Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: IMR Definition**

**Check (applicable entity):**

P/C Life Health

Modification of Existing SSAP

New Issue or SSAP

Interpretation

**Description of Issue:** This agenda item has been prepared to present the proposed IMR definition suggested by the ACLI to the Working Group for inclusion in *SSAP No. 7—Asset Valuation and Interest Maintenance Reserve*. As this discussion is focused on the specific IMR definition, it has been captured in a separate agenda item. Agenda item 2023-14 will continue to be referred to as the broad agenda item for overall revisions to SSAP No. 7 and the removal of accounting-related guidance from the Annual Statement Instructions.

The IMR Ad Hoc Group was formed in October 2023 after the adoption of the limited-time *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* and the direction from the Working Group towards a long-term project addressing IMR and AVR. This ad hoc group, which is comprised of accounting and actuarial regulators and interested parties, has met regularly since inception to consider several topics and issues involving IMR.

As part of the discussion, the ACLI proposed a definition/purpose of IMR as follows:

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).

Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC’s statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

Although this definition was initially discussed at the IMR ad hoc group, it was noted that further discussion and revision may occur, and that the full Statutory Accounting Principles (E) Working Group would need to consider the proposed definition.

The ACLI proposed definition, which is shown below the Staff Recommendation, is significantly expanded beyond what is currently in SSAP No. 7, paragraph 2.

**Existing Authoritative Literature:**

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

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

*There is no definition of IMR in the Annual Statement Instructions.*

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

* Agenda Item 2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* establishes a broad project to capture accounting guidance for AVR and IMR in SSAP No. 7. The IMR ad hoc group was created from this agenda item and has been meeting regularly since October 2023.
* Agenda Item 2023-15: IMR/AVR Specific Allocations adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that prescribes the specific allocation of non-interest related losses to IMR. The revisions addressed both mortgage loans and the guidance for debt securities. For debt securities, the guidance directs AVR reporting if there is an acute credit event that negatively impacts the price of the security that has not yet been reflected in the CRP ratings/SVO feed at the time of the sale where the resulting gains/loss was predominantly credit related.
* Agenda Item 2023-29: IMR / AVR Preferred Stock adopted revisions to the A/S instructions for year-end 2024 to remove the guidance that directed all preferred stock to be allocated between IMR/AVR based on NAIC designations, and to clarify that perpetual preferred stock as well as all mandatorily convertible preferred stock shall be reported through the AVR.
* Agenda Item 2024-15: Asset Liability Management Derivatives was developed to consider new statutory accounting guidance to permit the deferral of realized gains/losses for interest-rate hedging derivatives that do not qualify as effective hedges under *SSAP No. 86—Derivatives*. This item was initially exposed at the 2024 Summer National Meeting, but an extended comment period was provided until November 8, 2024. Then, due to the extent of comments and the complexity of the topic, the Working Group deferred direction to staff to move forward. Further discussion, along with a review of data reported for IMR derivatives is anticipated, before the Working Group directs staff to move forward.

**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

StaffRecommendation:

**NAIC staff recommend that the Working Group move this item to the active listing as a new SAP concept and expose the proposed ACLI IMR definition along with a secondary option to reflect an NAIC staff proposed IMR definition. The discussion supporting the proposed NAIC staff modifications is included in the agenda item. NAIC staff support this agenda item as a new SAP concept as the adopted definition will be included in the expanded SSAP No. 7, as part of the intent to include all accounted-related concepts for IMR in the SSAP and not the annual statement instructions.**

**ACLI Proposed IMR Definition:**

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of non-economic gains or losses where investment activity, whether through fixed income investment sales or fixed income derivative hedging transactions, essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer economic gains and losses related to asset sales compelled by liquidity pressures that fund significant cash outflows (e.g., such as excess withdrawals and collateral calls).

Specifically, the IMR valuation adjustment more appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC’s statutory framework which often includes amortized cost valuation of fixed income investments and liability valuations with fixed assumptions in accordance with the Accounting Practices and Procedures and Valuation Manual.

**NAIC Proposed IMR Definition (proposed changes from ACLI definition shown as tracked):**

IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).

IMR defers and amortizes the recognition of realized gains or losses where investment activity essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized gains and losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls).

**NAIC discussion regarding the proposed modifications and overall definition:**

1. **The ACLI has specifically identified IMR as a “valuation adjustment” and not an asset or as a liability.**

IMR is currently recognized as a liability when it has a net positive balance (realized gains exceed realized losses) and is recognized as an asset when it has a net negative balance (realized losses exceed realized gains.) Prior to the issuance of INT 23-01, net negative IMR was nonadmitted. The provisions of INT 23-01 permit admittance of negative IMR in accordance with established limits (10% of adjusted capital and surplus).

