Statutory Accounting Principles (E) Working Group
IMR & ALM Hearing Agenda
August 12, 2026

ROLL CALL

Kevin Clark, Chair	Iowa	Steve Mayhew/Kristin Hynes	Michigan
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Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Levi Olson	Wisconsin
Shantell Taylor/Tom Travis	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

REVIEW of COMMENTS on EXPOSED ITEMS

The following items are open for discussion and will be considered separately.

1. Ref #2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*
2. Ref #2024-15: Asset Liability Management (ALM) Derivatives

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-14 (Julie)	**SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve**	**2.1 – Summary of Revisions** **2. 2 – SSAP No. 7** **2.3 – Issue Paper** **2.4 – Other SSAP Revisions** **2.5 – Reporting Revisions**	**Comments Received**	**ACLI – 1** **Nationwide – 6** **MetLife – 9** **Everlake – 16** **RGA - 18**

Summary:

On April 22, the Working Group exposed by evote a *revised SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* to capture accounting guidance within the SSAP instead of the annual statement instructions, pursuant to the December 1, 2023, Working Group direction. The exposure included the following four documents:

- Revised SSAP No. 7 – The draft SSAP reflects conclusions reached by the IMR Ad Hoc Group, which includes various revisions to historical guidance.

- Issue Paper – The draft issue paper details the discussions and conclusions of the IMR Ad Hoc Group.

- Proposed Revisions to Other SSAPs – The revisions to other SSAPs include both edits to refer to the revised SSAP guidance (and not the annual statement instructions) as well as detailed revisions to certain SSAPs (e.g., *SSAP No. 43—Asset-Backed Securities*) to reflect fundamental concept changes in allocating to IMR.

- Reporting Revisions – This document details proposed reporting revisions, including revised balance sheet reporting lines, a new capital gain and loss exhibit, and revised schedules and instructions for IMR. (Note – Although not exposed, corresponding revisions to the AVR to match the adopted allocation guidance will also be incorporated)

NAIC Staff have worked with industry representatives during the interim and have incorporated a variety of edits to the proposed guidance. Most of these edits are minor and only improve clarity of the exposed guidance. NAIC staff has prepared a list of the summary of revisions for ease of reference. In terms of fundamental concepts reflected in the exposure, the edits do not make any significant changes. NAIC staff has highlighted the following items as areas where the revisions may be of most interest:

<u>SSAP No. 7:</u>

- Paragraph 5 – The revisions clarify the definition of IMR. The paragraph continues to identify that neither IMR nor AVR meet the definition of assets and liabilities under SAP but are required to be recognized as statutory assets and liabilities. The IMR description has been revised to indicate that it is a valuation adjustment to maintain consistency between the *Valuation Manual* basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations.)

- Paragraph 13 – The revisions incorporate examples of known liquidity sales. The ACLI edits proposed limiting terms on a known liquidity sale, and these not been added. A company that does not reinvest proceeds from the sale of an IMR qualifying fixed income investment into another qualifying fixed income investment is not permitted to recognize realized losses from the sale into IMR.

- Paragraph 19 – The proof of reinvestment guidance has been expanded, reorganized and clarified. As a key item, the guidance has been expanded to include an additional exception when a reporting entity has assumed net negative IMR losses from a reinsurance arrangement. (Meaning, such IMR losses will be permitted to increase net negative IMR even if the reporting entity does not complete or fails the tests within the proof of reinvestment.)

- Paragraph 20 – ACLI proposed edits to the reinsurance guidance have been reflected. These revisions include a key change that directs the offset to an IMR adjustment to the “Aggregate Write-ins For Deductions.” This is currently used for FWH agreements, but is not consistently used for modco agreements, so it could reflect a change for some companies.

- Paragraph 26 – The revisions alter the initially exposed guidance for admittance allocation between the general and separate accounts. With the changes, reporting entities will be permitted to admit negative IMR to the extent it exists in each account as they choose, up to the overall net admittance limit. Language is included to require reporting entities that do not follow a proportional approach to provide rationale on their admittance allocation methodology upon state regulator request.

- Paragraph 30 – Revisions limit the IMR disclosure to entities with admitted net negative IMR. Previously, the disclosure was not specific to admitted balances and would have been completed even if IMR was fully nonadmitted.

<u>Revisions to Other SSAPs:</u>

- *SSAP No. 86—Derivatives*, paragraph 24 – Revisions have been incorporated to clarify how accounting-effective derivative gains and losses shall be reflected. The revisions eliminate ambiguity on whether derivative gains and losses can be taken to IMR, with guidance that such items can be taken to IMR only when offsetting gains/losses from the hedged item are taken to IMR.

<u>Reporting Revisions:</u>

- Exhibit of Capital Gain and Loss – Although the ACLI letter refers to needed refinements, revisions have yet to be proposed. The ACLI notes that they will work with NAIC staff in the interim to clarify before the SAPWG sponsors a blanks proposal.

- IMR Form – Revisions have been proposed to expand the schedule to detail the net realized losses removed when a company does not pass the proof of reinvestment, as well as to include an "other" adjustment line to capture transfers between the general account and the separate account. Corresponding instruction changes have been reflected for the new reporting lines.

- Modco/FWH Reporting – ACLI edits proposed to limit this exhibit to the IMR impact from modco/FWH reinsurance transactions. NAIC staff is proposing to eliminate the new exhibit at this time, which walks through the accounting and reporting of broad modco/FWH transactions (and is not limited to IMR). NAIC staff will work with industry to refine the guidance and propose inclusion as part of a subsequent project that focuses on the accounting and reporting of modco/FWH transactions.

<u>Issue Paper:</u>

- Paragraphs 9-12 – Revisions have been incorporated to clarify the IMR definition and the related history and discussion. Some ACLI proposed edits have not been included.

- Proof of Reinvestment Exhibit – Revisions have included an additional adjustment to the proof, to eliminate known liquidity sales that were recognized as immediate capital losses.

Additional Notes: Revisions to the issue paper also include corresponding edits incorporated into the SSAP. The ACLI has also proposed to include the illustrations and reporting templates currently included in the issue paper into the reporting revisions. NAIC staff agrees that these will be included in the blank's proposal for inclusion in annual statement instruction and blanks reporting, but changes to duplicate these illustrations in the "reporting revisions document" will not occur until adoption at SAPWG. This prevents staff from having to update the same templates in multiple locations while being discussed.

<u>Comment Letters Received:</u>

<u>Nationwide Comments:</u>
Nationwide and its subsidiaries ("Nationwide") form one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses with combined surplus of $24.1 billion.

Nationwide supports the American Council of Life Insurers ("ACLI") proposal of eliminating the 10% admissibility limitations for negative IMR under INT 23-01 and adopting full admittance of negative IMR.

<u>Reasons for Full Admittance of Net Negative IMR</u>
As clarified in the exposed SSAP No. 7, IMR is a valuation adjustment intended to maintain consistency between the valuation of insurance liabilities and the amortized cost basis of the supporting fixed-income assets. When a book-value IMR eligible asset is sold, IMR defers and systematically amortizes the recognition of non-economic realized gains and losses arising from investment activity that effectively unlocks interest rate–related unrealized gains and losses. This treatment aligns recognition of those amounts with the long-duration nature of insurance liabilities and the reinvestment of asset proceeds.
The proof of reinvestment appropriately emphasizes that the core premise of negative IMR is the reinvestment of proceeds from fixed-income asset sales into new fixed-income assets with higher yields. Nationwide agrees with this principle and believes that, when combined with the revised SSAP No. 7 guidance requiring immediate recognition of material liquidity sale losses and a formal attestation supporting that conclusion, the proof of reinvestment framework provides an adequate basis to support full admittance of net negative IMR. In our view, retaining a quantitative admissibility limitation would create an inconsistency between the valuation of liabilities and the valuation basis of the supporting assets, contrary to the stated purpose of IMR.

Asset adequacy testing provides another important safeguard supporting the full admittance of negative IMR. In asset adequacy testing, admitted negative IMR is incorporated as part of the assets supporting the liabilities, which can make it more difficult to demonstrate asset sufficiency and therefore increases the likelihood that an insurer would need to establish additional asset adequacy reserves. As a result, negative IMR is explicitly contemplated within the actuarial framework ensuring that assets, including negative IMR, are sufficient to meet policyholder obligations under a range of stress scenarios.

As originally highlighted within INT 23-01, we emphasize that limiting the admissibility of net negative IMR would not accurately reflect insurer investment performance, as it would, in cases where the cap is exceeded, result in an immediate reduction to surplus and risk-based capital when bonds are sold in a rising interest rate environment, despite the reinvestment of proceeds at higher prevailing yields. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders, but the accounting outcome would inappropriately suggest a deterioration in financial strength despite an improvement in future earnings and could encourage companies to avoid prudent investment transactions and strategies. Furthermore, such a limitation may introduce unintended consequences, including potential adverse interpretations by rating agencies and impacts on product pricing, ultimately affecting policyholders.

The current admissibility limitation also creates unintended consequences in the reinsurance market, particularly for U.S.-domiciled reinsurers. Depending on the underlying insurance liabilities transferred as part of a reinsurance transaction, and the issue year of those policies, the historical discount rate established at contract issue may be used for all or part of the post reinsurance measurement of those liabilities. These liabilities are not remeasured or "unlocked" as part of the transaction. In contrast, the supporting assets must be brought onto the reinsurer's balance sheet at fair value, effectively resetting their measurement basis to current market interest rates. This asymmetry—where liabilities remain on a historical basis while assets are recorded at current value—can result in the generation of negative IMR when current market rates differ from the original issue-date assumptions, even though the underlying economics of the block and the asset portfolio have not changed. In this context, IMR serves its intended purpose as a valuation adjustment to restore consistency between the measurement of assets and liabilities. However, because the resulting IMR is treated as newly established on the reinsurer's books, under the current proposal it can inappropriately contribute to the 10% admissibility cap despite reflecting no new economic loss or incremental risk. As a result, reinsurers would have to actively consider this artificial constraint when pricing transactions, which can increase the cost of reinsurance or limit capacity. This dynamic places U.S. reinsurers at a competitive disadvantage relative to offshore counterparties that are not subject to the same reserving requirements and, therefore, are unimpacted by IMR and related U.S. statutory admissibility limitations.

Additionally, reinsurance transactions are subject to regulatory review and approval and involve transferring an established block of business without altering the underlying liability structure, which fundamentally differentiates the resulting transactional IMR from the IMR generated through discretionary investment activity. For these reasons we believe that negative IMR arising from reinsurance transactions should be fully admitted because it is solely the result of a measurement mechanic and not a change in the underlying risk of the block being transferred.

Based on the above reasons, we fully support the recommendation of the ACLI to eliminate the net negative IMR admissibility limitation from the revised SSAP No. 7 guidance.

MetLife Comments:
MetLife supports the NAIC's efforts to modernize the IMR framework and agrees that a well-designed proof of reinvestment test is a more principles-based approach to evaluating the deferral of realized losses. However, to fully achieve that objective, we believe (i) the existing 10 percent cap should be removed for losses that satisfy the proof, and (ii) the framework must be aligned with operational feasibility to avoid unintended reporting complexity, volatility, and implementation risk. This framework also plays an important role in the insurance context by supporting policyholder outcomes—promoting stability in earnings and capital recognition over time and reinforcing the alignment between assets and liabilities that underpins insurer solvency.

At the same time, the proposed framework introduces significant operational complexity and implementation risks, particularly with respect to current implementation timing, data availability, and reporting processes. Accordingly, MetLife encourages the NAIC to align policy design with operational feasibility to ensure that the framework can be implemented in a manner that supports high-quality, consistent, and decision-useful statutory reporting. MetLife also has significant concern with the unintended consequences of the proposal to reinsurance treaty accounting and the possible introduction of significant volatility to settlements.

Finally, MetLife worked closely with the ACLI in the development of specific feedback on draft SSAP 7, how it integrates with the Issues Paper, and various other relevant issues. MetLife supports the ACLI comment letter submitted in response to SAPWG Ref #2023-14. Our support is focused on the key IMR framework recommendations reflected in that letter.

We outline below more detailed considerations.

MetLife Supports Full Admittance of Net Negative IMR
MetLife supports the proof of reinvestment test in theory (with some operational considerations below) because it provides a robust and effective way to ensure appropriateness of deferring realized losses through IMR. In MetLife's view, the 10 percent cap on admitted net negative IMR was a useful temporary guardrail when there was insufficient time to develop and implement a proof of reinvestment approach and regulators sought to provide timely relief to the industry.

However, MetLife believes the 10 percent cap is no longer necessary once a proof of reinvestment framework is implemented as recommended by the ACLI in their comment letter, which reflects broad industry alignment on this issue. In this context, the proof of reinvestment serves as a more precise and economically grounded safeguard, replacing a broad, rules-based limitation with a targeted validation of reinvestment behavior.

In practice, the existence of the 10 percent cap could result in otherwise qualifying reinvestment losses being non-admitted, which MetLife believes is an unintended consequence of the framework. This potential outcome may be particularly relevant for certain products, such as pension risk transfer (PRT), where asset turnover and reinvestment dynamics during initial portfolio construction can give rise to temporary realized losses even when insurers are prudently managing interest rate risk and aligning assets with liabilities.

For example, in PRT transactions, insurers typically receive a large, one-time premium and subsequently invest those proceeds over a defined period to establish the intended long-term asset portfolio. To manage interest rate risk during this transition, insurers often temporarily invest in duration-matched U.S. Treasury securities, which are then rotated into higher-yielding assets. If interest rates rise during this period, the sale of these temporary investments may generate realized losses, even though reinvestment into higher-yielding assets offsets those losses over time.

Under a proof of reinvestment framework, these outcomes would appropriately support deferral through IMR. However, the 10 percent cap could limit the ability to admit such losses, particularly in larger or longer-duration transactions, where relatively modest interest rate movements could consume the available buffer.

While the cap may be sufficient for lines of business with limited asset turnover, its application in these contexts may disproportionately affect certain products and discourage prudent interest rate risk management. Accordingly, MetLife respectfully recommends that the NAIC remove the 10 percent cap for net negative IMR, consistent with the ACLI recommendation.

MetLife recognizes the policy objective of maintaining guardrails around surplus recognition. However, where a robust proof of reinvestment test is satisfied, the continued application of a cap creates an additional constraint that does not enhance prudential outcomes but instead distorts economic alignment.

MetLife Has Significant Concern with Proof of Reinvestment Operational Complexities
At its core, the proposed framework introduces a structural sequencing mismatch—requiring end-of-period data to validate accounting determinations that must be executed early in the close process.

The proposed framework requires reporting entities to pass both a reinvestment test and a weighted average yield test before moving into, or increasing, a net negative IMR balance. If the proof is not satisfied, realized losses in excess of current-year gains would be recognized directly in surplus rather than deferred through IMR. More fundamentally, the framework requires reassessment of IMR eligibility after initial recognition, introducing the potential for retrospective adjustments within the close process. Of particular concern is the resulting risk of late-stage rework across the statutory reporting cycle. These challenges fall into three primary categories: (i) timing and sequencing constraints within the close process, (ii) data availability and cross-system dependencies, and (iii) downstream reporting and reinsurance impacts. Within these categories, we highlight the following key risks:

- **Timing mismatch between IMR accounting and proof inputs.** IMR accounting is typically performed at the beginning of the statutory reporting process so that amortization, income statement impacts, balance sheet presentation, and downstream exhibits can be prepared within established statutory deadlines. However, the proposed proof of reinvestment relies on current financial statement information and investment activity data that may not be finalized until later in the reporting period. This creates a timing gap where the IMR position may be calculated before the entity can confirm whether it has passed the required proof.

- **Risk of late-stage rework and downstream reporting impacts if the proof fails.** If the company initially records current-year realized losses through IMR and later determines that the proof of reinvestment was not satisfied, losses originally deferred through IMR may need to be removed and recognized directly in surplus. This would require re-performance of IMR accounting and related reporting in a compressed close window, including updates to the statutory balance sheet, surplus, investment income amortization, IMR roll-forward, annual statement exhibits, notes, disclosures, management reporting, regulatory analytics, RBC-related support, and internal control evidence.

- **Potential inability to increase a negative IMR balance.** Under the proposed approach, failure of the proof would limit the ability to add additional realized losses to an existing negative IMR balance, except to the extent such losses offset current-year realized gains. This creates operational uncertainty for entities managing portfolios in a rising-rate or repositioning environment, as the final statutory treatment may depend on proof results that are not known until late in the process. A further operational constraint is determining which realized losses, and from which portfolios or reinvestment strategies, must be excluded from negative IMR treatment and instead recognized as a direct charge to surplus, particularly when the exclusion cannot be identified until after portfolio activity and proof results are finalized.

- **Data availability and reconciliation complexities.** The proof requires timely access to sale activity, acquisition activity, book yields, investable premiums, mortgage loan activity, bond classifications, and other investment data. Because these data points may reside in different systems and may not be finalized at the same time, the proof would require additional cross-system reconciliations, data validation, and review procedures within an already compressed statutory reporting timeline.
- **Compressed reporting timeline and elevated filing risk**. If the proof cannot be finalized until late in the reporting period, statutory reporting teams may have limited time to revise IMR accounting, update exhibits and disclosures, obtain approvals, and complete quality control reviews. This increases the risk of late adjustments, inconsistent reporting, audit comments, or regulatory questions.

- **Unintended Consequences to Reinsurance Treaties**. The issues presented above for the Proof of Reinvestment will have downstream impacts on reinsurance and present similar operational complexity. Reinsurance agreements typically settle monthly, and any changes to the IMR deferral amounts and related amortization may affect the ModCo or Funds Withheld reserves (inclusive of IMR) and the preparation, timing and amounts net settled. The impacts of precluding IMR deferrals of realized capital losses (RCLs) would generally move in the opposite direction of the direct impacts and may provide a full or partial offset within the income statement and surplus, although the timing of such offsets may vary and will depend on the negotiated terms in the reinsurance agreement.

To address these challenges, MetLife encourages refinements to clarify the sequencing of the proof of reinvestment relative to IMR recognition, including timing expectations within the close process, to minimize the need for retrospective adjustments after initial reporting, and to provide reasonable implementation flexibility to align with existing reporting timelines and cross-system dependencies.

