Assessing Hedge Effectiveness	5
Measurement/Recognition of Gains and Losses of Derivative Instruments	6
Derivative Income	8
Disclosures	8
Effective Date and Transition.....	9
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SCOPE OF STATEMENT

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

SUMMARY CONCLUSION

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

3. The statutory accounting guidance within this statement is considered a special accounting provision, which permits a highly effective derivative distinction different from U.S. GAAP, and allows realized fair value gains and losses from these highly effective hedging transactions to be reported as deferred liabilities and assets and amortized into net realized gains or losses over time. Consistent with U.S. GAAP, realized losses do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as they do not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, realized gains do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains as deferred liabilities and realized losses as deferred assets is a statutory concept that reflects an exception to the asset and liability definitions under SSAP No. 4 and SSAP No. 5. This treatment is consistent with SSAP No. 86, which allows a basis adjustment to the hedged item when effectiveness criteria is met in order to reflect the impact of the hedge. The treatment is surplus neutral when initially recorded, followed by amortization coinciding with the hedged item.

4. Reporting entities that meet the requirements of this statement are permitted to report the recognized net deferred assets, representing realized fair value losses, as admitted assets. The net deferred liabilities, representing realized fair value gains, shall be recognized as liabilities.

Note: Confirm admitted asset treatment with SAPWG. May discuss individual or aggregate limits.

Terms/Concepts (for purposes of this statement)

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

- a. **Derivative Instrument:** An agreement, instrument or series or combination thereof: (1) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or (2) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests. Derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options) are not eligible for the accounting provisions in this standard (i.e., swaps, forwards, and futures are typically eligible for the accounting treatment in this standard if they do not contain these features).
- b. **Dynamic Hedging Approach:** A dynamic hedging strategy allows for the portfolio of derivatives comprising the hedging instrument to be rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.
- c. **Hedged Item:** The hedged item is the duration difference between the designated asset portfolio and designated product liability portfolio that are both exposed to interest rate risk (with the ultimate hedged item being the interest rate sensitivity of the liability portfolio that the assets support). The hedged item may relate to the duration of an open or flexible portfolio (e.g., group of contracts with different characteristics and liability durations) that allows for addition of newly issued contracts, subtraction of surrenders and fluctuations in balances. The portfolio of product liabilities may consist of an entire

book of business or declared components thereof¹.

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

Special Accounting Provision

6. The special accounting provision within this statement permits reporting entities to utilize a form of “macro-hedging” in which a portfolio of derivatives hedges the duration difference between an asset portfolio and a portfolio of product liabilities (i.e., an ALM Hedge²), which could include the entire book of business or subsections thereof, pursuant to a Clearly Defined Hedging Strategy (throughout this issue paper also referred to as “CDHS” or “hedging strategy”). This is considered a macro-hedge, as the designated hedged item is attached to a portfolio of product liability contracts with different characteristics and liability durations. Under this special accounting provision, the portfolio of contracts giving rise to the hedged item is not required to be static but can be revised to remove assets/derivatives/policies and/or include new assets/derivatives/policies to allow for continuous risk management (hedging) of the product liabilities in accordance with the specific risks being hedged and the hedge objectives of the specified, documented hedging strategy. In designating the hedged item, reporting entities are permitted to exclude specific components of the asset, derivative, and/or liability portfolios, but such exclusions must be documented at hedge inception.

7. This special accounting provision permits reporting entities to utilize a specified derivative, or a portfolio of specified derivatives, as the hedging instrument within an ALM Hedge to hedge the interest rate sensitivity, or a specific percentage³ of the interest rate sensitivity, of the designated hedged item. Hedged items include various interest rate sensitive products where duration can be reliably measured using one of the metrics in paragraph 11. The hedging instrument may reflect a dynamic hedging strategy in which a portfolio of derivatives comprising the hedging instrument is rebalanced in accordance with changes to the hedged item to adhere to the specified, documented hedging strategy.

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

- a. Prior to implementing a hedging program for application within scope of this standard, the reporting entity must obtain explicit approval from the domiciliary state commissioner

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

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

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

allowing use of this special accounting provision. The domiciliary state commissioner may subsequently disallow use of this special accounting provision at their discretion. Although this guidance does not restrict the state domiciliary commissioner on when to prohibit future use, disallowance should be considered upon finding that the reporting entity's documentation, controls, measurement, prior execution of strategy or historical results are not adequate to support future use.

- b. Certification by a financial officer of the company (CFO, treasurer, CIO, or designated person with authority over the actual trading of assets and derivatives) that the hedging strategy meets the definition of a Clearly Defined Hedging Strategy and that the Clearly Defined Hedging Strategy is the hedging strategy being used by the company in its actual day-to-day risk mitigation efforts. This provision does not require reporting entities to use the special accounting provision within this standard.

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

- a. The specific risks being hedged (including a measure of hedge coverage, e.g., percentage of interest rate sensitivity being hedged),
- b. The hedging objectives,
- c. The material risks that are not hedged,
- d. The financial instruments used to hedge the risks,
- e. The hedging strategy's trading rules, including permitted tolerances from hedging objectives,
- f. The metrics, criteria, and frequency for measuring effectiveness,
- g. The conditions under which hedging will not take place, and for how long the lack of hedging can persist,
- h. The group or area, including whether internal or external, responsible for implementing the hedging strategy,
- i. Areas where basis, gap, or assumption risk related to the hedging strategy have been identified, and
- j. The circumstances under which hedging strategy will not be effective in hedging the risks.

10. While an initially documented hedging strategy may subsequently change, any change in hedging strategy, which includes changes in the hedged item pursuant to paragraph 5.c., shall be documented, with notification to the domiciliary state commissioner and include an effective date of the change in strategy. Reporting entities that elect to change a documented hedging strategy prior to the end of the three-month minimum timeframe shall identify the hedging strategy, and all hedging instruments executed under the strategy, as ineffective. The three-month timeframe begins with the stated effective date of the hedging strategy. Changes in a documented hedging strategy that occur after a three-month timeframe do not necessitate an ineffective determination as long as hedged items and hedging

instruments under the revised/new strategy continue to meet the requirements of a highly effective ALM hedge. Reporting entities are permitted to have more than one hedging strategy implemented, but all implemented strategies must qualify as a component of a Clearly Defined Hedging Strategy pursuant to paragraph 7.

Assessing Hedge Effectiveness

11. The provisions within this standard require the entity to use a specific method, as detailed in paragraph 13, to assess hedge effectiveness at least quarterly (e.g., at the beginning and end of each quarter) with ongoing assessment consistent with the originally documented risk management strategy.