**NAIC staff agrees that IMR (reflecting realized gains or losses) should not be considered assets or liabilities**. Consistent with U.S. GAAP, negative IMR (realized losses) do not represent assets under *SSAP No. 4—Assets and Nonadmitted Assets*, as it does not reflect a present right to an economic benefit. Also consistent with U.S. GAAP, positive IMR (realized gains) do not represent liabilities under *SSAP No. 5—Liabilities, Contingencies and Impairment of Assets*, as it does not reflect a present obligation to transfer or provide an economic benefit to others.

The recognition of IMR stems from a reporting entity selling an investment at a gain or loss prior to the investment’s scheduled maturity. Although the cash received from these transactions is recognized as an asset, the balance sheet impact of whether more (or less) proceeds were received from how the investment was reported (gain/loss) does not result in actual assets or liabilities for the insurance reporting entity.

*(Note: The Working Group can decide to continue to report these gains/losses as assets and liabilities, but it should be clear that this would be a specific exception made by regulators as IMR does not meet the definition of an actual asset or liability pursuant to either U.S. GAAP or SAP.)*

1. **The ACLI has identified the intent of IMR is to defer and amortize non-economic gains and losses from asset sales and fixed-income derivative hedging transactions and that IMR is not intended to defer economic gains and losses from asset sales compelled by liquidity pressures that fund significant cash outflows.**

Although there are various debates on the full original concept of IMR, it is generally agreed that a key intent was to prevent insurance companies from selling investments when they were in a gain position, caused by a decrease in interest rates (allowing a surplus benefit) when the funds received from the sale had to be reinvested at the lower interest rates as they would still be needed to satisfy future policyholder obligations. By recognizing realized gains as an IMR liability, and amortizing that gain overtime, reporting entities would not immediately benefit from actions to churn liabilities for gain potential from a decline in interest rates. This concept assumed that most reporting entities held assets for long periods to match the timeframes of expected policyholder obligations. However, from information received, insurance reporting entities should no longer be perceived to be “buy and hold” investors, but rather often are actively trading their investment portfolio.

Although NAIC staff does not disagree with the overall intent of IMR, **NAIC staff does not agree with the explicit inclusion in the definition of the source of gains/losses in determining whether an item should be considered economic or non-economic, or even the inclusion of those terms in the definition.** NAIC staff notes that there is still discussion pending on whether gains/losses from non-accounting effective hedges should be deferred (and if deferred, included in IMR or via a separate reporting mechanism). **As such, to prevent any incorrect assumptions on what is permitted to be in/out of IMR from the broad definition, NAIC staff recommends that the proposed ACLI definition be revised to eliminate the reference to economic/non-economic, the specific sources of non-economic and economic gains and losses as well as to eliminate potential interpretations that the definition imposes materiality thresholds as shown below:**

IMR defers and amortizes the recognition of realized gains or losses where investment activity essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized gains and losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls).

NAIC staff notes that the sources of IMR (whether including non-accounting effective hedges) and the scope to which items should be excluded can be further prescribed in the accounting guidance for recognizing IMR, but that they should not be captured in the broad IMR definition.

*Agenda item 2024-15: Asset Liability Management Derivatives is specifically addressing whether realized gains and losses from non-accounting effective hedges should be deferred from immediate recognition*.

1. **The ACLI has proposed to include a statement that the IMR valuation adjustment appropriately reflects the impact to statutory surplus from fluctuations in interest rates and therefore provides a more accurate representation of solvency under the NAIC statutory framework under the amortized cost model.**

**NAIC staff does not agree with the inclusion of this statement in the IMR definition and has recommended it be completely removed.** This statement implies that all recognized IMR (whether negative or positive IMR) is a critical component of the financial statements for solvency assessment purposes. As previously discussed, neither negative IMR nor positive IMR reflects actual assets or liabilities and including these items in the financial statements as assets/liabilities may present an inaccurate presentation of 1) the assets available to pay claims, as well as 2) the actual obligations of the insurance reporting entity. Although the Working Group could decide to retain the current recognition of IMR, discussion on the extent to which negative IMR should be permitted as an admitted asset is a key aspect still pending discussion. NAIC staff cautions against including a broad statement in the IMR definition that implies that negative IMR (realized losses) should always be permitted to reflect an admitted asset in the statutory financial statements and that its inclusion provides an appropriate reflection of statutory surplus.

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

Status:

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed this agenda item with the proposed ACLI IMR definition along with an NAIC staff proposed IMR definition. This agenda item is considered a new SAP concept as the definition will be included in the IMR issue paper and revised *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* as part of the intent to include accounted-related concepts for IMR in the SSAP and not the annual statement instructions.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/08-11-25 Summer National Meeting/Hearing/08 - 25-03 - IMR Definition.docx