MetLife Supports a One-Year Implementation Delay

The proposed changes introduce substantial technical and operational complexities across multiple dimensions of the IMR framework, including revised treatment of negative IMR, proof-of-reinvestment requirements, and the interaction of IMR with reinsurance structures. Implementing the proposed changes would require extensive modifications to reconciliation and reporting systems, including updates to calculation logic, data sourcing, and reporting outputs, as well as alignment across multiple upstream and downstream processes.

In addition, the proposed guidance introduces new interpretive considerations that will require coordinated updates across actuarial, finance, and investment systems. These changes will require sufficient time for design, development, testing, and parallel validation to ensure that results are complete, accurate, and consistent across reporting entities.

Given the current level of uncertainty in certain areas of the proposal and the need for cross-functional integration, a January 1, 2027 effective date presents a significant risk to implementation quality, operational stability, and the integrity of statutory reporting. Absent sufficient implementation time, there is a heightened risk of inconsistent application across insurers, increased audit findings, and additional regulatory inquiries during early adoption periods.

Accordingly, MetLife strongly recommends that the NAIC defer the effective date to January 1, 2028. A one-year preparation period would provide the necessary runway to properly implement system enhancements, perform comprehensive testing, validate results under various market scenarios, and ensure that appropriate governance and control frameworks are in place. This additional time would also allow for more consistent interpretation and application of the guidance across the industry, reducing the risk of divergence in practice. We believe that aligning the effective date with the operational realities of implementation will ultimately support the NAIC's objectives by promoting higher-quality reporting, stronger controls, and more consistent application of the IMR framework across insurers. A measured implementation timeline will be important not only for individual company readiness but also to promote consistent interpretation and application across the industry.

Conclusion

MetLife supports the NAIC's objective of strengthening the IMR framework through a proof-of-reinvestment approach that better reflects economic outcomes. To fully realize these benefits, we recommend removing the 10 percent cap where losses satisfy the proof, thereby avoiding unintended constraints on prudent risk management. Equally important, we urge the NAIC to recognize the significant operational complexity associated with the proposed framework and to provide sufficient time and flexibility for implementation. A measured approach—grounded in both sound policy and practical feasibility—will promote more consistent application across the industry and ultimately enhance the quality, transparency, and reliability of statutory financial reporting. Taken together, we believe these refinements will better align the framework with its intended objectives while ensuring it can be implemented in a robust, consistent, and auditable manner across the industry. Additionally, we believe these recommendations are consistent with the NAIC's objective of promoting financial stability, transparent reporting, and policyholder protection.

Everlake Life Insurance Company:
Everlake strongly supports the adoption of a permanent solution that permits the full admittance of net negative IMR, subject to the safeguards included within the revised framework. The ACLI and numerous industry participants have similarly concluded that full admittance is the appropriate outcome under the proposed framework. As recognized throughout the SAPWG process, these transactions generally do not diminish an insurer's claims-paying ability and therefore should not result in an artificial reduction of admitted surplus.

The following section sets out why we support full admission.

- The fundamental purpose of IMR is to maintain consistency between the valuation of insurance liabilities and the fixed-income assets that support those liabilities. Historically, IMR has deferred the recognition of interest rate-related realized gains to avoid artificial increases in surplus that do not reflect a change in an insurer's underlying financial strength. The same principle should apply when insurers realize losses and reinvest proceeds into higher-yielding assets. In those circumstances, immediate recognition of losses can create a surplus outcome that is inconsistent with the economics of the transaction and with the long-term nature of insurance liabilities.

- The proposed proof-of-reinvestment approach, together with the other protections incorporated into the proposal, provides a sound and principled basis for recognizing negative IMR and appropriately reflects the economic realities of insurers' asset-liability management activities. Other protections include restrictions on liquidity-sale losses, asset adequacy testing considerations, actuarial review and attestation requirements, enhanced reporting and disclosure, limitations related to credit-related losses, and risk-based capital thresholds. Taken together, these safeguards provide regulators with robust oversight while allowing statutory accounting to more faithfully reflect economic substance.

- The accounting framework should support, rather than discourage, prudent portfolio management. Insurers routinely reposition investment portfolios to manage duration, credit exposure, liquidity, and other risks in support of policyholder obligations. The treatment of negative IMR should not create disincentives for risk-management actions that strengthen asset-liability alignment and improve long-term financial outcomes for policyholders.

For these reasons, Everlake respectfully encourages SAPWG to remove the current admissibility limitation and adopt full admittance of net negative IMR as contemplated by the proposed revisions to SSAP No. 7.

Reinsurance Group of America:
SAPWG Ref #2023-14 proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 7, which will permanently include guidance from Interpretation of the Statutory Accounting Principles Working Group No. 23-01: Net Negative (Disallowed) Interest Maintenance Reserve ("Int 23-01") set to expire on January 1, 2027. INT 23-01allows negative IMR to be included as an admitted asset, providing specific criteria are met, up to 10% of adjusted surplus.

RGA gives its full support to the American Council of Life Insurers (ACLl)'s comment letter dated June 25, 2026, which provided comments on the proposed exposures. ACLl's proposed changes, including the full admittance of negative IMR and technical clarifications for reinsurance, are essential to preserving the life and health insurance industry's ability to provide insurance solutions to its policyholders and customers.

Reinsurance plays a critical role in the insurance industry by providing insurance companies with meaningful risk transfer and capital management solutions. It enables insurers to write additional business, strengthens surplus and capital positions, and stabilizes operating results. A symmetric and economically consistent IMR framework ensures that these important risk management solutions are available and are appropriately reflected in the statutory framework, which ultimately better protects policyholders.

For these reasons outlined above, and as further supported in the ACLI comment letter, RGA supports the full admittance of net negative IMR. This approach supports a stable, principle-based framework that accurately reflects an insurer's financial position while promoting sensible investment practices and sustaining the broader industry that benefits policyholders, insurers, reinsurers, and regulators.

ACLI Comments:
ACLI appreciates the NAIC’s development of the interim solution and the subsequent Ad Hoc Working Group process to address negative IMR. We believe this work is important to appropriately reflect surplus and, therefore, insurer solvency. Over the past several years, the dialogue among regulators, ACLI, and its member companies has been constructive, transparent, and productive.

IMR was developed during a period of declining interest rates and generally positive IMR balances. At that time, regulators were concerned that insurers could sell higher-yielding bonds and reinvest in lower-yielding bonds while recognizing gains that increased surplus or were distributed, even though the insurer’s claims-paying ability had not improved. IMR addressed this concern by requiring realized gains to be deferred and amortized over the remaining life of the assets sold, thereby preserving surplus at a level consistent with the pre-sale position and maintaining consistency between asset yields and the discount rates used for related liabilities.

Although it was recognized in 1992 that IMR conceptually should operate symmetrically, SAP was initially updated to reflect deferral of net gains, with the expectation that negative IMR would be addressed at a later date. That issue became more significant in recent years as rising interest rates, following decades of declining rates, caused IMR balances to turn negative. Through the Ad Hoc Working Group process, NAIC staff, state regulators, ACLI, and its member companies have addressed a number of complex issues necessary to accommodate negative IMR and to strengthen the broader statutory framework. These issues include the treatment of reinsurance, the incorporation of IMR into PBR and asset adequacy testing, the interaction of derivatives with IMR, treatment in separate and general accounts, refinement of IMR-eligible gains and losses, and the support needed for symmetrical treatment of negative IMR. ACLI believes that symmetry is appropriately supported when lower-yielding assets are sold and proceeds are reinvested in higher-yielding assets, as demonstrated through proof of reinvestment. Consistent with positive IMR, deferring and amortizing realized losses over the remaining life of the assets sold helps preserve surplus at a level consistent with the pre-sale position and aligns asset yields in the financial statements with the liability discount rates established when the original assets were purchased.

For these reasons, ACLI supports full admittance of net negative IMR. This treatment is consistent with the adopted definition of IMR as a valuation adjustment intended to maintain consistency between insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support then (where the portfolio yield is updated any time there are fixed income realizations). While IMR was originally applied to realized gains, its broader purpose is to appropriately reflect surplus, and that objective applies equally to realized losses when supported by reinvestment.

The proof-of-reinvestment requirement provides an important safeguard by demonstrating that, in a higher interest rate environment, realized losses are offset by higher future yields with an equivalent present value, making the transaction non-economic from a surplus perspective. The framework should be durable and should not depend on the current interest rate environment. Otherwise, future changes in interest rates could recreate the same challenges as more life insurers experience negative IMR balances. Insurers should not be penalized, and policyowners should not be adversely affected, when insurer solvency is unchanged.

The accounting framework also should not discourage prudent investment activities, such as trades made for credit, duration, or other risk-management purposes—that benefit policyowners, insurers, and regulators. In this context, the framework, including the proof of reinvestment, provides a more targeted and economically grounded approach relative to the broader rules-based limitations, helping to avoid unintended distortions in surplus recognition and better align outcomes with insurers’ asset-liability management practices and prudent interest rate risk management.

Summary of Additional Safeguards Proposed for IMR

1. Documented “proof of reinvestment” primarily derived from annual statement data provides evidence of reinvestment in fixed income securities with a higher yield.
2. Asymmetrical treatment of liquidity sales – all gains are deferred but not losses.
3. Requirement to record losses on liquidity sales immediately, have documented controls and procedures in place to identify them, and require related attestation.
4. Requirement to deduct admitted IMR from beginning invested assets used in cash flow testing– increases the likelihood of increasing asset adequacy reserves.
5. Actuarial opinion and memorandum requirement to reconcile admitted IMR to reported IMR for PBR and cash flow testing.
6. Changes to NAIC Designation guidance for determining IMR eligible losses – narrowing losses eligible for IMR but all gains still deferred.
7. Losses related to impairments or credit events are not eligible for IMR deferral.
8. Authorized control level risk-based capital of 300 required to admit negative IMR.

9. Expanded exhibit of capital gains and losses that provides additional discipline around IMR process – reconciles where all current year capital gains and losses are included within the financial statements.
10. Admitted negative IMR shown as a write-in for special surplus.

We look forward to discussing these issues with SAPWG members so we can clarify any points and answer any questions you may have.

The remainder of our letter includes more specifics to the various exposures. Comments of an editorial nature are in appendices although we highlight meaningful items due to their prominence.

Revised SSAP No. 7
The ACLI provides the following comments on key elements of the proposed changes to the accounting guidance for IMR as impacted by net negative IMR. We have also attached a markup version of the exposed SSAP No. 7 reflecting editorial revisions which have been discussed with NAIC staff.

- The editorial changes to SSAP No. 7 should be consistent as is reflected in the Issue Paper.
- For known liquidity sales in paragraph 13, companies must attest to this and additional clarity is needed. The proposal introduces disclosure concepts (paragraph 29b) while retaining principle-based definitions, which avoids rigid rules that could be exploited.
- ACLI proposes editorial changes to paragraphs 20-21 on reinsurance that will assist with the interaction with *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* and the Annual Statement Instructions. We support improving clarity and consistency for modified coinsurance ("Modco") and funds withheld ("FWH") reinsurance reporting using the Modco and Funds Withheld Reporting table as part of the Proposed Reporting Revisions. However, the table may be better located outside the IMR section (e.g., to Schedule S) to improve alignment and accessibility.

We also note that potential overlap with exposure SAPWG Ref #2026-02 and encourage consideration of these interdependencies. The table should include more precise line-item references and more clearly distinguish between Modco and FWH treatment. Given the complexity, we recommend continuing dialogue with ACLI, NAIC staff, and SAPWG to refine the guidance.

Issue Paper
The ACLI provides the following comments on key elements of the proposed changes to the IMR Issue Paper as part of SSAP No. 7. We have also attached a markup version of the exposed Issue Paper for SSAP No. 7 reflecting editorial revisions which have been discussed with NAIC staff.

- The editorial changes to the Issuer Paper should be consistent as is reflected in SSAP No. 7.
- The tables in paragraph 47 and the Appendices should be in the annual statement instructions as they are important to the implementation of changes to IMR.
- ACLI proposes a targeted adjustment to the proof of reinvestment to address known liquidity sale losses. Because these sales are reported in income, they should be excluded from the reinvestment requirement.

<u>Revisions to Other SSAPs</u>
The ACLI provides the following comments on key elements of the proposed changes to other SSAPs. We have also attached markup version of the exposed Revisions to Other SSAPs reflecting editorial revisions which were discussed with NAIC staff.

- We recommend revisions to SSAP No. 86, paragraph 24, and the related guidance in SSAP No. 86, Exhibit B, to clarify the application of the guidance in determining whether realized gains and losses on derivatives should be deferred in the IMR or reflected as an adjustment to the hedged item.

<u>Proposed Reporting Changes</u>
The ACLI provides the following comments on key elements of the Proposed Reporting Changes. We have also attached a markup version of the exposed Proposed Reporting Changes reflecting editorial revisions which have been discussed with NAIC staff.

- Incorporate tables from paragraph 47 and the Appendices in the Issue Paper into the annual statement instructions and modify the 'Modco and Funds Withheld Reporting' table as highlighted at the end of the proposal.

- We evaluated the Exhibit of Capital Gains and Losses as proposed and noted inconsistencies with other Annual Statement exhibits. While we support the Exhibit's intent, refinements are needed to the columns and descriptions. ACLI will continue to work with NAIC staff to create clarifications prior to this item being sent to the Blanks Working Group for exposure.

- We support the new "Form for Calculating the Interest Maintenance Reserve" and related instructions and respectfully suggest a few adjustments to ensure a complete rollforward and consistent reporting across all components.

<u>Other comments</u>
As ACLI has evaluated the proposed above changes to the accounting and reporting of IMR, our members have begun addressing the necessary system and process changes needed to comply with the updates to statutory reporting requirements. Based on discussions with investment accounting vendors, to comply with the 'Designation Change Guidance' located in the proposed SSAP No. 7, paragraph 31a, it will take significant effort to get certain investments held prior to 2020 to be tagged with the appropriate NAIC Designation Category. Vendors will also need to implement broader enhancements, including updates to calculation methodologies, reinvestment tracking, reporting outputs, and related controls.

Implementation will require coordination across multiple insurer systems, data sources, and control environments, including internal processes and reporting frameworks, along with sufficient time for integration, testing, and validation. To the extent these capabilities are not fully developed and deployed by vendors, the burden will shift to insurers to build interim solutions, increasing operational complexity and risk.

Since the effective date needs to be at the beginning of a calendar year, we believe consideration should be given to when is an optimal time to implement the changes, including delaying the implementation by one year to support orderly adoption and mitigate operational and reporting risks.

Recommendation:

NAIC staff recommend that the Working Group provide direction on two key issues related to admittance and the effective date and then consider exposure of revised IMR guidance. If the Jan. 1, 2027, effective date is retained, NAIC staff recommends an exposure period ending September 18, 2026, to allow for an interim meeting early October for adoption consideration. If a Jan. 1, 2028, effective date is incorporated, then NAIC staff recommends an exposure period ending October 2, 2026, consistent with other Summer National Meeting exposures.

1) **Admittance Limit – The interim guidance in *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* incorporated a 10% admittance limit based on adjusted capital and surplus from the most recently filed financial statements (3rd quarter). Adjustments reduce the 3rd quarter capital and surplus for admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR. This admittance limit is further capped by a 10% limit for unadjusted capital and surplus as of the current (year-end) financial statements.**

   Comments received from Nationwide, MetLife, Everlake Life, the RGA, and the ALCI recommend eliminating the admittance limit for net negative IMR. The letters cite the premise of IMR, concerns about the asymmetric treatment with deferred gains, disincentivizing prudent risk management actions, unintended consequences for reinsurance transactions and various safeguards, including the proof of reinvestment, established in the revised SSAP No. 7 guidance as support for the elimination of the admittance cap.

   To assist with this admittance discussion, aggregate information on the 2025 YE reported IMR in both the GA and SA is shown. This data shows that net negative IMR has increased significantly since 2023, while net positive IMR has decreased:

Year	GA & SA Net Negative IMR	% Change from Prior Year	GA & SA Net Positive IMR	% Change from Prior Year
2025	(21,523,069,337)	28.41%	8,832,697,007	-17.08%
2024	(16,761,648,267)	48.44%	10,635,683,759	-32.49%
2023	(11,292,084,687)		15,754,833,951	

   Further, admittance of net negative IMR has also increased significantly since 2023. The following details what NAIC staff identified as admittance in the general account only since admittance was permitted under INT 23-01: *(Qualified as this is an accumulation of the aggregate write-in.)*

Year	IMR Position	# of Companies	Aggregate Amount
2025	Admitted IMR	220	(14,568,400,233)
2024	Admitted IMR	220	(12,599,508,904)
2023	Admitted IMR	167	(8,351,203,108)

   From a review of the statutory financial statements, most companies have an overall net negative IMR position that is less than 10% of their reported adjusted capital and surplus. However, from a review of the YE 2025 financial statements, there are companies that would exceed this threshold if all negative IMR was permitted to be admitted. These companies have net negative IMR balances that range from 10-50% of adjusted capital and surplus. **Unless the Working Group was to restrict**

admittance in some manner for these companies, an action to increase the admittance limit would allow those companies to admit net negative IMR from sales that occurred before the SSAP No. 7 safeguards were in place.