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

13. The term "highly effective" describes a reduction of the duration difference between the asset and liability portfolios that is accomplished by the hedging derivatives with between an 80%-125% effective rate. One of the following methods shall be designated as the approach for each hedging program to determine whether the program is highly effective:

- a. "Modified Duration" is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument (e.g., if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction); so if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In which case, a duration of the assets with derivatives of between 9.8 and 10.25 would be highly effective.
- b. "Macaulay Duration" is the weighted average time until cash flows are received and is measured in years; so if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macaulay duration difference).
- c. "Dollar Value One (DV01)" measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates; so if an asset portfolio has a DV01 of \$9M and a

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

Measurement/Recognition of Gains and Losses of Derivative Instruments

14. All designated highly effective hedging instruments shall be reported in the financial statements at amortized cost. This includes the derivatives, including those reflected in portfolios, deemed to be highly effective in accordance with paragraph 11. If the reporting entity has excluded specific derivative components from the assessment of hedge effectiveness pursuant to paragraph 4, the excluded derivative components shall be measured and reported at fair value, with changes in fair value recognized as unrealized gains or losses.

15. Amortized cost treatment shall discontinue in the following scenarios with recognition as follows:

- a. **Maturities/Terminations:** Derivatives that mature or are terminated while part of a highly effective program with a fair value other than zero shall be recognized as a deferred asset (loss) or a deferred liability (gain). The derivative maturity/termination fair value will initially be surplus neutral with the deferred asset/liability offset by cash received/paid at maturity/termination.
- b. **De-Designation - Rebalancing:** For derivatives de-designated from a current highly effective hedging relationship, the derivative fair value at the time of removal shall be recognized as an asset or liability offset by a deferred asset or deferred liability, resulting with a surplus neutral impact. All subsequent (post de-designation) derivative fair value changes shall be recognized as unrealized gains/losses without deferral unless the derivative is immediately allocated (re-designated) to another highly effective derivative program in scope of this standard. Derivatives that are not immediately allocated are precluded from being subsequently used as a highly effective hedging instrument and shall follow a fair value accounting measurement method until the derivative matures or is terminated⁴.
- c. **De-Designation - Ineffectiveness:** For derivatives de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative shall discontinue the amortized cost treatment and be recognized at fair value, with the change in fair value recognized as an unrealized gain or loss. The derivative shall be captured in scope of SSAP No. 86, with all subsequent derivative fair value changes recognized as unrealized gains and losses. For these derivatives, no deferral of assets or liabilities is permitted.

16. The ability to recognize a deferred asset or liability under paragraph 13 is limited to only the portion of the hedging instruments attributed to the hedged risk. An amount equal to the net deferred asset and deferred liability recognized pursuant to paragraph 13 (net amount from all hedging strategies/programs captured within this guidance) shall be allocated from unassigned funds to special surplus.

⁴ For purposes of applying this provision, derivatives reallocated (re-designated) to a highly effective qualifying derivative program in the quarter following de-designation are permitted as immediate allocations. Due to operational complexities with applying different measurement methods to open derivatives (as fair value is required upon de-designation), once a derivative has been removed from a highly effective derivative program beyond this quarter timeframe, the derivative cannot be reallocated to a highly effective derivative program utilizing an amortized cost measurement method.

17. The derivatives captured within this guidance essentially reflect quarterly hedges inside a clearly pre-defined program (with effectiveness tests at the beginning and end of each quarter). Programs that fail effectiveness at any time are not permitted to apply the provisions of this statement. If the program is revised to enable effectiveness, the revised program shall be considered a new program and shall be separately documented. The new program is required to be separate and distinct from the prior ALM derivative program and is only permitted if the required approvals are obtained. Application of this statement, with deferral of qualifying derivative gains and losses, is only permitted from the effective date of the revised program.

18. Deferred assets and deferred liabilities recognized under paragraph 13 shall be amortized using a straight-line method into net realized capital gains and losses over a finite amortization period. The amortization timeframe shall equal the weighted average life of the hedged liability portfolio but shall not exceed a period of 10 years. Amortization shall begin in the following quarter after initial recognition of a deferred asset or deferred liability under the qualifying program. Recognized deferred assets and liabilities are required to be eliminated and recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement.

- a. Reporting entities are required to separately track, with a schedule to show the initial deferred amount and amortization schedule, the deferred assets and deferred liabilities recognized and outstanding at each reporting date.
- b. The amount reported on the financial statement at each reporting date shall reflect the net amount (net as either a deferred asset or deferred liability) for each hedging strategy captured within scope of this guidance. Reporting entities that have more than one hedging strategy could have both deferred assets and deferred liabilities in the financial statements based on the net position of the separate hedging strategies.
- c. Reporting entities shall capture derivative deferred gains and losses in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to all relevant *Valuation Manual* calculations. Reporting entities shall prepare a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for PBR and CFT to ensure reserves are appropriately stated.
- ~~b. Reporting entities are permitted to amortize a greater portion of the deferred assets and/or deferred liabilities into net realized capital gains and losses at any time in advance of the scheduled amortization period.~~
- ~~c. If electing to accelerate amortization, reporting entities are required to accelerate amortization equally between deferred assets and deferred liabilities within a single hedging strategy. For example, a reporting entity is not permitted to accelerate amortization of the deferred liabilities (recognizing the gains from fair value changes) and not accelerate amortization of the deferred assets (continuing to defer losses from fair value changes). If a reporting entity only has a single hedging strategy which only reflects deferred assets or deferred liabilities, the reporting entity is permitted to accelerate amortization without restrictions.~~
- ~~d. If a reporting entity has more than one hedging strategy, and the strategies have offsetting net positions (both deferred assets and deferred liabilities are recognized in the financial statements), a reporting entity's election to accelerate amortization must be applied equally to programs with offsetting net positions. (For example, a decision to accelerate amortization of a program with a net deferred liability must be applied equally~~

~~to a program with a deferred asset that best corresponds to the deferred liability⁵.) In these situations, the guidance in paragraph 14.c.i. is also applicable, whereas the accelerated amortization must also apply equally to the deferred assets and deferred liabilities within each individual hedging program. If a reporting entity with more than one hedging strategy only has net deferred assets or net deferred liabilities recognized, the reporting entity is permitted to accelerate amortization to a single program in a manner consistent with the guidelines in paragraphs 14.c.i.~~

19. For outstanding (non-expired) derivative instruments that were removed from a highly effective hedging strategy (de-designated - rebalancing), subsequent gains and losses from fair value fluctuations shall not impact previously recognized deferred assets or deferred liabilities. The deferred assets and deferred liabilities shall be “locked” and amortized under the remaining schedule ~~unless the reporting entity elects to terminate or accelerate amortization~~. Subsequent to the removal from a highly effective strategy, fair value fluctuations from the outstanding derivative instruments are subject to the guidance in SSAP No. 86 and shall be recognized as unrealized gains or unrealized losses. Only if the derivative is immediately re-designated as part of a highly effective hedging strategy qualifying under this standard pursuant to paragraph 13.b., can the derivative retain an amortized cost measurement method, with the resulting fair value change at de-designation or termination/maturity reported as a deferred asset or deferred liability under this statement.

Derivative Income

20. Derivative income from hedging instruments in scope of this statement shall follow the recognition provision of SSAP No. 86.