<u>NAIC staff requests discussion from the Working Group on the appropriate admittance limit, and whether it should be increased or eliminated</u>. The ongoing discussion has highlighted that neither IMR nor AVR (positive or negative) meet the definition of assets and liabilities under SAP but are required to be recognized as statutory assets and liabilities. The discussion has focused on the intent of IMR as a valuation adjustment, which defers realized gains and losses from the sale of fixed-income instruments to accommodate the amortized cost measurement method utilized under statutory accounting. The sale of such items results in temporary recognition (cash in/out the door) from the change in fair value as realized gains or losses, which are being deferred in IMR. However, the reinvestment of these proceeds, in new fixed income investments with higher yields, causes the realized losses to reverse in future periods. **NAIC staff agrees with the commenters that the safeguards, including the proof of reinvestment and PBR / Cash Flow testing provisions are key to ensuring that the proceeds from such assets are properly reinvested and that asset adequacy assessments properly include IMR. The proof intends to identify whether acquisitions of fixed income investments are greater than the proceeds from fixed-income sales and investable premium. The proof focuses on sales and acquisitions of bonds and mortgage loans as those two categories make up the bulk of sales that are captured in IMR. The calculation is considered conservative, as If a company sells a bond or mortgage loan and then invests the proceeds into another IMR-qualifying fixed income investment that is not a bond or mortgage loan, then they do not get credit for that reinvestment within the proof.**

<u>With that, NAIC staff highlight the application concerns with the proof of reinvestment (also noted by MetLife) due to overall complexities and specificity of the disclosure, and further notes that the review of recent statutory reporting results have shown a high number of company noncompliance issues within the first reporting period of new requirements</u>. <u>As the proof of reinvestment is a key safeguard cited as support to eliminate the IMR admittance limit, NAIC staff recommends that the admittance limit should not be increased or eliminated until reporting entities have demonstrated proper completion and compliance with the proof, along with the proper removal of excess losses from IMR when a company has not passed the proof of reinvestment tests</u>.

Although the MetLife letter indicates concern with the year-end application of the proof of reinvestment, <u>the year-end completion is the only possible timeframe that works if the proof is going to be verifiable with company reported data as it utilizes (purposely) reported amounts in year-end schedules and disclosures</u>. Further, completing the proof at a timeframe earlier than year-end (for example, as of 3rd quarter) would provide an open 4th quarter window for companies to liquidate investments, take the losses to IMR, and not provide validation for reinvestment. If a company has properly reinvested the proceeds from sold qualifying fixed-income investments into new qualifying fixed income investments at higher yields (which is the fundamental premise supporting the recognition and admittance of net negative IMR), then companies should pass the proof and not have year-end adjustments to IMR. If a company has failed to recognize immediate capital losses for known liquidity sales that occurred throughout the year, and they fail the proof, then they will be subject to an IMR reclassification at year-end. <u>If the proof of reinvestment is not incorporated as a year-end validation, then it raises concern on whether it provides the verification needed for regulators to support admittance of net negative IMR. The verification that a company has properly reinvested proceeds from sold investments into new qualifying fixed income instruments was a key discussion</u>

point of the IMR Ad Hoc Group, and the proof of reinvestment – including the timing and overall calculation – was heavily discussed and supported by the accounting, actuarial and industry representatives of the IMR Ad Hoc Group.

A pause before considering a change in the IMR admittance limit, in order to verify proper completion of the proof, is supported by a review of recent reporting results, which has shown a high number of reporting entity noncompliance issues within the first reporting period for new reporting and disclosure requirements. (NAIC staff notes that these issues cross all levels of insurance companies and include large life insurance companies.) These include:

- Significant percentage of companies misreporting SVO-Assigned Designations on Schedule BA. This includes reporting investments on these lines to obtain favorable RBC when the investment did not have an SVO-Assigned Designation, or reporting a more-favorable designation than what was provided as SVO-Assigned. (In some cases, even reporting investments as an NAIC 1, when the AVS+ system identified the investment as an NAIC 6.) The percentage of noncompliant reporting exceeded the percentage of companies correctly reporting a true SVO-Assigned Designation.

- Companies failing to comply with the new restricted asset disclosures. This includes companies detailing Modco/FWH assets on the new Schedule S, Part 8, but failing to include those assets in the new restricted asset reporting lines for Modco/FWH assets.

- Companies failing to comply with the new residual reporting requirements that require companies to cap the BACV at the cost of residuals acquired after Jan. 1, 2025.

- Although the reporting of the IMR note improved significantly from year-end 2024 (likely due to the INT revisions that mandated completion for admittance), there are still companies that continue to misreport IMR amounts as contra-liabilities (forgoing the disclosures), companies that do not fully complete the disclosures, and companies that admitted more IMR as an asset on the balance sheet than what they had as reported as overall IMR.

With the history of noncompliance of new reporting aspects, the complexity of the IMR proof of reinvestment disclosure, and the reliance that is being placed on the proof to advocate for a greater admittance limit, NAIC staff recommend that the Working Group consider delaying or phasing in any increase or elimination of the IMR admittance limit until compliance with the applicable safeguards can be verified. This delay would allow NAIC staff to review and share details on company compliance, including whether companies are completing the proof of reinvestment disclosure as intended, and if companies that do not complete, or that fail the proof of reinvestment, are properly removing realized losses from the IMR and not increasing their IMR net negative position. (Removing realized losses from the IMR based on the proof of reinvestment is not impacted by the admittance limit.)

Additionally, industry has cited actuarial provisions, including deducting IMR from beginning invested assets used in cash-flow testing, and the reconciliation of admitted IMR for PBR as additional support to eliminate the admittance limit. Unfortunately, there is no current ability for NAIC staff (or on an aggregate basis by regulators) to easily verify compliance with these adjustments, as these reconciliations are not required submissions with the actuarial opinion. Although it is possible that compliance has improved, the reviews that were completed after the year end 2024 financials showed that companies often did not properly complete these reconciliations, either by failing to include admitted IMR, or including the admitted IMR in the wrong way (e.g., as an increase to beginning assets instead of a decrease). Since this information is not filed with the NAIC, obtaining the reconciliations and data to complete a current-year assessment would require a data call with state requests. **With these provisions being used as safeguards to support admittance of IMR, NAIC staff recommends for industry to propose a new disclosure or reporting component that would be included in the statutory financial statements that would allow on-going verification of these provisions. NAIC staff recommend that this disclosure be incorporated and initial reviews to be completed before an IMR admittance increase is considered.**

Additionally, the new IMR guidance requires companies to establish governance and controls to support an attestation that IMR has not been recognized for known liquidity sales. NAIC Staff recommend a referral to be sent to the Financial Examiners Handbook (E) Technical Group to consider adding substantive and/or control testing procedures regarding this process. A delayed implementation of increasing or removing the admittance cap would also provide an opportunity to receive any observations from states collected through examinations.

Admittance Discussion Summary Recommendation:
With regards to the admittance limit, NAIC staff recommend discussion and direction from the Working Group members on whether the existing INT 23-01 admittance limits should be increased or eliminated in the revised SSAP No. 7 guidance. As noted above, NAIC staff defer to the Working Group on the admittance limit but suggests a delay in this admittance decision (or, if a decision is supported, in the admittance implementation) to ensure that compliance with the designed safeguards is verified. Further, NAIC staff suggests additional disclosure, to be captured in statutory financial statements, to verify proper inclusion of net negative IMR in PBR and cash flow testing. If a pause is supported by the Working Group in this decision, NAIC staff would recommend direction to complete an assessment of the new disclosures after the initial application of the guidance (e.g., YE 2028 if effective Jan. 1, 2028) and introduce this admittance topic with a summary of the disclosure compliance in 2029.

2) **Effective Date – The exposed SSAP No. 7 proposed an effective date of Jan. 1, 2027. The existing INT 23-01 is effective through Dec. 31, 2026, with nullification to occur on Jan. 1, 2027. Comments received have noted concern with the Jan. 1, 2027, effective date, due to the timing of adoption and the coordination that is required across insurer systems and vendor data systems, which require integration, testing and validation. These comments request consideration of a one-year implementation delay to support orderly adoption and mitigate operational and reporting risks.**

If the effective date is extended to Jan. 1, 2028, the following two additional benefits are noted:

a. The reporting revisions will have time to be adopted and implemented before the effective date of the guidance. Although it has been noted that the effective date is not contingent on the reporting revisions, it would allow for all revisions to be put in place simultaneously. (For example, with an effective date of Jan. 1, 2027, the reporting revisions will be in place for year end 2027 reporting, but not earlier in 2027. However, with an effective date of Jan. 1, 2028, the reporting revisions can be in place as of Jan. 1, 2028, when the guidance goes into effect.)

b. The exposed revisions from this Summer National Meeting will not need a shortened comment deadline. Rather, the exposure could follow the timeline of other exposures, with final adoption considered at the 2026 Fall National Meeting. (The Fall NM is early this year – and scheduled for Nov. 14-17.) If the effective date of Jan. 1, 2027, is retained, NAIC staff recommend a shortened exposure period, with an interim meeting in October to allow for adoption consideration as early as possible before Jan. 1, 2027.

Effective Date Summary Recommendation:
NAIC staff requests direction from the Working Group on whether the effective date should be revised to Jan. 1, 2028, with an extension of INT 23-01 through Dec. 31, 2027.

Overall IMR Recommendation:
NAIC staff recommend the Working Group expose revised IMR documents (reflecting the revisions proposed by NAIC staff in attachments 1-4), along with edits to incorporate any admittance or effective date changes as directed by the Working Group. The exposure period can be either September 18, 2026 (if a Jan. 1, 2027 effective date is retained) or October 2, 2026 (if a Jan. 1, 2028 effective date is incorporated). The exposed documents will include:

- ***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.*** **Tracked edits within.**
- **Issue Paper – Revisions from original exposure (tracked within) predominantly mirror edits in the SSAP, with additional elements on the definition and proof of reinvestment.**
- **Proposed Revisions to Other SSAPs – Revisions from original exposure (shaded) mostly reflected in *SSAP No. 86—Derivatives* and the allocation to IMR for accounting-effective hedges.**
- **Reporting Revisions – Revisions from original exposure (shaded) mostly to the IMR Form and with the inclusion of AVR edits. NAIC staff will work with industry on edits to the Exhibit of Capital Gains & Losses.**

Note: Documents illustrating the ACLI proposed edits are shown in Attachment 9.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-15 (Julie)	**Asset Liability Management Derivatives**	**2.6 – SSAP No. 109 2.7 – Issue Paper**	**Comments Received**	**ACLI – 20**

Summary:
During the May 18 interim call, the Working Group exposed the proposed SSAP guidance and issue paper for interest-rate hedging derivatives used for asset-liability management. This exposure was modified from the 2026 Spring National Meeting exposure to revise the transition guidance and incorporate a surplus-neutral approach (where the unrealized gains/losses from the fair value fluctuations are recognized as realized gains/losses at transition) and clarify amortization of the derivative asset or liability with transition. The guidance was supported by the ACLI, but the exposure was intended to provide regulators with additional time to assess the new derivative concepts prior to adoption, particularly on the broad concepts, transition, reporting and admitted asset classification.

- Transition: Transition guidance for reporting entities with open derivatives in an existing approved program as of the effective date allows 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 classification would occur even though the derivative is still open. The reported derivative asset or liability BACV at the date of transition would then be amortized over the remaining life of the derivative instrument over a period not to exceed 10 years. Subsequent to transition, the derivative would follow the provisions of the new SSAP guidance, and fair value fluctuations would not be recognized as unrealized gains or losses unless the derivative no longer was to qualify in scope of the new statement.

- Reporting: The proposal would incorporate new reporting lines to Schedule DB to separately capture these derivative structures. This would be consistent with past approaches when derivative categories are added. These proposed reporting lines would be captured in a subsequent blanks proposal.

- Admittance: The proposed SSAP guidance permits admittance of all deferred losses recognized under the ALM derivative standard. This is proposed to not disincentivize prudent hedging activities. Comments were requested on this guidance and if further disclosure (e.g., accumulated IMR, deferred derivatives, other "soft" assets) should occur to provide regulators with the aggregated amounts.

ACLI Comments:
ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comment on this topic:

ALM derivatives are an extremely important part of insurance company risk management, as they are often necessitated by portfolios containing product liabilities with long durations (e.g., 30+ years) and shorter duration bonds (e.g., 5-10 years, which are more readily available in the market). This mismatch creates duration/reinvestment risk which could be filled with longer term/duration bonds; but longer-term bonds that match typical product liabilities (e.g., 30+ years) are limited in supply in the market, so ALM derivatives are used to mitigate or eliminate this risk.

Ultimately (and most importantly), ALM derivatives are hedging the duration difference between assets/liabilities to eliminate deficits in liquidation value and preserve surplus (highlighted appropriately in the example below from the exposure draft issue paper where asset duration=9 and liability duration=10).

Liquidation Value *(amounts rounded for simplicity)*			
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*

Highly effective ALM derivatives protect surplus by shielding insurance companies from negative impacts of interest rate changes. This preserves insurance company solvency and ensures policyowner benefits can be fulfilled (thereby benefitting policy holders, insurance companies and regulators).

We fully agree with this exposure draft, as it will significantly enhance the alignment of each company's reported surplus with its actual solvency/liquidation value and avoid situations where financials contain inappropriate portrayals of surplus and illusory financial strength.

Importantly, the exposure draft permits admittance of all deferred gains/losses of highly effective hedges recognized under the ALM derivative standard to not disincentivize prudent hedging activities. This is a critical component of the exposure draft that ensures the aforementioned surplus reporting benefits; and therefore, we completely support it. Additional reasons for symmetrical admission include:

1) Upon maturity/termination, the derivative fair value will initially be surplus neutral (when admitted) with the deferred asset/liability offset by cash received/paid at maturity/termination and subsequently will amortize over the life of the hedged liabilities. Therefore, the hedge's ultimate surplus impact follows that of the hedged items (appropriate for highly effective hedges); as the derivative amortization will offset product liabilities interest credited/etc. and bond NII over the amortization period.

2) ALM derivatives are hedges of surplus that incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Not admitting the derivative fair value at termination/maturity impacts surplus at different timing than the hedged item, which defeats the entire purpose of the hedge.

3) Presenting companies with a scenario of asymmetrically deferring gains and recognizing losses will limit (or eliminate) companies' use of this SSAP, thereby limiting (or eliminating) the SSAP's reporting benefits of aligning surplus with actual solvency/liquidation value.

Once again, we support this exposure draft in its entirety and appreciate the opportunity to provide comments on this important topic. If you have any questions regarding this letter, please contact us.

Interested Parties
Interested parties support the comment letter submitted by the ACLI on this exposure.

Informal Regulator Comments
NAIC staff received a number of inquiries from regulators about the proposed *SSAP No. 109—Asset Liability Management (ALM) Derivatives* during the last exposure. These inquiries are summarized as follows:

- Recommendation to remove the elective accelerated amortization provision to avoid potential manipulation of surplus.
- Recommendation to address derecognition of deferred balances relating to liabilities that have been reinsured.
- Recommendation to specify the treatment of deferred balances in cash flow testing.
- Questions around the specifics of effectiveness testing.

Recommendation:
NAIC staff recommends the Working Group confirm a revised January 1, 2028, effective date and consider exposure of a revised *SSAP No. 109—Asset Liability Management (ALM) Derivatives* and corresponding Issue Paper. Revisions from the prior exposure include:

- Elimination of accelerated amortization.
- Revisions to require derivative deferred gains and losses to be recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance arrangement.
- Revisions to ensure that derivative deferred gains and losses are included in cash flow testing (CFT) and principles-based reserving (PBR) calculations in the same manner as IMR.

With exposure, a referral is proposed to the Life Actuarial (E) Task Force to review and assess the guidance, and to consider facilitating a pilot review in early 2027. This pilot review is proposed to ensure regulatory life actuaries understand and are comfortable with the specific hedge effectiveness tests proposed to be used by industry and to consider any additional specifications that should be included in the SSAP around how effectiveness testing should be performed.

Also, with exposure, NAIC staff requests direction to proceed with a blanks proposal to incorporate new reporting lines for these derivatives on Schedule DB. Lastly, NAIC staff request Working Group comments on the admittance provisions and if NAIC staff should proceed with a separate agenda item that incorporates aggregate admittance limits for certain assets (These assets could include admitted goodwill, EDP Equipment and software, net DTAs, net negative IMR and deferred derivative losses.)
Effective Date: The exposed SSAP and Issue Paper included a proposed effective date of Jan. 1, 2027. With the proposed revisions, as well as the proposed referral to LATF it is recommended that the effective date be revised to January 1, 2028. This is also supported if the SSAP No. 7 guidance is revised with a January 1, 2028, effective date. With the proposed *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance*

Reserve, the revised guidance will prohibit allocation to IMR for realized gains and losses resulting from non-accounting effective derivatives. As such, to prevent a gap in accounting guidance, the ALM guidance would need to be adopted with an effective date that occurs before or in conjunction with the revised SSAP No. 7.

Revisions from Exposure: Although industry support was received from the most recent exposure, regulator comments and questions have resulted with the following proposed edits:

- **Accelerated Amortization - (Reflected with deletion of paragraphs 18b-18d):** Regulator comments have questioned the accelerated amortization provisions included within the draft SSAP. The acceleration guidance mirrors provisions from *SSAP No. 108—Derivatives Hedged Variable Annuity Guarantees* and allows companies to accelerate amortization of deferred gains and losses in advance of the scheduled amortization timeframe provided that the company is consistent with accelerating both deferred gains and losses consistently, even if more than one hedging strategy is utilized. These provisions were included to prevent a company from electing an approach that would permit the recognition of deferred gains earlier than deferred losses. The original ability was incorporated as neither deferred gains nor losses represent assets or liabilities, and the guidance in SSAP No. 108 is not required. As such, companies that choose not to follow SSAP No. 108 would follow SSAP No. 86 for the non-accounting effective derivatives and would recognize the gains and losses immediately upon derivative termination. The accelerated amortization permitted a company the ability to remove these deferred gains and losses from their financial statements as if they had followed SSAP No. 86.

  With the regulator comments received, concerns have been raised that the acceleration provisions, even with the incorporated safeguards, do not provide adequate protections as a company could still elect to accelerate balances anytime there were in a net liability position (even if it mean recognizing both deferred assets and liabilities), resulting in a surplus benefit. Whereas companies could elect not to accelerate amortization when in a net asset position, allowing these losses to continue deferral. **These comments have resulted in removal of the accelerated amortization provisions from the proposed SSAP No. 109.**

- **Reinsurance Derecognition - (Revisions in paragraph 18):** Revisions have been incorporated to ensure that derivative deferred gains and losses are eliminated and recognized as immediate capital gains and losses upon derecognition of the hedged liability portfolio due to a reinsurance arrangement.

- **PBR / CFT Inclusion – (New Paragraph 18c):** Revisions have been incorporated to require that derivative deferred gains and losses are included in cash flow testing (CFT) and principles-based reserving (PBR) in the same manner as IMR.