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

Disclosures

22. A reporting entity that has derivatives accounted for under this special accounting provision, or that has unamortized deferred assets or deferred liabilities pursuant to this guidance shall disclose the following within the financial statements:

- a. For each hedge program under this statement, discussion of the hedged item, including information on the liabilities’ duration sensitivity to interest rate risk, along with similar information on the assets supporting these liabilities and the designated hedging instruments being used to hedge the duration risk. Discussion of the hedging instruments shall identify whether a hedging instrument is a single instrument or portfolio, as well as information on the hedging strategy including whether there have been changes in strategy from the prior reporting period, along with detailed information on the changes), and assessment of hedging effectiveness (e.g., beginning and end of quarter asset duration without derivatives, asset duration with derivatives, liability duration, percentage of difference hedged, etc.) and compliance with the “Clearly Defined Hedging Strategy”. Identification shall occur on whether the hedged item is intended to be fully hedged under the hedging strategy, or if the strategy is only focused on a portion of the asset/liability duration difference. Hedging strategies shall be identified as highly effective

⁵~~The intent of this guidance is to ensure that the ability to accelerate amortization does not result with elections that simply result in favorable financial statement presentation.~~

or not highly effective. If the strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, from the assessment of hedge effectiveness, details on the excluded components shall be disclosed.

- b. Aggregate disclosure of the original cost and fair value of hedging instruments (including all instruments within a portfolio), including fair value changes during the reporting period.
- c. Disclosure that details a roll-forward of deferred assets and deferred liabilities, showing the beginning balance, additions, current period amortization, and ending balance, with a percentage comparison to total capital and surplus. This disclosure shall also identify the expected amortization for the next 10 years, ~~including any accelerated amortization elected by the reporting entity~~. This disclosure shall identify the fair value of the excluded components of the hedging instruments, and the fair value change for those components reflected in unrealized gain and unrealized loss.
- d. For hedging strategies no longer identified as highly effective previously captured within scope of this standard, information on the determination of ineffectiveness, including variations from prior assessments resulting in the change from classification as a highly effective hedge. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and subsequently identified as no longer part of a highly effective hedging strategy. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy had been identified by the reporting entity as no longer highly effective.
- e. For situations in which the reporting entity has elected to terminate the hedging strategy and/or discontinue the special accounting provisions permitted within this SSAP, the reporting entity shall disclose the key elements in the reporting entity's decision to terminate, identifying changes in the reporting entity's objectives or perspectives from initial application. This disclosure shall also identify outstanding hedging instruments previously captured within scope of this standard and the accounting impact as a result of the termination/discontinuation. (Open derivative transactions no longer captured within the special accounting provision would be subject to the accounting and reporting guidance within SSAP No. 86.) This disclosure shall identify the date in which the domiciliary state was notified that the hedging strategy or the election to use the special accounting provision in this SSAP had been terminated

Effective Date and Transition

23. This statement is effective January 1, ~~2027~~2028. The guidance in this statement is permitted to be applied on a prospective basis for approved qualifying hedge programs in place on or after the effective date. The guidance in paragraph 25 permits a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate recognized unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the hedging program would have qualified in scope of the statement.

24. On the effective date, reporting entities with open derivatives in an existing approved program that qualifies as a highly effective hedge in scope of this statement are permitted to make a one-time adjustment to reclassify recognized unrealized gains and losses from derivative fair value changes to

realized gains and losses in the statement of operations. This is permitted even though the derivative is still open. The reported derivative asset/liability book/adjusted carrying value at the date of transition shall be amortized to income over the remaining life of the derivative instrument over a period not to exceed 10 years. Subsequent to transition, the derivative shall follow the provisions of this statement. As such, future fair value fluctuations in the derivative shall not be recognized as unrealized gains or losses unless the derivative no longer qualifies in scope of this statement. At derivative maturity or qualifying de-designation (rebalancing), the change in fair value from initial application and the maturity/de-designation date shall be recognized as a deferred asset or liability pursuant to paragraphs 15.a and 15.b.

25. On the effective date, reporting entities with existing programs that do not qualify, or for which the reporting entity elects not to apply this guidance, shall continue to report the open derivatives in scope of SSAP No. 86, with recognition of derivative fair value changes as unrealized gains or losses. Reporting entities that make a subsequent decision to apply the concepts of this statement to the derivative program are not permitted to reclassify previously recognized unrealized gains and losses to deferred assets and liabilities. Those unrealized gains and losses shall be retained with recognition as realized gains or losses upon termination of the derivative. For these situations, reporting entities shall freeze future recognition of unrealized gains or losses from fair value fluctuations, with the then current fair value of the derivative designated as the amortized cost for subsequent treatment under this statement.

26. Realized derivative gains and losses previously allocated to the interest maintenance reserve (IMR) for programs that would qualify as effective hedges under this statement shall be retained in IMR and amortized over a remaining period not to exceed 10 years. Upon the effective date of the revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*, gains and losses for derivative strategies within this statement are not permitted to be allocated to the IMR.

REFERENCES

Relevant Issue Papers

- *Issue Paper No. 1XX—Asset Liability Management (ALM) Derivatives*

[https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/exposures/imr & alm/24-15 - ssap 109_2027\(draft\).docx](https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national%20meetings/a.%20national%20meeting%20materials/2026/08-12-26%20summer%20national%20meeting/exposures/imr%20&%20alm/24-15%20-%20ssap%20109_2027(draft).docx)

Statutory Issue Paper No. 1XX

Asset Liability Management (ALM) Derivatives

STATUS

2026 Summer National Meeting Exposure Draft

New SSAP: SSAP No. 109

Current Authoritative Guidance: None

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper details new statutory accounting concept revisions to incorporate special accounting treatment for limited derivatives hedging asset/liability duration differences subject to fluctuations as a result of interest rate sensitivity. These derivative structures are referred to as asset liability management (ALM) derivatives.
2. The provisions within this issue paper are proposed to be separate and distinct from the guidance in *SSAP No. 86—Derivatives* and *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. The derivatives subject to the scope of this guidance, and the provisions within, would not qualify for hedge effectiveness under the existing standards. The provisions within this issue paper are only permitted if all the components of the issue paper are met and shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the stated qualifications or that are not specifically addressed within this guidance.
3. The guidance within this issue paper is anticipated to be included as a new SSAP applicable to the limited derivative hedging transactions addressed within.

DISCUSSION

4. The discussion of ALM derivatives originally began in 2023 in accordance with the development of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That interpretation provided limited-time exception guidance to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* and the annual statement instructions that required nonadmittance of net negative (disallowed) interest maintenance reserve (IMR) as a short-term solution. With the development of the interpretation, it was identified that some reporting entities had been allocating gains and losses from non-accounting-effective derivative transactions to IMR. For these companies, the derivative had been reported at fair value when open, with unrealized gains and losses from fair value fluctuations reflected through surplus, but at termination, the reporting entity reversed the unrealized gain or loss and recognized the realized impact through IMR. Although this guidance was not in accordance with *SSAP No. 86*, these reporting entities referred to a “hedging” reference in the annual statement IMR instructions and had taken a position that the derivative was “economically effective” as a hedge even if it did not qualify as an accounting-effective hedge.
5. With the August 2023 issuance of *INT 23-01*, provisions were included to allow reporting entities that had a historical, documented practice of deferring both derivative gains and losses from these “economically effective” hedging derivatives to continue the practice over the short-term duration of the interpretation and include the derivative losses as part of the admitted net negative (disallowed) IMR.

Reporting entities that did not have a historical, documented practice, would not be permitted to begin allocating realized gains or losses from these derivative transactions to the IMR or include these derivative losses as part of an admitted net negative (disallowed) IMR. For reporting entities eligible to continue the historical practice, the interpretation required reporting entities to include a roll-forward disclosure for the unamortized IMR balances related to these derivatives separately for derivative gains and losses.

6. Pursuant to subsequent discussions, the Statutory Accounting Principles (E) Working Group noted that the gains and losses that are not accounting-effective hedging derivatives in scope of SSAP No. 86 shall not be allocated to the IMR. The revisions to SSAP No. 7 from the long-term IMR project clarify that only specifically noted derivatives are permitted to be included in IMR:

- a. 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.
- b. Terminated income generating derivatives in scope of SSAP No. 86 (written derivatives) 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.)
- c. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is valued at amortized cost.

7. With these discussions, industry representatives proposed new statutory accounting guidance to address asset-liability management derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity. The industry representatives identified that these hedges, which often reflect macro-hedges, will not qualify as accounting-effective hedges under SSAP No. 86, but are key insurance company activities as they protect surplus by shielding insurance companies from negative impacts of interest rate changes.

8. On September 10, 2025, representatives from the ACLI presented an ALM derivative proposal to the Statutory Accounting Principles (E) Working Group. The ACLI highlighted their view that the proposed guidance would significantly enhance the alignment of each company’s reported surplus with its actual solvency and liquidation value, as well as avoid situations where financials contain inappropriate portrayals of surplus and illusionary financial strength. The ACLI presented two versions of potential statutory guidance, one representing an amortized cost method and the other representing a mark and spread method (fair value). Although key concepts are similar between the two proposals, under the amortized cost method, the hedging derivatives would be reported at amortized cost (zero for a no-cost derivative), and when terminated (or removed from an effective hedge program), the derivative fair value would be deferred and amortized into income overtime. Under the mark and spread method, the hedging derivatives would be reported at fair value, resulting in the changes in fair value (unrealized gains and losses) being taken to deferred accounts with amortization throughout the life of the derivative. Both versions also proposed to exclude asymmetrical derivatives. At the conclusion of the call, both versions of the proposed guidance and the ACLI presentation were exposed for comment.

9. On December 9, 2025, as part of the 2025 Fall National Meeting, the Working Group considered comments on the exposed proposals, noting the ACLI strongly supported the development of guidance for ALM derivatives, as well as support for the amortized cost approach. In considering the comments, the Working Group directed NAIC staff to move forward with an issue paper and concurrent SSAP to reflect statutory accounting guidance for interest-rate hedging derivatives used for ALM under the

amortized cost approach and continuing the exclusion of asymmetrical derivatives. (Discussion of asymmetrical derivatives is captured in paragraphs ~~1516-1617~~.)

10. On May 18, 2026, the Working Group exposed the proposed SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. The edits reflected from the prior exposure are to revise the transition guidance, to incorporate a surplus-neutral approach and clarify amortization of the derivative asset or liability. Exposure intends to provide additional time for regulators to assess the new derivative concepts prior to adoption, particularly on the broad concepts, and transition, reporting and admitted asset classification.

11. On August 12, 2026, the Working Group exposed a revised SSAP and issue paper with a modified effective date of January 1, 2028. In addition to the exposure, the Working Group directed a Life Actuarial (E) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB. Revisions reflected in the August 2026 exposure include:

- a. Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.
- b. Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.
- c. Elimination of the elective accelerated amortization provisions.

JMG to expand with subsequent discussion dates.

Discussion of ALM Hedging Concepts and Differences from SSAP No. 86 and SSAP No. 108

11.12. The development of new statutory accounting guidance to address ALM derivatives, which hedge duration differences subject to fluctuations as a result of interest sensitivity, utilized existing concepts in SSAP No. 86 and SSAP No. 108 to the extent possible to allow for consistent concepts and ease of application. New derivative guidance was deemed appropriate as the proposed macro-hedging derivative structures would not qualify as highly effective hedges under SSAP No. 86 and the guidance in SSAP No. 108 is specific to hedges for variable annuity guarantees. Consideration was given to expanding SSAP No. 86, but as that standard utilizes U.S. GAAP guidance for effective-hedge determination, separating guidance for ALM derivative programs into a new statement was considered most appropriate.

12.13. Consistent with SSAP No. 108, the provisions of the new ALM derivative guidance permit the recognition and admittance of deferred assets and deferred liabilities, with amortization of the deferred amounts into net realized capital gains and losses over a period not to exceed 10 years. Although SSAP No. 86 does not use the concept of deferred assets and deferred liabilities, deferral of gains and losses from accounting-effective hedges is also a consistent concept, it is just completed through an adjustment to the basis of the hedged item or allocation to IMR. The existing statutory accounting guidance to recognize fair value gains and losses as deferred liabilities and assets, as well as use of an amortized cost approach in SSAP No. 86 for accounting-effective hedges, is inconsistent with U.S. GAAP. Under U.S. GAAP, and under SSAP No. 4—*Assets and Nonadmitted Assets*, realized losses do not represent assets as they do not reflect a present right to an economic benefit. Also, under U.S. GAAP and SSAP No. 5—*Liabilities, Contingencies, and Impairment of Assets*, realized gains do not represent liabilities as they do not reflect a present obligation to transfer or provide an economic benefit to others. Reporting realized gains and

losses as deferred liabilities and assets for certain derivative structures and for qualifying fixed-income investment sales is a statutory concept that reflects an exception to the asset and liability definitions under SSAP Nos. 4 and 5. These provisions result from the different accounting measurement concepts between statutory accounting and U.S. GAAP.

13.14. Under SSAP No. 108, recognized deferred assets are permitted to be admitted without limitation. Although net negative IMR currently has a 10% admittance limit, with the offsetting of gains and losses that occur between a SSAP No. 86 hedged item and hedging derivative, there is limited net amount recognized in the IMR for accounting-effective hedges. The provisions within this new statement propose full admittance of deferred assets in order to not disincentivize prudent hedging activities. Items are only permitted to be recognized as deferred assets or deferred liabilities if they qualify under the effective hedge provisions of the new statement. The guidance requires an amount equal to the net deferred asset and deferred liability to be allocated from unassigned funds to special surplus. (Note: SAPWG discussion is expected to confirm this proposed admitted asset treatment.)