Comment Letters

- **IMR and ALM comment letters are included in Attachment 2.8 -** (23 pages)
- **ACLI proposed edits to exposed documents are included in Attachment 2.9** - (92 pages)

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/imr alm hearing/00 - 08-12-26 - imr revised 7.4.26 - sapwg hearing agenda.docx

Summary of Revisions to IMR Draft Guidance
2026 Summer National Meeting

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

Note: Revisions to abbreviations or minor word changes are not reflected below. Most edits are clarifying and in line with original intent. The highlighted paragraph references reflect what NAIC staff considers to be the biggest edits to the guidance and/or areas where the proposed edits to not mirror the ACLI recommendations. (These changes are tracked.)

P1 Movement of footnote from paragraph 2 to paragraph 1.

P4 Remove reference to gains, as all gains from known liquidity sales are required to be taken to the IMR and amortized.

P5 Revisions incorporate ACLI proposed edits to the definition of IMR. Specifically, the revisions clarify that IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). (The document illustrates deletion of the prior guidance.)

P8 The allocation to AVR for items held at fair value has been revised to include an exception in situations where there are other specific statutory accounting provisions. This primarily pertains to foreign exchange gains/losses, which are excluded from both IMR and AVR, but is broadly written for other instances.

P9 Include reference to qualifying derivatives and derivative counterparties along with fixed-income instruments.

P10i. Footnote 4 was expanded to provide IMR/AVR direction for the cash component of an RSAT transaction. This was also captured in the revisions to SSAP No. 86.

P13 Expanded to include examples of known liquidity sale losses similar to what was included in paragraph 29.b.i These revisions do not match the ACLI proposed edits, as they were considered too limiting. The guidance for known liquidity sales intends to capture all situations in which an IMR qualifying fixed income investment is sold and not reinvested into a new qualifying fixed income investment.

P15 Added reference, consistent with the annual statement instructions, that IMR shall be amortized into income over the expected remaining life of the qualifying fixed income investment sold. Also expanded footnote 7 to refer to the instructions for further guidance on the application of “expected maturity” for specific investments.

P17 Added clarifying revisions for when the proof of reinvestment is not required.

P19 Expanded, reorganized and clarified guidance when a reporting entity does not complete or pass the proof of reinvestment. This guidance has been expanded to include an additional exception when a reporting entity has assumed net negative IMR losses from a reinsurance arrangement. These revisions do not match the ACLI edits, as guidance captured in other paragraphs has been deleted.

P20 Revisions intend to clarify when a ceding entity should derecognize IMR from a reinsurance contract. Specifically, the guidance refers to at inception of the contract.

P21 Key revision incorporated from the ACLI indicates that derecognized IMR shall be a direct adjustment to IMR with the offset to Aggregate Write-Ins for Deductions. This is believed to be historical practice for FWH agreements but could represent a change to companies with modco agreements.

P23 Include example for non-U.S. domiciled insurance reporting entities for when an assuming entity is not required to maintain IMR.

P25a Update to refer to admitted IMR and not disallowed IMR.

P25c Revisions expand the valuation manual references, with language that will include future relevant VM requirements without requiring subsequent modification.

P26 Revisions alter the initially exposed guidance for admittance within the general and separate accounts. With the changes, reporting entities will be permitted to admit negative IMR to the extent it exists in each account as they choose, up to the overall net admittance limit. The guidance will require reporting entities that do not follow a proportionate approach to provide rationale on their admittance allocation methodology upon state regulator request.

P29 The revisions limit the disclosure to reporting entities with admitted net negative IMR.

P30 Revisions clarify that the proof of reinvestment is only required for entities that want to defer IMR current year net realized losses that exceed current year realized gains.

<u>Issue Paper No. XX—Interest Maintenance Reserve</u>

Note: Corresponding revisions to match the SSAP edits have been incorporated. These are not duplicated below. (The citations to the SSAP within the issue paper indicate instances in which the paragraphs should agree.) The changes in this document are tracked.

P9-12 Expanded and clarified guidance on the IMR definition as well as historical guidance on IMR, and discussions on this initial item. These revisions do not reflect the full extent of the ACLI proposed edits. Some of the ACLI edits cited development of the proof of reinvestment, which occurred subsequently to the discussion of the definition in agenda item #2025-03, which is the focus of this section. Further discussion on admittance will be captured in the issue paper after the Working Group provides direction on this topic.

P44 Clarified that the beginning NAIC designation is when an investment is acquired and the ending designation is when disposed.

P66-68 Minor edits to clarify that the separate account assessment is on a "per filed" separate account blank basis.

P82 Deleted 2025 annual statement instruction guidance included only for initial exposure and assessment purposes.

P91 Deleted 2025 instruction guidance for specific investment amortization timeframes included only for exposure and assessment purposes.

P107c Included comments to address the ACLI suggested change to the proof of reinvestment, where realized losses recognized as capital losses as a known liquidity sale reduced the available proceeds for reinvestment.

P108 Edits to clarify the proof guidance, noting that it focuses on current year negative IMR realized losses, and including reference to the two exceptions on when net negative IMR can be increased even if a company does not complete or fails the proof.

Appendix B/C – Proof of Reinvestment – General Account & Separate Account

- Added new line to remove known liquidity sales recognized as capital losses from the bond and mortgage loan proceeds, reducing the total of proceeds from fixed income investments sold. This has resulted with various revisions throughout.

IMR Revisions to Other SSAPs

As this document included tracked changes to the SSAPs, the edits incorporated from the exposure are shaded (yellow).

SSAP No. 26, P17: Minor edit to exclude foreign exchange gains and losses.

SSAP No. 32: Minor edit to update paragraph reference from 32 to 33.

SSAP No. 41, P12: Minor edit add the word "allocated" (where unrealized gains and losses are fully allocated to the AVR…)

SSAP No. 86, P24: Revisions provide clarity on when derivative gains and losses from accounting-effective hedges are permitted to the IMR. The guidance removes ambiguity and directs that if the hedged item is not terminated, then the derivative gain or loss adjusts the basis of the hedged item. It is only when the hedged item is terminated with a realized gain/loss that is allocated to IMR for which the derivative gain/loss shall also be allocated to IMR. With these edits, consistency revisions have been proposed to update the SSAP No. 86 Exhibit B guidance.

SSAP No. 86, P63: Edits to capture how IMR and AVR shall be allocated for the cash component. (These edits mirror what was included in SSAP No. 7, P10i.)

IMR – Reporting Revisions

As this document included tracked changes to the SSAPs, the edits incorporated from the exposure are shaded (yellow).

Asset & Liability Pages: Note has been included that the new reporting lines for negative IMR and deferred derivative assets and liabilities will be captured in both the life and separate account blanks.

Exhibit of Capital Gains and Losses: No revisions have been incorporated. Per the ACLI comment letter, they are requesting to work with NAIC staff in the interim for refinement and clarifications.

Interest Maintenance Reserve: The proposed new form for calculating the IMR has been expanded to capture the net amounts taken to IMR throughout the year, with a reporting line that illustrates the net realized losses removed from IMR due to a reporting entity electing not to complete or failing the proof of reinvestment. Additionally, a new adjustment line has been added to capture other adjustments from IMR, which is expected to capture IMR impacts from transfers to/from the general account and separate account. The corresponding instructions have also been revised to include instructions for the new lines and specify the calculation of the form.

New Modco & FWH Reporting: This reporting guidance has been deleted. The proposed guidance would have detailed the reporting guidance for modco and FWH transactions throughout the reinsurance agreement. The ACLI comments proposed edits to limit the focus to IMR, but NAIC staff suggests a broader scope. With that, NAIC staff will propose to include in a subsequent reinsurance project.

AVR Schedule: This reporting guidance has been added to illustrate corresponding revisions to the AVR. These edits provide broad guidance with reference to SSAP No. 7, with deletion of prior guidance that has been removed and/or included in the SSAP. The AVR Treatment for Separate Accounts has also been updated to reflect previously adopted changes to the separate account.

Financial Statement Disclosures: A new summary has been added to detail the disclosure edits that will occur under SSAP No. 7. This includes identification of revisions to existing disclosures, as well as the new disclosures that will be included in a future blanks proposal. *(The actual disclosures and Illustrations will be developed in accordance with the blanks team with the subsequent blanks proposal.)*

Staff Note: Additional reporting revisions to capture the proof of reinvestment, other new IMR disclosures (e.g., known liquidity sales) and general interrogatory attestations stipulated in SSAP No. 7 will be developed and exposed by the blanks team in accordance with the blanks reporting guidelines once the blanks proposal has been directed.

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/imr alm hearing/2.1 - summary of revisions 7-2-2026.docx

Statement of Statutory Accounting Principles No. 7

Asset Valuation Reserve and Interest Maintenance Reserve

STATUS

Type of Issue	Life, Accident and Health
Issued	Initial Draft,
Effective Date	January 1, 2001, 2026 Summer NM Draft
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	INT 23-01
Relevant Appendix A Guidance	None

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies filing on the *Life, Accident & Health/Fraternal Annual Statement Blank* for the general account as well as book-valued insulated and noninsulated separate accounts[1].

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

SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and noninsulated separate accounts in accordance with the principles included in this statement~~[2]~~. (IP 6)

3. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories excluding cash, policy loans, premium notes, and income receivable. (IP 7)

4. The IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized ~~gains and~~ losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls). (IP 8)

5. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). ~~policyholder reserves to reflect partial updating of valuation rates when qualifying fixed income investments are sold and reinvested in different interest rate environments than existed at the time of policy issuance.~~ Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (IP 9)

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

Asset Valuation Reserve

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

~~[2] Pursuant to SSAP No. 56, if AVR is required for investments held at book value or fair value in a separate account, it is combined with the general account AVR and accounted for in the general account statements. Guidance in SSAP No. 56 shall be followed for recognizing IMR for book value separate accounts.~~

8. ~~All r~~Realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist. (IP 17)

9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

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

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

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

d. For mortgage loans:

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

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

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

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

Interest Maintenance Reserve

10. Realized gains and losses from the following list of qualifying fixed income investments shall be allocated to the IMR, subject to the other provisions and requirements of this standard. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. (IP 22 & 33)

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

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

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

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

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

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

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

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

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

i. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is reported at amortized cost[4].

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

12. Realized losses on sales of qualifying fixed income investments that have not experienced credit deterioration under paragraph 9 shall be allocated to IMR, unless it represents a known liquidity sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[5]. (IP 24)

13. Known liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are~~is~~ sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. These include situations such as, but not limited to, sales used to fund surrenders/withdrawals, as well as any other situation (e.g., derivative collateral calls or any other business entity expenses). Reporting entities shall implement control procedures designed to identify material known liquidity sale losses and shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (IP 25)

Adjustments – Market Value Adjustments

14. Gains or losses resulting from market value adjustments (MVA), ~~including~~net of the federal marginal tax impact, shall be captured in the IMR as they are incurred throughout the year[6]. Reporting entities that have recognized known liquidity sale losses in the current year are permitted to reclassify

[4] Allocation to IMR or AVR for RSAT transactions shall follow the designation change guidance in paragraph 9a based on the SVO-assigned NAIC designation for the RSAT. Gains or losses from RSAT transactions when the derivative is reported at fair value are not permitted to be recognized in the IMR. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

[5] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

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

current year net ~~market value adjustment~~MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net ~~market value adjustment~~MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (IP 70)

Amortization

15. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity[7] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (IP 88)

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

Net Negative IMR Recognition Restrictions

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

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

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

18. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those

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

realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed income investments is greater than the yield of fixed income investments sold. (IP P. 27)

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

a. ~~If the reporting entity does not complete or pass the proof of reinvestment, the reporting entity~~ Reporting entities are ~~is~~ permitted to recognize current ~~-~~year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains. ~~This is an exception to the guidance in paragraph 19, as the net negative losses are not the result of the sale of a fixed-income investment, but from a transfer to/from the general/separate account that occurred at fair value. As such, these IMR impacts are outside the parameters of the proof of reinvestment calculation. Outside of this exception, if the reporting entity does not complete or pass the proof of reinvestment for a particular account, the reporting entity is only permitted to recognize realized losses from sales in the IMR to the extent they are offset by gains also recognized in the IMR.~~

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

(Staff Note: Do not intend to include templates in SSAP appendix. They will be in the ASI and in the issue paper for historical reference.)

Adjustments – Ceded and Assumed Reinsurance

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

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

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

21. For insurers ceding business under a ~~modified coinsurance~~modco or ~~funds withheld~~FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the ~~IMR~~ Annual Statement Instructions for ceding/assuming reinsurance business using a modco or ~~funds withheld~~FWH agreement. (IP P. 78)

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the ~~reporting~~insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. ~~Reporting entities~~An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under the modco or ~~funds withheld~~FWH reinsurance agreement. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Writes-Ins for Deductions. ~~The derecognition of IMR shall be included in the modco reserve or funds withheld liability embedded within ceded reserves~~.

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

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

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

Admittance

Admittance guidance subject to WG discussion. The guidance below is predominantly from INT 23-01 and includes the current 10% admittance limits to both prior period adjusted capital and surplus and current period unadjusted capital and surplus.

24. Reporting entities that meet the requirements of paragraph 25 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[8] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the ~~company~~ reporting entity has experienced a decline in capital and surplus, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account). (IP P. 94)

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

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and cash flow testing pursuant to paragraph 25.c. Rather, any reconciliation difference from the admitted IMR originally ~~captured~~ determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

25. Requirements to admit net negative IMR: (IP P. 95)

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

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

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures described in paragraph 29. If a reporting entity does not fully complete the data-captured disclosures[9] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance*, ~~*Section 7.D.7*~~ *VM-21: Requirements for Principle-Based Reserves for Variable Annuities*, *VM-22: Requirements for Principle-Based Reserves for Non-Variable Annuities*, and *VM-30: Actuarial Opinion and Memorandum Requirements*~~,~~ ~~*Section 3.B.5*~~. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are appropriately stated.

26. Reporting entities are ~~shall~~permitted to admit net negative IMR ~~between~~ in the general account ~~and~~ and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph 24. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request. ~~based on methodologies consistent with the Valuation Manual.~~ (IP P. 97)

27. Reporting entities that admit net negative IMR shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (~~line 34,~~ named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (IP P. 98)

Disclosures

28. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are also required to complete the IMR rollforward and amortization schedule[10] in the annual financial statements. (IP. P 101)

Note: The above will require an expanded Exhibit of Capital Gains and Loss

29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)

a. Reporting entities with admitted net negative IMR shall complete a note disclosure that details the following:

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

10 For reporting entities subject to paragraph 29.c., the annual amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

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

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

iii. The calculated adjusted capital and surplus per paragraph 24.a., and

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

b. Reporting entities shall include an attestation regarding known liquidity sale losses: (IP 103)

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

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

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

c. Reporting entities that have moved from a net positive IMR position to a net negative position or that have~~s~~ increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative IMR balance. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (IP. 104)

d. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (IP P. 105)

e. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy/cash flow testing reconciliation to the admitted IMR ultimately shown in the ~~year-end~~annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually. (IP P. 106)

Effective Date and Transition

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

31. Revisions to this statement, adopted month/year, that incorporate revisions reflecting a comprehensive review of the ~~interest maintenance reserve~~IMR, are effective January 1, 2027, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items noted in the following subparagraphs. Issue Paper No. ___ includes additional discussion and other revisions incorporated. (IP. P 98)

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

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

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

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

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

f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital losses from known liquidity sales and not defer them through the IMR. A new disclosure attestation was incorporated with the effective date of this statement to identify known liquidity sales losses.

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

REFERENCES

Relevant Issue Papers

Issue Paper No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

Issue Paper No. XX – Interest Maintenance Reserve

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/imr alm hearing/2.2 - ssap no. 007 - imr - revised 7.2.2026.docx

Statutory Issue Paper No.

Interest Maintenance Reserve

STATUS
Draft – 2026 Summer National Meeting

Original SSAP: SSAP No. 7

Current Authoritative Guidance: SSAP No. 7 & A/S Instructions

Type of Issue:
Common Area

SUMMARY OF ISSUE

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

SUMMARY CONCLUSION

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

DISCUSSION

3. The discussion of IMR, and assessing admittance for net negative IMR, originally began in August 2023 with agenda item #2023-14: SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. That item was developed as a broad concept agenda item with the goal to incorporate accounting guidance for the IMR into SSAP No. 7, with removal of accounting guidance from the annual statement instructions, with direction to determine a long-term solution on the admittance of net negative IMR. Determining a long-term solution for net negative IMR was directed as part of the action from the August 2023 adoption of *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*. That INT provided limited-time exception guidance to SSAP No. 7 and the annual statement instructions, which allowed limited admittance of net negative (disallowed) IMR as a short-term solution. With the adoption of the interpretation, the IMR Ad Hoc Group was formed, comprised of accounting and actuarial

regulators and industry representatives. The ad hoc group met regularly, approximately every other week, to discuss IMR and the historical guidance for allocating realized gains and losses to the IMR, the impact of reinsurance, amortization, and other IMR accounting and reporting provisions.

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

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

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

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

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

a. Agenda item 2025-03: IMR Definition was prepared and exposed March 24, 2025, to present proposed IMR definitions to the Working Group. An IMR definition, modified from the ACLI proposed definition, was considered and directed as a broad IMR definition during the 2025 Summer National Meeting to be used as the basis for SSAP No. 7

revisions. As detailed within this issue paper, subsequent clarification edits to the definition have been incorporated.

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

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

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

<u>Discussion of IMR Concepts</u>

<u>Overview and IMR Definition</u>

6. Life and accident and health companies, filing on the *Life, Accident and Health/Fraternal Annual Statement Blank*, shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and non-insulated separate accounts in accordance with key principles included in the revised SSAP No. 7[1]. (SSAP P. 2)

7. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories, excluding cash, policy loans, premiums notes and income receivables. (SSAP P. 3)

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

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

compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls)[2]. (SSAP P. 4)

9. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost basis of assets needed to support them (where the portfolio yield us updated any time there are fixed income realizations.) ~~policyholder reserves to reflect partial updating of valuation rates when qualifying fixed income investments are sold and reinvested in different interest rate environments than existed at the time of policy issuance.~~ Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (SSAP P. 5)

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

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

12. With the ongoing discussions around the definition and purpose of IMR, ACLI comments were received that negative IMR (realized losses) should be supported as a recognized, admitted asset so, like positive IMR, surplus would not be misstated, as the IMR facilitates better alignment of the timing of interest rate related gain or loss realizations on certain fixed income investments with the interest rate assumptions embedded in policyholder liabilities that the assets support. These comments noted that inconsistent asset and liability valuations could provide false indicators of financial strength or weakness.