Terms and Concepts

14.15. The terms and concepts for the new ALM statement are consistent with SSAP No. 108. These items permit macro-hedges in a dynamic hedging strategy. This means that the derivative instruments and hedged items can reflect a flexible portfolio, rebalanced as needed to permit an ongoing effective hedging strategy. Macro-hedges and dynamic hedging strategies are not permitted under SSAP No. 86. These characteristics are key reasons why these hedging programs do not qualify as accounting-effective hedge programs under SSAP No. 86 or under U.S. GAAP.

15.16. A specific restriction incorporated into the ALM derivative standard prevents use of derivatives with asymmetrical payoff profiles and/or derivative premiums at inception (e.g., options). Programs with these derivatives are not eligible to apply the special accounting provision within the standard and are required to follow the guidance in SSAP No. 86, with fair value measurement. Swaps, forwards and futures are expected to typically be eligible for the provisions within the ALM standard as long as they do not have asymmetrical payoff profiles or derivative premiums at inception.

16.17. Asymmetrical derivatives refer to the payment profile of the derivative. A typical swap (symmetrical) has no upfront payment or receipt, and at inception has an equal chance of resulting with a gain or loss. Conversely, an option has an asymmetrical payoff profile. If a reporting entity buys an option, the purchase price paid is the maximum loss amount, while resulting gains can be much more than the maximum loss. Other asymmetrical derivatives include swaps with ceilings/floors and other non-standard derivatives. Asymmetrical derivatives are excluded as permissible derivatives within the standard to avoid the possibility that companies that buy options that mature out of the money would defer the “loss” although it was the upfront purchase price. The exclusion also limits the ALM derivative concept to standard derivatives for ease of application and review.

17.18. The requirements a reporting entity shall follow in order to utilize the special accounting provisions in the new ALM statement, including explicit approval by the domiciliary state, certification by a financial officer, as well as the requirements for a clearly defined hedging strategy are all consistent with SSAP No. 108.

Assessing Hedge Effectiveness

18.19. The ALM derivative standard was developed for highly effective hedges that reduce duration differences between designated asset and liability portfolios during the period when the hedge is designated. With this specific focus, which is different from both SSAP No. 86 and SSAP No. 108, specific methods have been developed to determine whether the hedging program is highly effective. One of the

three noted methods detailed below is required to be designated by the reporting entity for each hedging program and used as the constant measurement of effectiveness. Each method requires use of the standard 80-125% derivative threshold (used in SSAP No. 86 and U.S. GAAP) in determining hedge effectiveness.

- a. “Modified Duration” is the effect that a 100-basis-point (1%) change in interest rates will have on the price of an instrument. (For example, if an instrument has a modified duration of 5, a 1% change in interest rates would be expected to cause a 5% change in the instrument's price in the opposite direction). As such, if an asset portfolio has a modified duration of 9 and a liability portfolio has a modified duration of 10, a highly effective derivative portfolio hedging this difference would place the modified duration of the assets with derivatives at between 9.8 and 10.25 (80%-125% of the modified duration difference). Alternatively, if asset portfolio duration is 9 and a liability duration is 11, an entity can elect to hedge only half the difference (between 9 and 11, i.e., 10). In that case, a duration of the assets with derivatives between 9.8 and 10.25 would be highly effective.
- b. “Macaulay Duration” is the weighted average time until cash flows are received and is measured in years. As such, if an asset portfolio has a Macaulay duration of 9 years and a liability portfolio has a Macaulay duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macaulay duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macaulay Duration difference).
- c. “Dollar Value One (DV01)” measures the dollar change in an instrument's price for a one basis point (0.01%) change in rates. As such, if an asset portfolio has a DV01 of \$9M and a liability portfolio has a DV01 of \$10M, a highly effective derivative portfolio hedging this difference would place the DV01 of the assets with derivatives at between \$9.8M and \$10.25M (80%-125% of the DV01 difference).

Measurement / Recognition of Gains and Losses of Derivative Instruments

19-20. Consistent with SSAP No. 86, but different from SSAP No. 108, the provisions of the ALM standard requires use of an amortized cost measurement method for highly effective hedging instruments, with excluded components measured and reported at fair value. (Under SSAP No. 108, the derivatives follow a fair value measurement, which is in line with the assessment of effectiveness under that standard. Under SSAP No. 108 effectiveness is determined based on fair value comparisons to the hedged item.)

20-21. The amortized cost approach was supported for ALM derivatives as that approach would mirror SSAP No. 86 for highly effective hedges, where derivatives would be reported at cost (zero, if there is no upfront cost), without the reporting of surplus valuation changes from fair value fluctuations throughout the life of the derivative. With the amortized cost approach, if the derivative continues to be highly effective, there would be no unrealized gains or losses recognized until termination (or removal from the program), meaning that there would be no need to track or recognize deferred assets or losses while the derivative is part of an effective program. At termination (or removal from a highly effective program), the resulting gain or loss would be recognized with a deferred gain or loss as permitted under the guidance. If a fair value approach had been supported, fair value fluctuations would be recognized as unrealized gains and losses, resulting in the need to recognize and adjust deferred assets and liabilities throughout the derivative duration and not just at termination (removal). As the deferred balance would be captured in cash flow testing (CFT) and principle-based reserving (PBR), including these unrealized fair value changes in the deferred balance would create an inconsistency in the amount used as an adjustment for CFT and PBR. Use of the amortized cost approach would result with only realized gains and losses being

captured in these assessments. In addition to mirroring the SSAP No. 86 approach for highly effective hedges, the amortized cost method is perceived to be the simpler approach for both application and regulator review.

21-22. The ALM derivative standard provides guidance for discontinuation of the amortized cost approach based on whether the derivative terminates/matures, is de-designated (removed) from a qualifying highly effective program and when de-designated or captured within a program that no longer qualifies as highly effective. For derivatives that terminate or are removed from a highly effective program, the fair value at the time of termination/de-designation shall be recognized as a deferred asset (loss) or as a deferred liability (gain), which would be surplus neutral to the amount received/paid or as an offset to the current fair value recognition of the derivative. Open derivatives removed from a qualifying program are permitted to be immediately allocated to another highly effective derivative program. If this occurs, the fair value at the time of removal shall be recognized as a deferred asset/liability and shall reflect the amortized cost basis for the subsequent program. Allocation to another program is required within the quarter to be considered an immediate allocation. The reason for this time restriction is that once a derivative is removed from a qualifying program, it is required to be reported at fair value with fluctuations in fair value recognized as unrealized gains and losses. By requiring an immediate reallocation, a reporting entity would not have a period of time in which the derivative is reported at fair value with unrealized gains and losses recognized. Such re-allocations are not expected to be common and would be expected only in situations in which derivative programs are being combined, which can be achieved with an immediate reallocation of the derivative.

22-23. For derivatives that are de-designated from, or captured within, a program that no longer qualifies as highly effective, the derivative no longer qualifies for the ALM derivative standard. The derivative shall be captured in scope of SSAP No. 86, which would require a fair value measurement method with fair value fluctuations reflected as unrealized gains and losses.

Amortization of Deferred Assets and Liabilities

23-24. The provisions of the ALM standard require amortization of deferred assets and liabilities over a timeframe that equals the weighted average life of the hedged liability portfolio, not to exceed 10 years. This 10-year amortization limit is consistent with SSAP No. 108. Provisions for a reporting entity to accelerate amortization, ensuring consistency in any accelerations to both deferred assets and liabilities, is a provision within also consistent with SSAP No. 108 that has not been duplicated within the new ALM standard. Although provisions are incorporated within SSAP No. 108 to ensure consistent application to deferred gains and losses, even if more than one hedging strategy is utilized, concerns were noted that reporting entity could still elect to accelerate amortization when in a net deferred liability (gain) position and not make the same election when in a net deferred asset (liability) position. With these concerns, the ability to accelerate amortization has not been captured in the ALM standard.

24-25. Although SSAP No. 108 has provisions that require a shortened 5-year amortization period for deferred assets and liabilities when programs no longer qualify, the ALM standard does not require a similar shortened 5-year amortization timeframe. SSAP No. 108 requires a shortened timeframe as it uses a fair value approach, and deferred assets and liabilities are recognized as derivative fair value fluctuations occur. Meaning, a deferred asset could be recognized for an open derivative, and while the derivative is still open, the program could be identified as no longer a qualifying program. Under the ALM standard, and the amortized cost approach, deferred assets and liabilities are only recognized when terminated/de-designated from a highly effective program. As such, there is no risk that a deferred asset or liability would be recognized prior to confirming that the program is highly effective. As the hedging benefit would have been achieved prior to the recognition of the deferred asset or liability, allowing amortization over the stated timeframe, not to exceed 10-years, is permitted even if a program is subsequently identified as no

longer highly effective. Open derivatives in a program that no longer qualifies as highly effective are not permitted to be recognized as deferred assets or liabilities and are required to follow SSAP No. 86 with a fair value measurement method.

25-26. The provisions to the ALM standard include a requirement for deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance agreement. This guidance is similar to the concept in IMR, in which the deferred derivative deferred gains and losses should no longer exist when the related policyholder obligations to which they were attributed have been derecognized.

ALM Derivative Reporting

26-27. The ALM derivative reporting in the statutory financial statements is largely consistent with the provisions of SSAP No. 108, with discussion of the hedging program, including the hedging instruments and strategy, the assessment of hedging effectiveness, compliance with the clearly defined hedging strategy, and if there are excluded components. The disclosures also include information on cost, fair value, and a roll-forward of the deferred assets and liabilities, with a percentage comparison to total capital and surplus, as well as the expected amortization over the next 10 years.

27-28. The disclosures capture information on programs that no longer qualify as highly effective, or that a reporting entity elects to discontinue the ALM guidance, along with information on the outstanding hedging instruments that will be reclassified to a fair value measurement method.

29. For reporting, it is proposed that new subtotals be added to Schedule DB to segregate the derivatives under the ALM derivative standard.

28-30. Reporting entities are required to capture derivative deferred gains and losses in the principles-based reserving (PBR) calculation or asset adequacy (AAT)/cash flow testing (CFT) pursuant to all relevant Valuation Manual calculations. This provision requires reporting entities to prepare a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for PBR and CFT to ensure reserves are appropriately stated.

Transition and Effective Date

29-31. The transition guidance proposes an effective date of January 1, 2027-2028 to be applied on a prospective basis for approved, qualifying hedge programs in place on or after the effective date. The guidance includes a one-time transition provision for approved qualifying programs that have existing open derivatives with recognized unrealized gains and losses. After initial transition, reporting entities are not permitted to retroactively allocate unrealized gains or losses to deferred assets or liabilities. The transition provisions do not permit reporting entities to reverse previously recognized realized gains and losses for recognition as deferred assets or deferred liabilities regardless of if the program would have qualified in scope of the statement.

30-32. A one-time transition provision has been included for approved, open qualifying programs to reclassify recognized unrealized gains and losses from derivative fair value changes to realized gains and losses in the statement of operations. This is proposed to prevent situations in which reporting entities terminate and re-establish derivative programs as of the effective date. If the provision was not incorporated, then reporting entities that have previously established programs to allocate realized gains and losses from such hedging derivatives to IMR would be permitted to allocate the realized impacts from termination to IMR for future amortization. Reporting entities that had followed guidance in line with SSAP No. 86 and have not historically reclassified realized impacts from non-accounting effective hedging derivatives to the IMR would be at a disadvantage.

31:33. With the transition provision, unrealized gains and losses recognized for approved, qualifying programs would be reclassified as realized gains and losses even though the derivative is still open. The reported book/adjusted carrying value of the derivative asset or liability at the date of transition shall then begin amortization to income over the remaining life of the derivative instrument over a period not to exceed 10 years. At the time of transition, the current fair value of the derivative would be established as the amortized cost basis. With this approach, future fair value fluctuations will not be recognized until derivative termination or removal from a highly effective program. At that time, assuming the program still qualified as an effective hedge, the derivative fair value would be recognized as a deferred asset and liability and follow the amortization provisions in the statement.

32:34. The transition guidance is explicit that if there are open programs that will not qualify as an effective hedge under the statement, or for which the company will not elect to apply, then the open derivatives shall continue to be in scope of SSAP No. 86, reported at fair value, with fair value fluctuations reported as unrealized gains or losses.

33:35. The transition guidance also reiterates provisions expected in SSAP No. 7, where if a reporting entity had realized gains and losses from derivatives previously allocated to the IMR, those balances shall be amortized over a period not to exceed 10 years. Upon the effective date of SSAP No. 7, realized gains and losses attributed to derivatives that do not qualify as effective hedges under SSAP No. 86 are not permitted to be taken to the IMR.

Exhibit A – Example

Under the accounting provisions within this issue paper, all designated highly effective hedging instruments shall initially be reported in the financial statements at amortized cost. Amortized cost treatment will discontinue upon derivative maturity/termination or with de-designation (rebalancing) from a current highly effective program; at which time, the derivative fair value will be recognized as an asset or liability offset by a deferred asset (admitted) or deferred liability (i.e., fair value recognition is initially surplus neutral).