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

Although these ACLI comments supported full admitted asset recognition of negative IMR, the proposed ACLI IMR definition was modified to not include statements implying support for the full admittance of negative IMR. As previously identified, neither negative IMR nor positive IMR reflects actual assets or liabilities and including these items in the financial statements as assets and liabilities may present an inaccurate presentation of the assets available to pay claims, as well as the actual obligations of the insurance reporting entity. The definition modifications reflected in agenda item #2025-03 removed the implied conclusion of net negative IMR admittance but allowed for further assessment to occur on the treatment. Although it was noted that the Working Group could decide to retain the current statutory recognition of IMR, discussion on the extent (if any) to which negative IMR is permitted as an admitted asset ~~is a~~was identified as a key aspect that warranted~~s~~ specific focus, as realized losses recognized as assets are clearly not available to pay policyholder claims. As such, the proposed ACLI IMR definition was supported without the inclusion of broad statements that implies negative IMR (realized losses) should always be permitted to reflect an admitted asset in the statutory financial statements and that the admittance of negative IMR always provides an appropriate reflection of statutory surplus.

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

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

Allocation to IMR and AVR

15. This issue paper includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be recognized as either a change in net unrealized foreign exchange gains or losses or as realized foreign exchange capital gains or losses immediately (excluded from both IMR and AVR), with the remaining portion subject to the AVR/IMR requirements of the revised statement. (SSAP P.6)

Allocation to AVR

16. The accounting and reporting guidance for the AVR is primarily contained within the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve and other relevant

guidance. The AVR guidance contained in the revised statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the IMR. Unrealized gains and losses as referred to in this issue paper are those which are recorded in the financial statements in accordance with the applicable SSAPs. (SSAP P. 7)

17. All realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist. (SSAP P. 8)

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

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

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

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

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

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

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

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

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

and other items excluded from the IMR, the interest related loss shall not be taken to the AVR, but shall be retained as an immediate capital loss.

21. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (SSAP P. 9)

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

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

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

d. For mortgage loans:

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

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

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

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

Allocation to Interest Maintenance Reserve

22. Realized gains and losses from the list of qualifying fixed-income investments, identified in paragraph 33, shall be allocated to the IMR, subject to the other provisions and requirements of the revised standard. Investments not included on that list are not permitted to have realized gains or losses to be allocated to the IMR. (SSAP. P. 10)

23. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during period in which the entity has incurred known liquidity sales. (SSAP. P. 11)

24. Realized losses on sales of qualifying fixed income investment that have not experienced credit deterioration under paragraph 10, shall be allocated to the IMR, unless it represents a known liquidity

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

sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4]. (SSAP. P. 12)

25. Known liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments ~~is~~are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. These include situations such as, but not limited to, sales used to fund surrenders/withdrawals, as well as any other situations (e.g., derivative collateral calls or any other business entity expenses). Reporting entities shall implement control procedures designed to identify material known liquidity sale losses and shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (SSAP. P. 13)

Net Negative IMR Recognition Restrictions

26. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or net positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general account and each filed separate account blank) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year. (SSAP P. 17)

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

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

27. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed-income investments is greater than the yield of fixed income investments sold. (SSAP P. 18)

28. Reporting entities that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realizes losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted as the net negative losses are not from the sale of a fixed-income investment, as such these IMR impacts are outside the parameters of the proof of reinvestment calculation. (SSAP P. 19)

a. ~~If the reporting entity does not complete or pass the proof of reinvestment, the reporting entity~~Reporting entities are~~is~~ permitted to recognize current ~~-~~year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains. ~~This is an exception to the guidance in paragraph 19, as the net negative losses are not the result of the sale of a fixed-income investment, but from a transfer to/from the general/separate account that occurred at fair value. As such, these IMR impacts are outside the parameters of the proof of reinvestment calculation. Outside of this exception, if the reporting entity does not complete or pass the proof of reinvestment for a particular account, the reporting entity is only permitted to recognize realized losses from sales in the IMR to the extent they are offset by gains also recognized in the IMR.~~

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

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

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

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

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

32. To address questions on whether reporting entities could forgo allocating to the IMR throughout the year if they knew they were not going to complete (or pass) the proof of reinvestment, this is not permissible. All reporting entities are required to allocate interest-related gains and losses from qualifying investments pursuant to the adopted standard to the IMR throughout the year. Although the reporting entity could choose not to complete the proof of reinvestment at year-end, which would result in a failure

of the reinvestment tests, the result of the failure is that if the reporting entity is in a net negative position, they would remove the realized losses that exceed realized gains. This would result with the company retaining a net zero or net positive IMR position. To ensure realized gains are properly allocated to IMR, and that realized losses are taken to IMR to offset those gains, reporting entities are required to allocate qualifying interest-related gains and losses throughout the year.

Fixed-Income Investments Subject to IMR:

33. When the provisions permit, allocation to IMR shall only include interest-related realized impacts from the sale of qualifying fixed-income investments. The following list details the fixed-income instruments for which qualifying interest-related realized gains and losses can be allocated to the IMR. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. In all instances, whether the realized gains and losses from the sale of these investments are permitted to the IMR are subject to the other provisions and requirements of the adopted guidance. (SSAP P. 11)

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

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

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

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

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

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

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

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

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

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

35. Historically, investments in scope of *SSAP No. 105—Working Capital Finance Investments* were identified to go to the IMR. However, revisions have been proposed as part of this IMR project to clarify that realized gains and losses from the sale of these investments shall be retained as immediate capital gains and losses. This change is supported because these investments are also short-term. Although they are specified for Schedule BA reporting, the "right to payment" that the insurer holds under SSAP No. 105

is a short-term obligation. If these were to be sold, and allocated to IMR, the amortization timeframe based on the remaining life of the investment would be less than one year. The removal of working capital finance investments from IMR allocation results in treatment consistent with other short-term investments.

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

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

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

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

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

40. Information provided by industry supported that a simple “more than one” designation change under the expanded designation categories (e.g., 1.A to 1.C) could result with interest-related impacts

being incorrectly classified to AVR. To balance the impact, a compromise position was proposed, supporting a broad "three or less" designation change approach under the expanded designation categories.

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

42. With the discussion of designation changes, an exception was incorporated for investments that end with an NAIC 1 designation as it was noted that this grouping reflects the highest quality, where investment risk is the lowest and the issuer's credit profile is stable. From a review of credit and interest spreads from 2018-2023, it was noted that investments within this NAIC 1 category, even with designation declines within the category, predominantly reflected interest related changes, and not credit impacts.

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

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

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

b. For investments with realized losses:

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

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

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

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

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

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

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

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

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

Beginning NAIC Designation Category	**Lowest Ending NAIC Designation Category for IMR Treatment**	**First NAIC Ending Designation Category that Requires Realized Loss AVR Allocation**
1.A	1.G	Investments that end with NAIC 1 go to IMR.
1.B	1.G	
1.C	1.G	
1.D	1.G	2.A
1.E	2.A	2.B
1.F	2.B	2.C
1.G	2.C	3.A
2.A	3.A	3.B
2.B	3.B	3.C
2.C	3.C	4.A
3.A	4.A	4.B
3.B	4.B	4.C
3.C	4.C	5.A

4.A	5.A	5.B
4.B	5.B	5.C
4.C	5.C	6
5.A	5.C	6
5.B	5.C	6
5.C	5.C	6
6	All items held at fair value shall go to AVR.	

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

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

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

c. Loan is in process of foreclosure,

d. Loan is in course of voluntary conveyance, or

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

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

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

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

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

AVR. Unrealized and realized gains and losses from surplus notes and capital notes held at fair value shall be allocated to the AVR.

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

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

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

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

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

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

Consistent with other investments and prior discussion in this issue paper, if the ABS or non-bond debt security was held at fair value at the time of the sale, the entire realized loss shall be allocated to the AVR.

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

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

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

54. With the original discussion of net negative IMR in 2023, it was identified that some reporting entities were allocating realized gains and losses to IMR from derivatives that did not qualify for "hedge accounting" as defined under SSAP No. 86. These companies noted that the annual statement IMR instructions referred to "hedging" transactions, and some companies took the position that their derivatives were hedging transactions although they did not qualify as highly effective hedges that could follow the "hedge accounting" measurement method prescribed in SSAP No. 86. As these derivative transactions did not qualify for "hedge accounting" they were reported at fair value, with changes in fair value recognized as unrealized changes to surplus. These unrealized changes were allocated to the AVR. However, under the company's interpretation of the annual statement instruction "hedging" reference, upon termination of the derivative, the reporting entities reversed the surplus and AVR impacts and recognized the realized gain or loss to IMR where it would be deferred and amortized over time. With the adoption of *INT 23-01: Net Negative (Disallowed) IMR*, an interim provision was permitted to allow companies that had taken this interpretation to continue that process and admit net negative IMR generated from these derivatives as permitted in the INT, as long as the company had historical documentation of also taking realized gains from these derivative transactions to IMR and not just realized losses. Subsequently, in March 2025, the Statutory Accounting Principles (E) Working Group agreed that realized gains and losses from non-accounting effective hedging derivatives shall not be reversed from AVR and allocated to the IMR and directed a separate project for asset-liability management derivatives (ALM). As such, with the implementation of the revised SSAP No. 7, regardless of the status of the ALM derivative project, only realized gains and losses from specifically permitted derivative transactions noted in the adopted guidance shall be allocated to IMR.

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

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

covering asset or underlying interest is not subject to IMR, then the realized gain or loss shall be recognized as an immediate capital gain or loss.

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

58. For income generation transactions with realized gains or losses that go to IMR, the amortization timeframe shall follow the remaining useful life of the covering asset, underlying interest or derivative contract maturity as follows: (Note: the SSAP references are for exposure reference only and will be removed from the final issue paper.)

a. For written fixed income covered options, realized gains and losses taken to IMR shall be amortized over the remaining life of the covered asset or underlying interest. This is a slight change from the existing guidance in SSAP No. 86 that stipulates that the callable bond rules should be used to determine the remaining life. (SSAP No. 86, P 52c)

b. For written covered put options, realized gains and losses taken to IMR shall be amortized over the remaining life of the underlying interest. (SSAP No.86, P 53b.)

c. For written fixed income caps and floors, realized gains and losses taken to IMR shall be amortized over the expected derivative contract's maturity. (SSAP No. 86, P 55b.)

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

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

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

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

63. For RSATs, it is important to highlight that there are no sales proceeds that are reinvested to support the deferral and amortization of IMR. However, the recognition of IMR from the RSAT transaction

is consistent with would have occurred if the entity had initially acquired a bond (rather than the forward agreement) and had sold the bond for a realized loss (receiving proceeds) prior to its maturity date. The RSAT transaction intends to replicate the holdings and actions that would have occurred if the acquisition occurred. An example RSAT transaction and realized gain or loss recognition is detailed as follows:

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

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

c. In year 5 with termination, the realized gain or loss would be determined based on the bond price at that time. If the bond price increased to 109, the reporting entity would recognize a realized gain of $400,000, as they would be able to acquire the bond at the forward price of 107.

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

	Debit	Credit
Cash	400,000	
Realized Gain		400,000
Realized Gain	400,000	
IMR		400,000

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

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

	Debit	Credit
Realized Loss	400,000	
Cash		400,000
IMR	400,000	
Realized Loss		400,000

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

Further discussion on potential SSAP No. 86 revisions, particularly with RSATs and Income Generation Derivatives, is expected as a subsequent SAPWG project.

General Account and Separate Account IMR Allocation:

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

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

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

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

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

IMR Adjustments – Market Value Adjustments

70. Gains and losses resulting from market value adjustments (MVA), ~~including~~net of the marginal federal tax impact, shall be captured in the IMR as they are incurred throughout the year[6]. Reporting entities that have recognized known liquidity sale losses in the current year are permitted to reclassify

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

current year net ~~market value adjustment~~MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net ~~market value adjustment~~MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (SSAP P. 14)

71. For ~~market value~~MVA ~~(~~liability~~)~~ ~~adjustments~~ taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a ~~market value adjustment~~MVA, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a MVA~~market value adjustment~~ that would have incurred a ~~market value adjustment~~MVA if surrendered through 2015, has five calendar years to expected maturity. (SSAP P. 16)

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

73. However, it has been identified that it is common for surrenders with market value adjustments to not be accompanied by the sale of a fixed income instrument. Rather, reporting entities use alternative ways to cover the surrenders, including utilizing new premiums as the source of funds to cash out policies instead of liquidating existing assets. By using new premium, reporting entities forego potential increased yields that would have been obtained if the premium was used to acquire new fixed-income investments. Although the use of new premium does not result in a realized loss that is taken to IMR, by forgoing the purchase of a new bond and obtaining a then-current interest rate, there is spread compression from what the entity is receiving from their asset portfolio and what they are crediting policyholders. For these situations, taking the MVA gain to IMR and amortizing it essentially offsets the spread compression overtime.

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

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

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

Reinsurance Adjustments:

77. At inception of the reinsurance agreement, ~~A~~an insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most yearly-renewable term (YRT) agreements, shall derecognize the associated IMR at the time the business is ceded unless the transaction is a modified coinsurance (modco) or coinsurance with funds withheld (FWH) agreement. ~~Amounts recognized to IMR~~An insurer (ceding entity) shall derecognize the associated ~~shall be removed from~~ IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been ~~eliminated~~derecognized. (SSAP P. 20)

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

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

78. For insurers ceding business under a ~~modified coinsurance~~modco or ~~funds withheld~~FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the ~~IMR~~ Annual Statement Instructions for ceding/assuming reinsurance business using a modco or ~~funds withheld~~FWH agreement. (SSAP P. 21)

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the ~~reporting~~ insurer

[7] Reporting entities are presumed to sell the associated assets and transfer cash to the assuming insurer. If a reporting entity transfers assets to the assuming entity, the transfer and calculation of realized gain or loss shall be completed at fair value unless the transaction reflects a non-economic transaction between related parties pursuant to paragraph 19b of *SSAP No. 25—Affiliates and Other Related Parties*. In those situations, the transfer shall occur at the lower of book value or fair value. For these non-economic transactions, there will either be no realized gain or loss (transfer at book), or the reporting entity will have a realized loss on the transfer (transfer at the lower fair value).

(ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 77. ~~Reporting entities~~An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under modco or ~~funds withheld~~FWH reinsurance agreements. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Write-Ins for Deductions. ~~The derecognition of IMR shall be included in the modco reserve or funds withheld liability embedded within ceded reserves.~~

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

79. Similar to the treatment of MVA, the materiality threshold previously captured in the IMR annual statement instructions for reinsurance transactions has been eliminated as part of the IMR project. Under the past historical provisions, the guidance only required the elimination of IMR for reinsurance ceding transactions above a materiality threshold. (That threshold was more than 1% of the ceding company's GA liabilities per page 3, line 26 unless a lower threshold had been established by the reporting entity.) Pursuant to the principal concept, IMR shall not be retained or recognized[8] if the policy reserves related to the recognition of IMR have been eliminated. With the potential ability to admit negative IMR, it is important to ensure removal of negative IMR balances from reinsurance transactions, therefore the historical materiality threshold has been eliminated. Elimination of the materiality threshold also enables consistent treatment across transaction types

80. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equivocal amount of IMR derecognized by the ceding ~~insurance~~ entity. This IMR recognition shall reflect the unamortized IMR balance of realized gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation. (SSAP P. 22)

81. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, is required. In the event the reinsurance transaction is recaptured~~unwound~~, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. As IMR is strictly a statutory-accounting concept, non-U.S. domiciled insurance reporting entities would not be subject to the recognition of IMR. If an assuming entity is not

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

required to maintain IMR (i.e., non-U.S. domiciled insurance reporting entities), and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date. (SSAP P. 23)

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

~~Note: With this discussion, the ad hoc group requested inclusion of the prior annual statement instruction guidance within the issue paper, so broader assessment could occur on whether further guidance is needed for assuming entities before finalization.~~ ~~*The following guidance will only be reflected in the exposed issue paper. If no comments are received the prior 2025 ASI guidance will be deleted.*~~

~~2025 Annual Statement Instructions – IMR Reinsurance Assumed:~~

~~"Assuming Company" means here the counterparty to the transactions described above for the ceding company.~~

~~The assuming company must set up an IMR liability adjustment of the same magnitude but complementary to the adjustment recorded by the ceding company, subject to the following requirements:~~

~~1. Where the assuming company is required to set up a deferred profit liability or deferred loss asset and reflects zero gain (loss) at treaty date, e.g., as for assumption reinsurance, the assuming company must not set up an IMR liability adjustment. Regardless, for non-economic transactions with an affiliate, the assuming company must set up the IMR liability adjustment.~~

~~2. The assuming company may offset a positive IMR adjustment, but not below zero, with any excess of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.~~

~~3. The assuming company must increase a negative IMR adjustment, but not above zero, with any shortfall of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.~~

~~To determine the offset of Item 2 or 3 above, the company would need to calculate policyholder reserves on both the reported and minimum bases as of each valuation date. In lieu of this, a reporting entity may determine the offset as of the treaty effective date, express this offset as a percentage of the IMR adjustment and then apply this same percentage reduction or increase to~~

~~the IMR adjustment at all subsequent valuation dates. However, whichever method is used for the particular treaty must be consistently applied at all valuation dates.~~

~~In the case of subsequent reinsurance, the retroceding reporting entity has an IMR adjustment net of the offset of Item 2 or 3 above, whereas the IMR transferred over is gross of this offset. The new reinsurer would determine its own adjustment following Item 2 or 3 above.~~

~~Upon recapture or commutation of a reinsurance arrangement where the effective date of the original arrangement was January 1, 1999 or later, the reinsurer must follow the IMR rules for reinsurance ceded and the original insurer (company recapturing the business) must follow the IMR rules for reinsurance assumed, as set forth above, for the portion of business recaptured. Otherwise, no IMR adjustment is made.~~

~~Upon reinsurance assumed, recaptured or commuted from an alien insurer (i.e., not subject to IMR), an IMR liability adjustment is required only where the assuming company, or any of its affiliates, ever held the business and subsequently reinsured the business effective January 1, 1999 or later, and currently holds an unamortized IMR liability adjustment for the business. In this case, the new IMR liability adjustment must be set equal to the complement of the unamortized IMR liability adjustment(s) currently held for the business by the assuming company or by its affiliates. An affiliate may choose to hold the complementary offsetting amount if it holds the applicable unamortized IMR liability adjustment, otherwise, the complementary offsetting amount must be held by the assuming company.~~

Elimination of Excess Withdrawal Guidance:

83. During the IMR Ad Hoc discussions, ACLI representatives presented information highlighting that the historical excess withdrawal guidance may inappropriately permit or prevent a company from deferring realized gains and losses to the IMR. With the information presented, supported by the requirement to prove reinvestment when deferring losses that result in (or increase) a net negative IMR balance, the ad hoc group supported the elimination of the historical excess withdrawal guidance. This elimination was supported on the basis that reporting entities would include an attestation that assets sales did not reflect known liquidity sales to fund liabilities that are no longer recognized as insurance obligations and/or known liquidity sales were not in response to other liquidity needs, such as to provide derivative collateral. Further, the attestation shall identify that the company has a documented process to identify forced sales that would be subject to examination.