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

Reporting entities shall designate and utilize one of the permitted tests for determining whether the program is highly effective detailed in [paragraph 191](#). For example:

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

SSAP109 Example			
Amortized Cost Method			
July 1, 202x:	Fixed Income Assets = \$100 (Modified Duration = 9) Hedged Liabilities = \$100 (Modified Duration = 10) Fixed Income Assets Modified Duration With Derivatives = 10 Fixed Income Assets & Liabilities' Amortized Cost = Fair Value Derivatives Amortized Cost & Fair Value = 0		
Sept. 30, 202x:			
<u>Example Entries</u>			
Change in Value	N/A		
Derivative Maturity/Termination (if applicable)			
DR-CR: Cash	}	surplus neutral	
DR-CR: Deferred Asset/Liability			
Amortization (subsequent quarters for maturities/terminations, as applicable)			
DR-CR: Deferred Asset/Liability	}	surplus impact over amort period	
DR-CR: Net Investment Income			
<u>Liquidation Value (amounts rounded for simplicity)</u>			
Liquidation Value (fair value realization via asset sales, derivative settlement, reinsurance):			
	Assets	Liabilities	
BOP Fair Value (Liquidation Value)	100	100	Net Flat Liquidation Value
Value Change (ex-derivatives)	9	10	Interest rates decrease 1%
EOP Fair Value (Liquidation Value) (ex-derivatives)	109	110	Net Liquidation Value changes due to duration difference (pre-hedging); also, bond reinvestment interest rates may not cover liabilities
ALM Derivatives	1		ALM derivatives (e.g., receive-fixed swaps in this scenario) will increase in value when rates fall (which offsets the above difference)
EOP Liquidation Value (w/derivatives)	110	110	BOP net flat Liquidation Value remains intact due to highly effective hedges

Balance Sheet Value			
BOP	100	100	<i>Net flat</i>
EOP (<i>amort cost-ex derivatives</i>)	100	100	
EOP (<i>derivative maturities</i>)	1	1	<i>per above journal entry (DR-CR: Cash; DR-CR: Deferred)</i>
EOP Balance Sheet Total	101	101	<i>Net flat (reflects highly effective hedge); deferral of asset/ liability brings balance sheet surplus equal to liquidation value</i>

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

De-designation

DR-CR: Derivative Asset/Liability	}	<i>current value (surplus neutral)</i>
DR-CR: Deferred Asset/Liability		
<i>Start amortizing</i>		

Subsequent Accounting (MTM)

DR-CR: Derivative Asset/Liability	}	<i>(prospective MTM in URGL)</i>
DR-CR: URGL (Surplus)		

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

Issue: Asset Liability Management Derivatives

Check (applicable entity):

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

Description of Issue: This agenda item has been developed 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*, but that are used for asset-liability management (ALM). Specifically, industry has proposed two assessment metrics for macro-hedges, the “ALM Risk Reduction Approach,” which is a hedging approach to reduce mismatches between identified assets and liabilities and the “ALM Target Management Approach,” which is a hedging approach to keep an asset portfolio aligned with a liability target. These programs do not qualify for effective hedge treatment under SSAP No. 86 (or any accounting regime) as they reflect macro-hedges.

This agenda item originated from discussions at the IMR Ad Hoc Group, noting that full Working Group discussion is needed on this topic. Industry has communicated that these hedging derivatives, although not accounting effective under SSAP No. 86, are economically effective (meaning effective in achieving the hedge intent). With this industry assessment, and their interpretation of the Annual Statement Instructions, the fair value fluctuations reported as unrealized gains and losses while the derivative is open have been allocated by some life entities to the interest maintenance reserve (IMR) upon derivative termination. This approach essentially reverses the surplus impact from the unrealized position and defers the realized impact from these derivative structures through the IMR formula with subsequent amortization into income over time.

INT 23-01: Net Negative (Disallowed) IMR, allows losses for interest-rate hedging derivatives that do not qualify for “hedge accounting” under SSAP No. 86 to continue to be allocated to IMR (and admitted if IMR is net negative) if the company has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. The guidance does not permit entities to allocate current derivative losses to IMR without evidence illustrating the historical treatment for gains. This INT was established to provide limited-time exception guidance while IMR is further discussed and is effective through Dec. 31, 2025, with automatic nullification on Jan. 1, 2026. The treatment of the gains and losses from these non-accounting effective hedges is a key element in the long-term guidance for clarifying IMR.

SSAP No. 86 provides guidance on designations that hedge a variety of exposures, with assessments of effectiveness adopted from U.S. GAAP. Derivatives that qualify as “highly effective hedges” are permitted “hedge accounting treatment,” which means that the measurement method of the derivative mirrors the measurement method of the hedged item. (This measurement method is different than US GAAP, which requires all derivatives to be at fair value. This different measurement method is necessary under SAP to prevent a measurement mismatch between the hedged item and derivative, which would result in surplus volatility for accounting effective hedges.) Derivatives that do not qualify as “highly effective hedges” under SSAP No. 86 are reported at fair value, which does mirror the measurement method under U.S. GAAP. Pursuant to the IMR Ad Hoc Group discussion, this item is focused on hedges that address interest-rate risk exposure used in macro-hedges, that would not qualify under the effective hedge requirements under SSAP No. 86.

If the Working Group wants to pursue accounting guidance for macro-hedges focused on hedging interest-rate risk that results with different treatment than what is detailed in SSAP No. 86, the guidance is anticipated to detail:

- 1) The requirements for the interest-rate hedging derivatives, including effectiveness assessments.
- 2) The accounting for the derivatives and the resulting gains/losses (including amortization if those gains/losses are deferred from immediate recognition), and
- 3) Disclosure and reporting requirements for the derivatives.

If developing new guidance, it is anticipated that the concepts of *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* will be followed to the extent possible, but there would need to be variations based on the specific intent and application of these derivatives. A key item to note is that SSAP No. 108 does not use IMR for the reporting of deferred derivative gains and losses and this approach will also be considered within the new guidance for consistency purposes.

Existing Authoritative Literature:

- **SSAP No. 86—Derivatives**

SSAP No. 86 provides the broad statutory accounting principles for derivative instruments. The guidance is used to determine whether a derivative qualifies as “effective” and therefore permitted to be accounted for under the “hedge accounting” provisions. (Derivatives that qualify for hedge accounting are reported at the measurement method that mirrors the hedged item. For example, a derivative that qualifies for hedge accounting that is hedging a bond would be reported at amortized cost, to mirror the amortized cost measurement of the bond.) Derivatives that do not qualify for “hedge accounting” are required to be reported at fair value.

The guidance in SSAP No. 86 is explicit that derivative gains or losses from derivatives that qualify for hedge accounting shall be recognized in a manner consistent with the hedged item. Hence, if the gain/loss on a hedged item was to go to IMR, then the gain/loss on the effective, hedging derivative should also go to IMR. This guidance makes sense, as the derivative gain/loss should predominantly offset the hedged item gain/loss, resulting in a zero (or negligible) impact to IMR.

SSAP No. 86 requires derivatives which do not qualify as effective to be carried at fair value and changes in fair value are reported in unrealized gains and losses until termination.

- **SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees**

SSAP No. 108 provides special accounting treatment for limited derivatives hedging variable annuity guarantee benefits subject to fluctuations as a result of interest rate sensitivity. The items in scope of SSAP No. 108 would not qualify for hedge effectiveness under SSAP No. 86. The guidance is specific in that the provisions are only permitted if all of the components of the statement are met and that the guidance shall not be inferred as an acceptable statutory accounting approach for derivative transactions that do not meet the state qualifications or that are not specifically addressed within the guidance.

The guidance in SSAP No. 108 addresses derivative transactions that reflect a macro-hedge (portfolio of variable annuity contracts) as well as a dynamic hedging approach (rebalancing of derivative instruments). Due to the heightened risk of misrepresentation of successful risk management, specific provisions are detailed to ensure governance of the program as well as to provide sufficient tools for regulators to review.

Under SSAP No. 108, all derivatives are reported at fair value, and all fair value fluctuations attributed to the hedged risk (unrealized) are compared to the changes in the VM-21 reserve liability. The fair value fluctuations are then 1) recognized to realized gain/loss to offset a current period liability change, 2) recognized as deferred if attributed to the hedged risk but not offsetting a current period liability change or 3) recognized as unrealized if not attributed to the hedged risk. The changes recognized as deferred are amortized over a straight-line method into realized gains/losses via a timeframe that matches the Macaulay duration of the guarantee benefit cash flow, not to exceed 10 years. SSAP No. 108, although specific to interest rate risks, does not take derivative gains or losses to IMR.

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):

In 2023, the Working Group adopted *INT 23-01: Net Negative (Disallowed) IMR* as short-term guidance and directed efforts towards a long-term resolution of IMR. The IMR Ad Hoc Group, comprised of accountants and actuaries representing regulators and industry, has met to discuss IMR, including the gains/losses from “economic effective” (ALM) derivatives that some reporting entities have been taking to IMR. With those discussions, and an ACLI presentation on ALM derivatives, regulators from the Ad Hoc Group supported moving discussion of potential statutory accounting guidance to the Working Group.

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 recommends that the Working Group move this item to the active listing, classified as a new statutory accounting concept, with exposure of this agenda item to obtain comments from Working Group members, as well as interested regulators and interested parties on the potential to develop statutory guidance for macro-derivative programs that hedge interest rate risk for asset-liability matching purposes. Initially, NAIC staff is requesting feedback on the following key concepts:

- 1) Do Working Group members support the development of statutory accounting guidance that would defer derivative gains/losses for structures that hedge interest rate risk with amortization over time into income? (These derivative programs would not qualify as accounting effective under SSAP No. 86 and are not captured within the specific variable annuity guarantee guidance in SSAP No. 108.)
- 2) If further development / consideration of guidance is supported, the following items are noted for discussion:
 - a. Determination of effectiveness that permits the derivative program to qualify for the special accounting treatment.
 - b. Discussion of whether net deferred losses (reported as assets) would be admissible, and if so, any admittance limitations.
 - c. Macro-limits on admissible net deferred losses (reported as assets) and other “soft” assets. (For example, capturing IMR and derivative deferred net losses, and then perhaps considering other soft assets, such as DTAs, EDP equipment and software, goodwill, etc.)
 - d. Timeframes over which deferred items are amortized into income.

- e. **Extent of application across the industry. (NAIC staff notes that SSAP No. 108 is only applied by 9 entities, and from a review of the derivative disclosures for INT 23-01, only 14 entities captured derivative gains/losses in the IMR balance.)**

NAIC staff requests direction to work with regulators and industry during the interim to continue discussions and in the consideration of guidance.

Staff Review Completed by: Julie Gann, NAIC Staff—May 2024

Status:

On August 13, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, classified as a new SAP concept, and exposed this agenda item with a request for feedback on the items noted within the above staff recommendation. This item was exposed with a longer comment period ending November 8, 2024. This item is not planned for detailed discussion at the 2024 Fall National Meeting but is planned for discussion in the interim after that meeting, or at the 2025 Spring National Meeting.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received comments from the prior exposure. Due to the extent of comments, and the complexity of the topic, the Working Group deferred directing staff from moving forward. This item is anticipated to be a focus of discussion at the Spring National Meeting, along with a review of the data reported for IMR derivatives as that information will be data-captured for the year-end 2024 financial statements. This item was not formally re-exposed.

On March 24, 2025, the Statutory Accounting Principles (E) Working Group directed NAIC staff to research and develop possible guidance for certain non-accounting effective derivatives to defer realized gains and losses.

On September 10, 2025, the Statutory Accounting Principles (E) Working Group received a presentation on proposed ALM derivative guidance from the ACLI, along with two drafts of potential statutory accounting guidance. These drafts illustrate possible ALM derivative guidance using 1) an amortized cost method and 2) fair value and spread method. The Working Group exposed the entire package (presentation and both potential options for SAP guidance) with a comment period ending October 31, 2025. Comments are specifically requested on whether guidance for ALM derivatives should be further pursued, and if so, whether the amortized cost or fair value method is preferred.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group directed NAIC staff to move forward in preparing an issue paper and draft SSAP for asset-liability matching derivatives following the amortized cost approach. The group also supported retaining the asymmetrical derivative exclusion at this time. Further, NAIC staff were directed to work with industry and regulators in the interim to determine potential reporting options for derivatives captured within the new guidance.

On March 23, 2026, the Statutory Accounting Principles (E) Working Group exposed a draft SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management as directed from the 2025 Fall National Meeting. In addition to the proposed clean version of the SSAP guidance, a version of the document showing tracked changes from the ACLI's September 10, 2025, proposed guidance was included to clearly illustrate changes. With the exposure and request for comments, the components addressing transition, reporting and admitted asset classification were specifically highlighted.

On May 18, 2026, the Statutory Accounting Principles (E) Working Group exposed the proposed SSAP and issue paper to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability

management. The only edits reflected from the prior exposure are to revise the transition guidance, to incorporate a surplus-neutral approach and clarify amortization of the derivative asset or liability. Exposure intends to provide additional time for regulators to assess the new derivative concepts prior to adoption, particularly on the broad concepts, and transition, reporting and admitted asset classification.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group exposed a revised SSAP and issue paper, with a revised January 1, 2028 effective date, to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management. Revisions reflected in the SSAP and issue paper include:

- Requirement to eliminate derivative deferred assets and liabilities upon derecognition of the hedged liability portfolio due to a reinsurance agreement.
- Requirement to include derivative deferred gains and losses in actuarial projections, with a reconciliation of admitted deferred derivative losses to the reported deferred amounts reflected for principles-based reserving and cash flow testing.
- Elimination of the elective accelerated amortization provisions.

In addition to the exposure of the revised SSAP and issue paper, the Working Group directed a Life Actuarial (A) Task Force referral with a request to review and assess the proposed derivative guidance and to consider facilitating a pilot review in early 2027. The pilot proposed to focus on the specific hedge effectiveness tests and how effectiveness testing should be performed. Lastly, the Working Group directed NAIC staff to proceed with sponsoring a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/08-12-26SummerNationalMeeting/Exposures/IMR & ALM/24-15 - ALM Derivatives.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/08-12-26SummerNationalMeeting/Exposures/IMR&ALM/24-15-ALMDerivatives.docx)