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

85. With the elimination of the excess withdrawal guidance, reporting entities will be required to provide the following attestation each year in the statutory financial statements: (SSAP P. 29b.)

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

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

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

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

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

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

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

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

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

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

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

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

Tax Impact:

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

Amortization of IMR Into Income:

88. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses net of capital gains tax, are grouped according to the number of calendar years to expected maturity[9] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year to maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (SSAP P. 15)

89. The guidance in paragraph 88 has been revised from historical provisions. Historically, there were three prescribed methods for calculating the amortization schedule. Under the prior guidance, a reporting entity could select either the seriatim method or one of two grouped methods for calculating IMR

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

amortization. In the past, a company was not precluded from changing methods on a prospective basis, but the overriding consideration for such a decision would have been the reasonableness of the amortization. Once a method had been selected for a particular year's capital gains (losses), the amortization would be locked in and could not be changed without specific approval by the domiciliary state commissioner. The historical approaches are detailed as follows:

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

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

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

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

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

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

~~Note – The ASI includes specific amortization timeframes for certain investments. It is proposed to review and retain these items as applicable in the ASI. The items are noted below for historical purposes.~~

~~i. When a convertible bond or convertible redeemable preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock's current market price. There should be no amortization of any interest-related gain or loss arising if a convertible bond or preferred stock is disposed after the expected maturity date.~~

~~j. When an instrument's contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life shall be included in the analysis where average life is defined as the date at which the instrument is 50% repaid.~~

~~k. For puttable instruments, where the exercise option rests with the reporting entity investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For callable bonds purchased at a premium that is called or sold after the expected maturity date, there should be no amortization of the call premium or interest-related gain/loss.~~

~~l. For perpetual debt investments, the expected maturity is 30 years from the current date.~~

~~m. For purposes of the grouped method, the following additional assumptions are applicable:~~

~~i. For fixed-income instruments other than residential mortgages and residential mortgage pass-throughs, without a maturity date or sinking fund schedule, a maturity date 30 years from the current year should be used.~~

~~ii. For mortgage-backed/asset-backed securities, use the remaining average weighted life of principal and interest payments consistent with the prepayment assumptions that would have been used to value the security had the security been repurchased at its sale price.~~

~~iii. For SVO Identified Funds designated for systematic value, the expected maturity is the weighted-average life of the underlying bonds.~~

Admittance of IMR:

Discussion of IMR admittance / admittance cap is expected at the SAPWG. The following section will be revised accordingly based on that direction.

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

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

94. Reporting entities that meet the requirements of paragraph 95 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[10] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the reporting entity~~company~~ has experienced a decline in capital and surplus and/or had significant increases in net admitted IMR in the current period, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account) (SSAP P. 24)

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

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and cash flow testing pursuant to paragraph 24.c. Rather, any reconciliation difference from the admitted IMR originally ~~captured~~ determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

95. Requirements to admit net negative IMR: (SSAP P. 25)

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive

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

goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative ~~(disallowed)~~ IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

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

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance*, ~~*Section 7.D.7 and*~~ *VM-21: Requirements for Principle-Based Reserves for Variable Annuities, VM-22: Requirements for Principles-Based Reserves for Non-Variable Annuities* and *VM-30: Actuarial Opinion and Memorandum Requirements*~~, Section 3.B.5~~. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are not overstated.

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

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

a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general account[12] capital and surplus as required to be shown on the statutory balance sheet of the reporting entity for its most recently filed statement with the domiciliary state commissioner. The capital and surplus shall be adjusted to exclude any net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted[13] net negative (disallowed) IMR. The adjusted capital and surplus calculation intends to reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative (disallowed) IMR as reported in the third quarter financial statements to determine the limit for year-end.) However, to safeguard from situations in which the company has experienced a decline in capital and surplus and/or had significant increases in net admitted (disallowed) IMR in the

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

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

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

current period, the admittance of net negative (disallowed) IMR shall also not exceed 10% of the current period unadjusted capital and surplus.

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

c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination[14] unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.

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

e. Reporting entities admitting any amount of net negative (disallowed) IMR pursuant to paragraphs 9.a. through 9.c. shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/cash flow testing (CFT) pursuant to Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, Section 7.D.7 and VM-30: Actuarial Opinion and Memorandum Requirements, Section 3.B.5. Reporting entities shall

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

prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are not overstated.[15]

97. Reporting entities are permitted~~shall~~ to admit net negative IMR ~~between~~ in the general account and/or in each ~~the~~ separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph . Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request. ~~based on methodologies consistent with the Valuation Manual.~~ (SSAP P. 26)

98. Reporting entities shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as "Admitted ~~Disallowed~~ Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (SSAP P. 27)

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

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

Disclosures / Reporting:

101. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are required to complete the IMR rollforward and amortization schedule[16] in the annual financial statements. (SSAP P. 28)

The IMR project proposes to revise the Exhibit of Capital Gains and Losses to allow tracking to the investment schedules, and to better illustrate the allocation to IMR and AVR from recognized capital gains and losses.

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

[16] For reporting entities subject to paragraph 104., the annual IMR amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

102. Consistent with what was established in INT 23-01, reporting entities with admitted negative IMR are required to complete a note disclosure that details the following: (SSAP P. 29a)

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

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

c. The calculated adjusted capital and surplus; and

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

103. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P. 29b)

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

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

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

104. Reporting entities that have moved from a net positive IMR position to a net negative position or that has increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative balance. Reporting entities that fair the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (Further discussion on the proof of reinvestment is detailed in paragraphs 107-109.) (SSAP P. 29c)

105. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (SSAP P. 29d)

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

106. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy/cash flow testing reconciliation to the admitted IMR ultimately shown in the ~~year-end~~annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually. (SSAP P. 29e)

Proof of Reinvestment

107. As discussed in paragraphs 26-32, reporting entities with a net negative balance, for which current year losses exceed gains, in any general or separate account, are required to complete the "proof of reinvestment.[17]" This is a new disclosure template required in the annual financial statements that reporting entities are required to complete when their year-end IMR balance initially goes net negative, or when their year-end net negative balance has increased from their prior year net negative balance. This disclosure is required regardless of any admittance of net negative IMR. This template provides support that a reporting entity has reinvested the proceeds from sold fixed-income investments into new, higher-yielding, fixed-income investments. The concept of IMR, which defers and amortizes interest-related gains and losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that reinvestment of proceeds into fixed-income securities with higher yields has occurred. This reinvestment presumably allows reporting entities to acquire more-desirable assets that support existing liabilities for policyholder obligations. Key concepts within the proof of reinvestment calculation and the specific sources for the data as initially developed include:

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

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

c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to

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

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

the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences. The proceeds from the sales of bonds and mortgages loans in the proof is then adjusted to remove realized capital losses that were recognized directly to capital losses due to known liquidity sales, where the proceeds were not reinvested into new qualifying fixed-income investments.

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

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

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

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

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

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

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

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

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

Effective Date and Transition

110. Revisions to SSAP No. 7, adopted month/year, that incorporate revisions reflecting a comprehensive review of the ~~interest maintenance reserve~~IMR, are effective January 1, 2027, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items in the following subparagraphs. (SSAP P. 31)

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

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

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

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

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block of~~a~~ business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. (Discussion of this rationale is included for historical purposes in the NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-N.)

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

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

Revisions to Other SSAPs:

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

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

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

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

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

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

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

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

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

i. *SSAP No. 86—Derivatives*: Revisions are proposed to 1) eliminate the optionality for when accounting-effective hedges are taken to IMR, and 2) Incorporate updates to revise and clarify IMR and AVR guidance for RSATs. ~~(Note – There are no edits currently proposed for income-generation derivatives. Further review of RSATs and Income Generating Derivatives will be addressed in a subsequent project.)~~

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

Reporting Revisions:

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

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

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

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

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

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

i. Investment specific maturity timeframes for amortization purposes. *(This may be a limited number of items, so may assess need to retain or location.)*

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

Note – Appendices for the proof of reinvestment follow. Other appendices will be included if they should be included. (References in the issue paper are shaded for discussion.)

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

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

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

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

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

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

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

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

Attachment 2.3
IP No. XX

Interest Maintenance Reserve

Appendix B – Proof of Reinvestment Disclosure Illustration – General Account

Line	Data Source	Description	2024 YTD
1	CF Stmt - Row 13.1	Cost of investments acquired (long-term only) - Bonds	103,056,000
2	CF Stmt - Row 13.3	Cost of investments acquired (long-term only) - Mortgage Loans	14,181,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**117,237,000**
4	Note 5D(6)	Proceeds from FI investments sold - Bonds	39,861,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	3,831,000
6	New Disclosure	Known liquidity sales recognized as immediate capital losses	2,000,000
~~6~~7	Sum of lines 4 + 5 - 6	**Total proceeds from Fixed Income Investments Sold**	**~~43~~41,692,000**
~~7~~8	CF Stmt - Row 1	Premiums collected net of reinsurance	52,020,000
~~8~~9	CF Stmt - Row 7	Commissions, expenses paid and aggregate write-ins for deductions	11,062,000
~~9~~10	Annual Statement - Note 35 Separate Account	Total premiums, considerations or deposits as of the end of current period	15,000,000
~~10~~11	Internal Systems	Assets in kind received in line 9 above	3,000,000
~~11~~12	Annual Statement - Analysis of operations by lines of business - A&H: Column 1 minus column 11^ minus column 12	Premiums for accident and health contracts (short-term)	5,000,000
~~12~~13	Line ~~7~~ 8 -line ~~8~~ 9 -line 10~~9~~ + line ~~10~~ 11 - line ~~11~~12	**Investable Premiums Before Other Investment Adjustment**	**23,958,000**
~~13~~14	B/S - Row 1	Bonds - Net Admitted	130,000,000
~~14~~15	B/S - Row 3.1	First Lien Mortgages - Net Admitted	20,000,000
~~15~~16	B/S - Row 3.2	Other than First Lien Mortgages - Net Admitted	10,000,000
~~16~~17	Sum of lines ~~13~~14, ~~14~~15, & ~~15~~16	**Investments Subject to Proof of Reinvestment**	**160,000,000**
~~17~~18	B/S - Row 12	Subtotal, Cash and Invested Assets	200,000,000
~~18~~19	Line ~~17~~ 18 - Line ~~16~~17	**Allocation for Investment for Other Assets**	**40,000,000**
~~19~~20	Line ~~18~~ 19Divided by Line ~~17~~18	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**20%**
~~20~~21	Line ~~12~~ 13 multiplied by Line ~~19~~20	**Investable Premium Adjustment**	**4,791,600**
~~21~~22	Line ~~12~~ 13 - Line ~~20~~21	**Investable Premiums**	**19,166,400**
~~22~~23	Line 3 - line ~~6~~ 7 - line ~~21~~22	**Investments Purchased less Investments Sold and Investable Premiums**	**~~54~~56,378,600**
~~23~~24	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.57%**
~~24~~25	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line ~~6~~7) during the year	**3.96%**
~~25~~26	Line ~~23~~ 24 - line ~~24~~25	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**0.61%**
		Sufficient evidence of reinvestment of fixed income investments	

~~26~~27	**Test 1**		Is line ~~22~~ 23 positive?	**Yes**
~~27~~28	**Test 2**		Is line ~~25~~ 26 positive?	**Yes**
	If lines ~~26~~ 27 & ~~27~~ 28 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.			
	^Column 11 is for disability business that includes both long and short term disability. RBC is determined based on this differentiation in LR 19 where total earned premiums are broken out between long and short term and are a close approximation of column 11 premiums in aggregate. Only the long-term premium categories (i.e., lines 21 through 26) included in LR 19 are to be subtracted for purposes of this test.			

Appendix C – Proof of Reinvestment Disclosure Illustration – Separate Account

Line	Data Source	Description	2024 YTD
1	Internal Systems	Cost of investments acquired (long-term only) - Bonds	430,000
2	Internal Systems	Cost of investments acquired (long-term only) - Mortgage Loans	128,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**558,000**
4	Internal Systems	Proceeds from FI investments sold - Bonds	502,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	14,000
6	New Disclosure	Known liquidity sales recognized as immediate capital losses	16,000
~~6~~7	Sum of lines 4 + 5	**Total proceeds from Fixed Income Investments Sold**	**~~516~~500,000**
~~7~~8	Blue Book Note 35B / Internal Systems	Book value separate accounts premiums	7,000
~~8~~9	Internal Systems	Assets in kind received in line 7 above	-
~~9~~10	Line ~~7~~ 8 -line ~~8~~9	**Investable Premiums Before Other Investment Adjustment**	**7,000**
~~10~~11	Green Book - B/S Row 1	Bonds - Net Admitted	2,450,000
~~11~~12	Green Book - B/S Row 3	Mortgages - Net Admitted	570,000
~~12~~13	Line ~~10~~ 11+ line ~~11~~12	**Investments Subject to Proof of Reinvestment**	**3,020,000**
~~13~~14	Green Book - B/S Row 11	Subtotal, Cash and Invested Assets	3,124,000
~~14~~15	Line ~~13~~ 14 - Line ~~12~~13	**Allocation for Investment for Other Assets**	**104,000**
~~15~~16	Line ~~14~~ 15 Divided by Line ~~13~~14	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**3%**
~~16~~17	Line ~~9~~ 10 multiplied by Line ~~15~~16	**Investable Premium Adjustment**	**233**
~~17~~18	Line ~~9~~ 10- Line ~~16~~17	**Investable Premiums**	**6,767**
~~18~~19	Line 3 - line ~~6~~ 7 - line ~~17~~18	**Investments Purchased less Investments Sold and Investable Premiums**	**~~35~~51,233**
~~19~~20	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.00%**
~~20~~21	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line ~~6~~7) during the year	**3.00%**
~~21~~22	Line ~~19~~ 20 - line ~~20~~21	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**1.00%**
		Sufficient evidence of reinvestment of fixed income investments	
~~22~~24	**Test 1**	Is line ~~18~~ 19 positive?	**Yes**
~~23~~25	**Test 2**	Is line ~~21~~ 22 positive?	**Yes**
	If lines ~~22~~ 23 & ~~23~~ 24 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/imr alm hearing/2.3 - imr issue paper - revised 7.2.2026.docx

IMR Issue Paper – Proposed SSAP Revisions
Draft – 2026 Summer National Meeting

Note: Items Revised from the April 2026 Exposure are Shaded in Yellow.

In addition to the rewrite of SSAP No. 7, many revisions to other SSAPs are proposed in accordance with the IMR project. These revisions are detailed in this document. (Note: It is intended that this document will be incorporated into and/or accompany the issue paper with adoption.)

A search of "Interest Maintenance Reserve" and "IMR" was completed for the 2025 Manual. SSAP references are detailed separately by those with proposed revisions and those without proposed revisions.

SSAP's with Proposed Revisions

SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments

A. New Paragraph 7: Revisions address IMR/AVR treatment for cash equivalents:

7. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of cash equivalents shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to that guidance, all unrealized gains and losses shall be allocated to the AVR, however, realized capital gains and losses from the sale of cash equivalents shall not be allocated to the IMR. Any realized loss deemed to be non-interest related shall be allocated to the AVR, with interest-related realized gains or losses retained as an immediate capital gain or loss.

B. Paragraph 16: Revisions clarify IMR/AVR treatment for short-term investments:

16 All short-term investments shall be accounted for in the same manner as similar long-term investments, except for the allocation to IMR. For reporting entities required to maintain an IMR and AVR, the accounting for realized capital gains and losses on sales of short-term investments shall be in accordance with SSAP No. 7. Pursuant to that guidance, all unrealized gains and losses shall be allocated to the AVR, however, realized capital gains and losses from the sale of short-term investments shall not be allocated to the IMR. Any realized loss deemed to be non-interest related shall be allocated to the AVR, with interest-related realized gains or losses retained as an immediate capital gain or loss.

SSAP No. 21—Other Admitted Assets

No explicit revisions are proposed to this SSAP. Although the issue paper proposes to revise the way in which IMR/AVR allocations occur for non-bond debt securities, the guidance in SSAP No. 21 points to the guidance in SSAP No. 43 for application. With this pointer, no revisions are needed to SSAP No. 21 as the revisions will be reflected in SSAP No. 43 and be applicable in accordance with the existing guidance.

SSAP No. 26—Bonds

A. Paragraphs 17-18: Revisions are proposed to improve existing guidance:

17. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of bonds shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to SSAP No. 7, ~~For reporting entities required to maintain an asset valuation reserve~~

~~(AVR), the accounting for~~all unrealized gains and losses, excluding foreign exchange gains and losses, shall be ~~in accordance with SSAP No. 7~~recognized to the AVR.

18. For reporting entities not required to maintain an IMR and AVR, realized gains and losses on sales of bonds shall be reported as net realized capital gains or losses in the statement of income. ~~For reporting entities not required to maintain an AVR, u~~ Unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

B. Paragraph 23: Revisions are proposed to improve existing guidance:

23. An other-than-temporary(INT 06-07) impairment (OTTI) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. Pursuant to this guidance, realized losses from an OTTI recognized as it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the debt security (credit impairment) shall be fully allocated to the AVR. Realized losses from an OTTI recognized as the entity has decided to sell a security prior to its maturity at an amount below its carrying value shall be fully allocated to either the IMR or AVR pursuant to the guidance in SSAP No. 7. ~~The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.~~

C. Paragraph 37: This paragraph is specific to SVO-Identified ETFs. Minor reference revisions:

37. For reporting entities required to hold an IMR and AVR reserve, realized and unrealized gains and losses for the SVO-identified bond ETF investments shall be consistent with bonds within the scope of this standard. With this guidance, recognition of gains/losses (and corresponding AVR/IMR impacts) will be based on the ETF, and not activity that occurs within the ETF (e.g., such as changes in the underlying bonds held within the ETF). Also consistent with the guidance for bonds, recognized losses from other-than temporary impairments shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with SSAP No. 7.~~the annual statement instructions.~~

SSAP No. 32—Preferred Stock

A. Paragraph 8: Incorporate guidance for sales of preferred stock. (This guidance is generic to apply to both redeemable and perpetual preferred stock.)

8. At acquisition, preferred stock shall be reported at cost, including brokerage and other related fees. Preferred stock received as dividends shall be recorded at fair value. Acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date. For reporting entities required to maintain an interest maintenance

reserve (IMR) and asset valuation reserve (AVR) sales of preferred stock shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.*

B. Paragraph 12.b.iv: Clarify AVR treatment of unrealized gains and losses:

12.b.iv For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be fully to the AVR in accordance with SSAP No. 7~~—*Asset Valuation Reserve and Interest Maintenance Reserve*~~.

C. Paragraph 13: Clarify OTTI guidance for redeemable preferred stock to mirror the bond guidance:

13. An other-than-temporary(INT 06-07) impairment (OTTI) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock's carrying value and its fair value, not to exceed any currently effective call price, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Pursuant to this guidance, realized losses from an OTTI recognized as it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the redeemable preferred stock (credit impairment) shall be fully allocated to the AVR. Realized losses from an OTTI recognized as the entity has decided to sell a redeemable preferred stock prior to its maturity at an amount below its carrying value shall be fully allocated to either the IMR or AVR pursuant to the guidance in SSAP No. 7.

SSAP No. 37—Mortgage Loans

A. New Paragraph 16: Incorporate guidance for sales of mortgage loans

16. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of mortgage loans shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

B. Renumbered Paragraph 17: Incorporate clarifying revisions:

17. A mortgage loan shall be considered to be impaired when, based on current information and events, it is probable that a reporting entity will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. According to the contractual terms means that both the contractual principal payments and contractual interest payments of the mortgage loan will be collected as scheduled in the mortgage agreement. A reporting entity shall measure impairment based on the fair value (as determined by acceptable appraisal methodologies) of the collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan shall be recognized as an impairment

by creating a valuation allowance with a corresponding charge to unrealized loss or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to unrealized gain or loss. Subsequent to the initial measurement of impairment, if there is a significant change (increase or decrease) in the net value of the collateral, the reporting entity shall adjust the valuation allowance; however, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan. For reporting entities required to maintain an ~~asset valuation reserve (~~AVR~~)~~, the unrealized gain or loss on impairments shall be recognized ~~included in the calculation of~~ to the AVR. If the impairment is other than temporary (INT 06-07), a direct write down shall be recognized as a realized loss (recognized to the AVR for reporting entities maintaining an AVR), and a new cost basis is established. This new cost basis shall not be changed for subsequent recoveries in value. Mortgage loans for which foreclosure is probable shall be considered permanently impaired.

C. Paragraph 33~~2~~ – original effective date guidance – addresses previously recognized IMR related to prepayment penalties. No changes are proposed. Its historical guidance no longer applicable.

33~~2~~. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management's best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in this paragraph related to unamortized amounts included in IMR was originally contained within INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification and was effective March 8, 1999.

SSAP No. 41—Surplus Notes

A. Paragraph 12: Incorporate clarifying guidance, including guidance for sales:

12. For reporting entities required to maintain an AVR, ~~the accounting for~~ unrealized gains and losses shall be fully allocated to the AVR and realized capital gains and losses from the sale of capital notes or surplus notes shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

SSAP No. 43—Asset-Backed Securities

A. Paragraph 15: Directs treatment for prepayment penalties, no revisions proposed.

15. The amount of prepayment penalty and/or acceleration fees to be reported as investment income shall be calculated as follows:

    a. The amount of investment income reported is equal to the total proceeds (consideration) received less the par value of the investment; and

    b. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses subject to the authoritative literature in SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.

B. Paragraph 36: Revisions to eliminate the IMR/AVR bifurcated allocation and incorporate consistent language.

36. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to SSAP No. 7, all unrealized gains and losses shall be recognized to the AVR. Further, realized losses from an OTTI recognized under paragraph 35, as the reporting entity does not expect to recover the entire amortized cost basis even if the entity has no intent to sell and the entity has the intent and ability to hold (credit impairment) shall be fully allocated to the AVR. ~~AVR or IMR, all unrealized gains and losses shall be reported through the AVR. For realized gains and losses, an analysis is required on whether the realized loss reflects an interest or non-interest related decline[1]. The analysis required is the same regardless of whether a realized loss results from an impairment write-down or whether there was a gain or loss upon sale. Guidance on specific scenarios resulting in realized gains and losses are as follows:~~

~~a. Unrealized Gains and Losses – Record all unrealized gains and losses through AVR. At the time an unrealized gain or loss is realized, allocation between AVR or IMR will depend on the analysis and bifurcation between interest or non-interest related declines Unrealized gains or losses that are realized shall be reversed from AVR before the recognition of the realized gain or loss within AVR and IMR.~~

~~b. Other-Than-Temporary Impairment – Non-interest related other-than-temporary impairment losses shall be recorded through the AVR and interest-related OTTI losses shall be recorded through the IMR. If the reporting entity wrote the security down to fair value due to the intent to sell or because the entity does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the entity shall bifurcate the realized loss between non-interest related (AVR) and interest related (IMR). The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined. Entities that recognized an OTTI based on the difference between amortized cost and the present value of expected cash flows shall recognize the full realized loss through AVR.~~

~~c. Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest and non-interest related declines in accordance with the analysis performed as of the date of sale.~~

~~d. Security Sold at a Loss With Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest and non-interest related declines in accordance~~

~~[1] Pursuant to INT 06-07, the term interest-related includes a declining value due to both increases in the risk-free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or the perceived higher/lower risk of an entire sector. If the declining value is caused, in whole or in part, due to credit spreads widening, but not due to fundamental credit problems of the issuer, the change in credit spreads is deemed to be interest-related.~~

~~with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.~~

~~e. Security Sold at a Gain With Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.~~

~~f. Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.~~

C. Q&A 7 – Directs IMR/AVR based on recognized OTTI. Reference revisions proposed.

7. Question – If an impairment loss is recognized based on the "present value of projected cash flows" in one period is the entity required to get new cash flows every reporting period subsequent or just in the periods where there has been a significant change in the actual cash flows from projected cash flows?

7.1 The guidance in paragraph 38 of SSAP No. 43 indicates that a reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the asset-backed security. This guidance is explicit that the reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the loan-backed or structured security.

7.2 As provided in paragraph 2.2 of this Q&A, if the entity does not want to assess cash flows of an impaired security (fair value is less than amortized cost), the entity can designate the security as one the entity intends to sell, or one that the entity does not have the intent and ability to hold, providing it is reflective of the true intent and assessment of the ability of the entity. Reporting entities subject to the requirements of AVR and IMR should allocate the impairment loss between AVR and IMR in accordance with SSAP No. 7~~accordingly~~.

D. Q&A 8 – Discusses reporting in lots and the requirement to track separately for IMR/AVR allocation. No revisions proposed.

8. Question – Do ABS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the "final" NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43 security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance

A. Update Reference to Guidance.

(Note – Additional revisions to SSAP No. 61 are considered under agenda item 2025-22.)

54. The interest-related gain or loss (net of taxes) associated with the sale, transfer or reinsurance of a block of liabilities must be credited or charged to the IMR in accordance with SSAP No. 7. ~~the IMR instructions contained in the NAIC Annual Statement Instructions for Life and Accident and Health Insurance Companies.~~

SSAP No. 86—Derivatives

A. Paragraph 24, with corresponding edits to Exhibit B and Exhibit C, to mandate consistent use of IMR when applicable for effective hedges and remove ambiguity on when IMR is permitted.

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. When the hedged item is held at amortized cost, the derivative is also recognized at amortized cost, therefore there is no recognized carrying value change over the life of the derivative. In such situations, if the settlement of the derivative results in a realized gain or loss from the derivative acquisition basis, then upon termination of a derivative that qualified for hedge accounting, the following guidance shall be followed:

a. If the hedged item is not terminated, the derivative gain or loss shall adjust the basis of the hedged item, and amortized/accreted into income over the remaining life of the hedged item. (For example, if a bond was hedged, a realized derivative gain would be offset by a credit to the bond's book/adjusted carrying value, reducing the bond BACV as a basis adjustment. This adjustment would be accreted into income over the remaining life of the bond to bring the bond BACV to par value.)

b. If the hedged item is terminated, the derivative gain or loss shall be recognized consistently with how the gain or loss from the hedged item is recognized. If the gain or loss from the hedged item is taken to IMR, then the derivative gain or loss shall be taken to IMR. If the hedged item gain or loss is recognized as an immediate capital gain or loss, then the derivative gain or loss shall also be recognized as an immediate capital gain or loss.

Exhibit B – Corresponding Revisions to reflect the revised paragraph 24 guidance:

An open derivative hedging a forecasted transaction or firm commitment shall be recorded at cost until the hedged transaction occurs. When the hedged forecasted transaction or firm commitment occurs, an open derivative shall be accounted for in a manner consistent with the hedged item (i.e., amortized cost or fair value).

~~Upon termination of a derivative that qualified for hedge accounting of an existing asset or liability or a forecasted transaction or firm commitment, the resulting gain or loss shall be recognized in income~~

~~in a manner that is consistent with the hedged item. If the hedged item is recorded at amortized cost, the gain or loss shall adjust, individually or in the aggregate, the basis of the hedged item subject to amortization. Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination. For terminated derivatives, indicate on Schedule DB, Section 2, Parts A and B, the nature of the assets or liabilities so adjusted and the schedule or exhibit where they are presented.~~

Upon termination of a derivative that qualified for hedge accounting, the following guidance shall be followed:

a. If the hedged item is not terminated, the derivative gain or loss shall adjust the basis of the hedged item, and amortized/accreted into income over the remaining life of the hedged item. (For example, if a bond was hedged, a realized derivative gain would be offset by a credit to the bond's book/adjusted carrying value, reducing the bond BACV as a basis adjustment. This adjustment would be accreted into income over the remaining life of the bond to bring the bond BACV to par value.)

b. If the hedged item is terminated, the derivative gain or loss shall be recognized consistently with how the gain or loss from the hedged item is recognized. If the gain or loss from the hedged item is taken to IMR, then the derivative gain or loss shall be taken to IMR. If the hedged item gain or loss is recognized as an immediate capital gain or loss, then the derivative gain or loss shall also be recognized as an immediate capital gain or loss.

For terminated derivatives, indicate on Schedule DB, Section 2, Parts A and B, the nature of the assets or liabilities so adjusted and the schedule or exhibit where they are presented.

Consistency revisions will also be incorporated into the specific hedge accounting guidance in Exhibit B, in 1d, 2d and 3c:

1d. Gain/Loss on Termination of an option, warrant, cap or floor accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise of an Option: The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge—Any gain or loss on the transaction, except for excluded components, shall ~~will~~ adjust the basis ~~(or proceeds)~~ of the hedged item(s) ~~individually or in aggregate~~, be recognized in IMR, or be recognized as an immediate capital gain or loss in accordance with paragraph 24 and the treatment of the hedged item. ~~Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination.~~ For hedging instruments with excluded components in determining hedge effectiveness, the unrealized gain/loss from the change in fair value of the excluded component shall be realized upon the closing transaction. This gain/loss from excluded components shall not be used to adjust the basis or proceeds of the hedged item.

2d. Gain/Loss on Termination of a swap, collar or forward accounted for under hedge accounting (includes closing, exercise, maturity, and expiry):

i. Exercise – The remaining book value of the derivative shall become an adjustment to the cost or proceeds of the hedged item(s) received or disposed of individually or in aggregate;

ii. Sale, maturity, expiry, or other closing transaction of a derivative which is an effective hedge – Any gain or loss on the transaction, except for excluded components, shall~~will~~ adjust the basis (~~or proceeds)~~ of the hedged item(s)~~ individually or in aggregate~~, be recognized in IMR, or be recognized as an immediate capital gain or loss in accordance with paragraph 24 and the treatment of the hedged item. If a portfolio layer method hedging relationship is discontinued (or partially discontinued) in a voluntary dedesignation or in anticipation of a breach, the basis adjustment associated with the dedesignated amount as of the discontinuation date shall be allocated to the remaining individual assets in the closed portfolio that supported the dedesignated hedged layer using a systematic and rational method. ~~Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination;~~

3c. Gain/Loss on Termination of a futures contract accounted for under hedge accounting:

i. Settlement at maturity of a futures contract—The remaining variation margin of the futures contract shall become an adjustment to the cost or proceeds of the hedged item(s) received, disposed of or held, individually or in aggregate;

ii. Sale, or other closing transaction of a futures contract which is an effective hedge—Any gain or loss on the transaction shall~~will~~ adjust the basis ~~(or proceeds)~~ of the hedged item(s)~~ individually or in aggregate~~, be recognized in IMR, or be recognized as an immediate capital gain or loss in accordance with paragraph 24 and the treatment of the hedged item. ~~Alternatively, if the item being hedged is subject to IMR, the gain or loss on the terminated hedging derivative may be realized and shall be subject to IMR upon termination;~~

B. Paragraphs 57-63: Revisions to clarify RSAT guidance

Derivatives Used in Replication (Synthetic Asset) Transactions

57. Replication (Synthetic Asset) (RSAT) transaction means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a RSAT ~~replication (synthetic asset)~~ transaction.

58. Any premium paid or received shall be carried as an asset or liability on the balance sheet (Derivative line on the Assets (or) Liabilities pages). Premiums paid or received on the RSAT ~~replication (synthetic asset)~~ derivative ~~should~~ shall be amortized into investment income or expense until the exercise, termination or maturity date of the derivative.

59. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at amortized cost and the cash instrument used is carried at amortized cost, then the derivative used ~~should~~ shall be carried at amortized cost. The derivative may be valued at fair value when both the replication (synthetic asset) and the cash instrument are valued at amortized cost. This is consistent with the alternative valuation methods available for hedges. If the RSAT~~replication (synthetic asset)~~ transaction would be

carried at fair value and/or the cash instrument used is carried at fair value, then the derivative used ~~should~~ shall be carried at fair value.

	(a)	(b)	(c)	(d)
	If the Replication (Synthetic Asset) is Valued at:	And Cash Instrument(s) Used is (are) Valued at:	The Derivative is Valued at:	Alternative Derivative Value Basis:
1.	Amortized Cost	Amortized Cost	Amortized Cost	Fair value
2.	Fair value	Fair value	Fair value	N/A
3.	Amortized Cost	Fair value	Fair value	N/A
4.	Fair value	Amortized Cost	Fair value	N/A

60. When the derivative component is held at fair value, the change in fair value shall be recognized as an unrealized gain or loss throughout the life of the transaction and included in the AVR.

~~60.~~61. In the case of ~~No.~~example 3 in the chart ~~above~~, the fair values for the cash instrument and derivative, when added together, shall not exceed the replication (synthetic asset) statement value. If this ~~does~~ occurs, the excess shall reduce the fair value of the derivative and shall be recorded as an unrealized loss ~~gain~~. ~~separate from the Asset Valuation Reserve (AVR)~~.

62. If the ~~replication (synthetic asset)~~RSAT transaction involves a periodic settlement with the exchange of interest related cash flows (default free assets), then the cash flows on the derivative component ~~should~~shall be accrued as investment income. If the ~~replication (synthetic asset) transaction~~RSAT involves a periodic settlement with the exchange of total return or change in index cash flows, then the cash flows ~~should~~ shall be segregated between interest income and settlement of other fair value ~~(equity)~~ changes. The interest income portion ~~should~~ shall be accrued as investment income and settlement of any other fair value changes shall be recognized as gains or losses in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

~~61.~~63. Any realized gains or loss recognized at maturity, termination or reset of the derivative component of the RSAT shall be allocated to IMR or AVR in accordance with SSAP No. 7[FN]. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

~~If the derivative is carried at fair value, the periodic change in the fair value should be recorded as an unrealized gain or loss adjustment to surplus until the transaction is terminated. If the replication (synthetic asset) transaction involves the exchange of total return or change in index cash flows, then the cash flows should be segregated between interest income and fair value (equity) changes. The fair value (equity) change should be~~

~~recognized as a deferred asset/liability until the termination of the contract. Gains or losses on the derivative at termination or sale should be recognized as realized.~~

New FN: For qualifying RSAT derivatives (held at amortized cost), upon termination, the gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO.

C. Guidance for Income Generation transactions

The current references to IMR are shaded below. No revisions have yet to be proposed.

50. The principal features of income generation transactions are:

a. Premium received is initially recorded as a deferred liability.

b. The accounting of the covering asset or underlying interest controls the accounting of the derivative. The covering asset/underlying interest is accounted at either fair value (e.g., common stocks) or (amortized) cost (e.g., bonds).

c. The gain/loss on termination of the derivative is a capital item. For life insurance companies, it shall be subject to IMR treatment if interest rate related.

d. For options that are exercised, the remaining premium shall adjust the proceeds (cost) associated with the exercise resulting in no explicit gain or loss reported for the derivative itself.

51. The principal features of written fixed income covered call options are:

a. The general approach is to value at cost (i.e., consideration received) without amortization over the life of the contract if the original duration is less than one year, otherwise carry at amortized cost.

b. An alternative to the general approach combines the accounting of the written option with the covering asset and then uses standard accounting for callable bonds (yield to worst amortization) on the adjusted asset. This method prevents the possibility of future loss recognition upon exercise while at the same time providing recognition of the income feature of the option over time. This approach would appear most relevant for longer-lived covered European call options, which are in substance like callable bonds.

c. For life insurance companies, the gain or loss flows through the IMR if the covering asset or underlying interest is subject to the IMR using callable bond rules to determine the remaining life.

d. Reporting entities are responsible for timely recognition of any probable losses that may occur as a result of the strategy. If the exercise price is below the covering asset's book value, the asset shall be evaluated for write down or disclosure treatment in accordance with SSAP No. 5. All relevant factors such as whether the option is currently exercisable, the fair value of the bond relative to its exercise price, to what extent the statement value of the option premium offsets any loss on the asset, or how any IMR transaction on exercise would affect unassigned funds (surplus) and income shall be considered.

52. Written fixed income covered call options shall be accounted for as follows:

Only the IMR references included in the chart below. For expired only gains are referenced.

Closed – Expired: Gain from expiration to flow through IMR, if applicable. (1)

Closed – Exercised: Gain or loss from disposition to flow through IMR, if applicable (1)

Closed – Terminated: Gain or loss from disposition to flow through IMR, if applicable (1)

NOTE (1) If premium is attached to covering asset, the accounting treatment for the covering asset applies.

53. The principal features of written covered put options are:

    a. The accounting for the underlying interest instead of the covering asset governs the accounting of the written put while it is open. For example, if a reporting entity wrote a put requiring it to purchase a certain common stock (underlying interest) at a specific price, the reporting entity might cover that option by holding cash or cash equivalents (covering asset). The accounting for the common stock would govern the accounting of the option in this case.

    b. As with covered call writing for life insurance companies, gain/loss on termination may be subject to IMR over the remaining life of the underlying interest.

    c. As with covered call writing, entities writing put options for income generation purposes are responsible for timely recognition of any probable losses that may occur as a result of the strategy.

54. Written covered put options shall be accounted for as follows:

Only the IMR references included in the chart are below. For expired only gains are referenced.

Closed – Expired: Gain from expiration to flow through IMR, if applicable.

Closed – Exercised: No reference to IMR

Closed – Terminated: Gain or loss from disposition to flow through IMR, if applicable

55. The principal features of written fixed income caps and floors are:

    a. The value of the premium received shall be amortized into income over the life of the contract. For caps and floors, where the entity is selling off possible excess interest/income, the value of the covering asset is not relevant.

    b. Gain/loss may be subject to IMR. The expected maturity would be the derivative contract's maturity.

56. Written fixed income caps and floors shall be accounted for as follows:

Only the IMR references included in the chart are below. For expired only gains are referenced.

Closed – Matured: No reference to IMR

Closed – Exercised: Included in chart as not applicable. No reference to IMR.

Closed – Terminated: Gain or loss on termination to flow through IMR, if applicable

SSAP No. 105—Working Capital Finance Investments

A. Paragraph 23: Revise guidance to eliminate allocation to IMR. This elimination is supported as these items have underlying short-term investments, that would be amortized in less than a one-year timeframe if allocated to IMR. The revisions also eliminate reference to unrealized gains/losses, as the guidance in SSAP No. 105 does not utilize a fair value measurement method. No revisions are proposed to paragraph 28 as it already specifies that all OTTI is allocated to the AVR.

23. For all reporting entities, including those required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized capital gains and losses from working capital finance investments shall not be taken to the IMR and shall be retained as immediate capital gains and losses. For these entities, all unrealized gains and losses shall be allocated to the AVR. ~~be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized gains and losses from working capital finance investments shall be reported as net realized capital gains or losses in the statement of income. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).~~

B. Paragraph 26 – Proposed to remove reference to SSAP No. 7. Under SSAP No. 105, the OTTI recognized would be due to a credit impairment. However, to avoid potential confusion with the pointer to SSAP No. 7, propose to just direct to AVR in the SSAP.

28. For reporting entities required to maintain an AVR/IMR, the entire amount of the realized loss from the other-than-temporary impairment shall be recorded through the AVR~~, in accordance with SSAP No. 7~~.

SSAP's with IMR References – No Revisions Currently Proposed
Items noted for potential discussion are shaded.

Preamble:

37. Liabilities require recognition as they are incurred. Certain statutorily mandated liabilities may also be required to arrive at conservative estimates of liabilities and probable loss contingencies (e.g., interest maintenance reserves, asset valuation reserves, and others).

56. There are instances where the Codification of Statutory Accounting Principles (E) Working Group (Statutory Accounting Principles (E) Working Group as of January 1, 2000) has established an accounting principle in a SSAP but deferred maintenance and update of the detailed guidance to other NAIC task forces and their working groups. Those instances are specifically set forth in the individual SSAPs and include specific guidance for calculation of the Interest Maintenance Reserve (IMR), the Asset Valuation Reserve (AVR), the provision for overdue reinsurance, and periodic update to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments

8. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets

41. ….This statement also adopts Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 2 and 3 with the modification that AVR, IMR and Schedule F Penalty shall be shown gross. Appropriation of retained earnings discussed in paragraph 15 of FAS 5 is addressed in SSAP No. 72—Surplus and Quasi-Reorganizations. *(Only last two sentences shown.)*

(Note – This reference to "gross" is referring to the IMR not being combined with the associated asset but shown separately on a dedicated line. This reference is not addressing IMR being shown net of positive and negative impacts.)

SSAP No. 21—Other Admitted Assets

25. Debt securities that do not qualify as bonds in the scope of this statement shall follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing other-than temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

SSAP No. 30—Unaffiliated Common Stock

10. For reporting entities required to maintain an Asset Valuation Reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation

Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus.

SSAP No. 56—Separate Accounts

Note - Guidance Revised in 2026.

20. Asset sales for cash between the general account and "fair value" separate accounts:

    a. The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value.

    b. Assets sold from the general account shall result in a realized gain or loss based on the difference between fair value and book adjusted carrying value (BACV). The realized gain or loss, if resulting from interest rate changes, shall be allocated to the general account IMR and amortized as if the asset had been sold to an unrelated third party. Realized gains from these transactions shall not be deferred pursuant to *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 17. Realized losses from credit-related factors shall be allocated to the AVR.

21. Asset sales for cash between the general account and "book value" separate accounts:

    a. Seller – The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value with recognition of a realized gain or loss. The realized gain or loss, if resulting from interest rate changes, shall be allocated to IMR and amortized in the selling account as if the asset had been sold to an unrelated third party. The transfer of an asset under this guidance that results in a gain shall not be deferred by the selling account pursuant to SSAP No. 25, paragraph 17, as such a deferral would create a mismatch in the IMR recognition between the general/separate accounts. Realized losses from credit-related factors shall be allocated to the AVR.

    b. Purchaser – The account (either general or separate account) purchasing the asset shall recognize the acquired asset at the BACV from the selling account. The difference between the asset's fair value and the BACV shall be reported to IMR in the purchasing account.

    c. The IMR activity between the selling account and the purchasing account shall be equal and offsetting resulting in a net zero impact in the IMR between the two accounts. IMR is tracked and reported separately in the general account and the separate account, but the net impact of the two accounts shall equal zero for each transfer transaction.

    d. Subsequent to initial acquisition, the purchasing account shall account for the acquired asset pursuant to the measurement method of the applicable SSAP.

22. Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value with gains and losses offset to IMR similar to asset sales for cash guidelines as detailed in paragraphs 20 and 21. Any transfer that does not represent an asset sale for cash shall be specifically disclosed in both the general account and separate account as detailed in paragraph 34.e. This shall include, but not be limited to, the following transfers:

    a. Asset-to-asset swaps

b. Contributions of general account assets to support separate account deficiencies

c. Dividends of assets from the separate account to the general account

Separate Account AVR and IMR Reporting

23. An AVR is required for separate accounts when the reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss.

24. Assets supporting separate accounts, excluding products captured in paragraph 18, do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, for those contracts, an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account.

25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, require an AVR because the insurer is responsible for credit related asset or fair value loss.

26. "Book value" separate accounts, pursuant to paragraph 18, are required to maintain an interest maintenance reserve (IMR). Once an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

27. As detailed in the annual statement instructions, separate account IMR is kept separate from the general account IMR and accounted for in the separate accounts statement.

28. The AVR and IMR shall be calculated and reported in accordance with SSAP No. 7 and the annual statement instructions.

49. Revisions adopted in February 2025 in agenda item 2024-10, that clarify the measurement of separate account assets, particularly for "book value separate accounts" and that prescribe the treatment for transfers between the general account and separate account with IMR and AVR recognition, are effective January 1, 2026, with early adoption permitted. The January 1, 2026, effective date intends to allow reporting entities to modify their separate account product "plans/memorandums of operation" with the state of domicile as necessary to comply with this revised statement. After January 1, 2026, reporting entities are required to have an approved permitted or prescribed practice to utilize a book value measurement method or a different approach for transfers and recognition of IMR/AVR outside of what is detailed within this statement.

<u>SSAP No. 101—Income Taxes:</u>

7. A reporting entity's deferred tax assets and liabilities are computed as follows:

   a. Temporary differences are identified and measured using a "balance sheet" approach whereby statutory and tax basis balance sheets are compared;

   b. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased;

1.4 Unique Statutory Accounting Items

- SSAP No. 101 – In addition to the exceptions provided in FAS 109, temporary differences do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased.

2.1 A – An enterprise shall record a gross deferred tax liability or asset for all temporary differences and operating loss, capital loss and tax credit carryforwards. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include AVR, IMR, Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased. In general, temporary differences produce taxable income or result in tax deductions when the related asset is recovered or the related liability is settled. A deferred tax asset or liability represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year. Additionally, gross DTAs are reduced by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the gross DTAs will not be realized. The statutory valuation allowance adjustment, determined in a manner consistent with paragraphs 20-25 of FAS 109, shall reduce gross DTAs to the amount that is more likely than not to be realized (the adjusted gross deferred tax assets).9 This answer only addresses the recognition of adjusted gross DTAs and gross DTLs and does not address the admissibility of such amounts. See Question 4 for a discussion of the admissibility criteria of SSAP No. 101.

<u>SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</u>

11. Upon completion of a transfer of an entire financial asset or a group of entire financial assets that satisfies the conditions to be accounted for as a sale (see paragraph 8), the transferor (seller) shall:

    a. Derecognize the transferred financial assets;

    b. Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained (including a transferor's beneficial interest in the transferred financial assets) and liabilities incurred1 in the sale (paragraphs 60 and 62-66).

    c. For reporting entities required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized and unrealized capital gains and losses shall be determined per the guidance in the SSAP for the specific type of investment, or if not specifically stated in the related SSAP, in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized capital gains and losses shall be reported as net realized capital gains or losses in the statement of income, and unrealized capital gains and losses shall be reported as net unrealized gains and losses in unassigned funds (surplus).

131. The accounting guidance in this statement adopts with modification *FAS 166, Accounting for the Transfers of Financial Assets, an Amendment to FAS 140* (FAS 166), *FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), as amended by FAS 166, and FAS 156, *Accounting for Servicing of Financial Assets, an amendment*

of FASB Statement No. 140, as amended by FAS 166. Statutory modifications from these adoptions include:

iv. Guidance on the accounting of sale transactions for entities required to maintain an interest maintenance reserve (IMR). This guidance requires such entities to account for realized and unrealized capital gains and losses per the guidance in the SSAP for the specific type of investment, or if not specifically stated in the related SSAP, in accordance with SSAP No. 7 (paragraph 11.c.).

Appendix C – AG XLVIII – 2019 Valuations (Page - AG43a-15)

A1.1) Projection of Accumulated Deficiencies

G) AVR/IMR. The AVR and the IMR shall be handled consistently with the treatment in the company's cash flow testing.

Appendix C-2 – Actuarial INT 39 (Page C-84)

6. For purposes of this comparison for 12/31/16 and later, the actual portfolio net investment return is adjusted by the current amortization of IMR allocated to the portfolio. This adjustment is made only for the comparison of portfolio yields to determine the appropriate portfolio to use in the development of the deterministic reserve. The reserve amount is then determined following the procedure defined in VM-20.

Appendix G – Implementation Guide – Attachment A (page G-29)

Asset Valuation Reserve ("AVR")
The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve ("IMR")
The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

IMR – Proposed Reporting Revisions
Draft – 2026 Summer National Meeting

Note: Items Revised from the April Exposure are Shaded in Yellow

In accordance with the project to review IMR and clarify accounting guidance, reporting revisions are also being proposed. (Note: It is intended that this document will be incorporated into and/or accompany the issue paper with adoption.)

Asset & Liability Pages

A. Asset Page - New distinct reporting lines to separately capture IMR and deferred derivative assets. (Examples below are specific to the general account blank. Similar edits (different numbers) will be included in the separate account blank.)

New Reporting Line 17 with all other lines renumbered.

Note – Proposed to use one reporting line for deferred derivatives, with a separate note that identifies the balance between SSAP No. 108 and 109. Could divide into separate lines if preferred.

17. Miscellaneous Assets:
 17.1 Negative Interest Maintenance Reserve
 17.2 Deferred Derivative Assets – (Variable Annuity Guarantees & Asset-Liability Management)

B. Liability Page - New distinct reporting lines to separately deferred derivative assets.

Added to existing Miscellaneous Liabilities listing.

24. Miscellaneous liabilities:
 24.01 Asset valuation reserve (AVR, Line 16, Col. 7)
 24.02 Reinsurance in unauthorized and certified ($..........) companies
 24.03 Funds held under reinsurance treaties with unauthorized and certified ($..........) reinsurers
 24.04 Payable to parent, subsidiaries and affiliates
 24.05 Drafts outstanding
 24.06 Liability for amounts held under uninsured plans
 24.07 Funds held under coinsurance
 24.08 Derivatives
 24.09 Deferred Derivative Liabilities – (Variable Annuity Guarantees & Asset-Liability Management)
 24.09 Payable for securities
 24.10 Payable for securities lending
 24.11 Capital notes $……… and interest thereon $……… ....

Once the new lines are set, new Instructions will be proposed to specify what should be included.

<u>Exhibit of Capital Gains (Losses)</u>
Revisions are proposed to revise this schedule to allow for tracking to investment types and the allocation to IMR and AVR.

<u>Proposed New Schedule</u>: This schedule captures capital gains and losses, then shows the allocation to IMR and AVR to get to the net capital gains and losses that should agree to the Summary of Operations. It is shown clean for review purposes. New columns are shaded. *(Note: Prior reporting lines identified "bonds exempt from US tax" – comments are requested on whether that line should be retained. It is only applicable to P/C entities.)*

	Realized Gains (Loss) on Sales or Maturity	Other Realized Adjustments	Total Realized Capital Gain (Loss)	Allocated to IMR	Allocated to AVR	Net Realized Capital Gains (Loss)	Change in Unrealized Capital Gain or Loss	Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. Bonds (Unaffiliated):								
2. Bonds (Affiliated):								
3. Preferred Stocks (Unaffiliated):								
4. Preferred Stock (Affiliated):								
5. Common Stock (Unaffiliated):								
6. Common Stock (Affiliated):								
7. Mortgage Loans								
8. Real Estate								
9. Contract Loans								
10. Cash, Cash Equivalents								
11. Short-Term Investments								
12. Derivative Instruments								
13. Other Invested Assets								
14. Aggregate Write-Ins for Capital Gains & Losses								
Total								
Detail of Write-Ins:								

The existing Exhibit of Capital Gains (Losses) is shown as a pic below. As shown, it separately captures U.S. Government Bonds and Bonds Exempt from US Tax (which applies only to property and casualty companies). If separate carve-outs are needed for these categories, then it would be recommended that they be captured as footnotes to the schedule so that the amounts reported agreed to the year-end disposal schedules. (If preferred, could separate lines by D-4 and D-5 so it is a direct crosscheck per schedule.)

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds					
1.1	Bonds exempt from U. S. tax					
1.2	Other bonds (unaffiliated)					
1.3	Bonds of affiliates					
2.1	Preferred stocks (unaffiliated)					
2.11	Preferred stocks of affiliates					
2.2	Common stocks (unaffiliated)					
2.21	Common stocks of affiliates					
3.	Mortgage loans					
4.	Real estate					
5.	Contract loans					
6.	Cash, cash equivalents and short-term investments					
7.	Derivative instruments					
8.	Other invested assets					
9.	Aggregate write-ins for capital gains (losses)					
10.	Total capital gains (losses)					
DETAILS OF WRITE-INS						
0901.						
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page					
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9 above)					

INTEREST MAINTENANCE RESERVE

Proposed New "Form for Calculating the Interest Maintenance Reserve"

New Rows are shaded and separate the adjustments to the reserve for transparency.

	Amount
1. Reserve as of December 31, prior year	
2a. Current year's net realized pre-tax capital gains ~~and~~ (losses) of $________ ~~(2.a)~~ transferred into the reserve net of taxes of $_________ ~~(2.b)~~.	
2b. Net realized losses removed from IMR as a result of not completing or failing the proof of reinvestment tests at year-end.	
3. IMR Balance Before Adjustments and Amortization (Line 1+2a+2b)	
Adjustments to the Reserve:	
~~3~~4. Reinsurance Ceded – Subtraction from~~to~~ Reserve	
~~4~~5. Reinsurance Assumed – Addition to Reserve	
~~5~~6. Market Value Adjustment: Gain – Addition to Reserve	
~~6~~7. Market Value Adjustment: Loss – Subtraction ~~to~~ from Reserve	
8. Other IMR Adjustments	
~~7~~9. Net Adjustment to Reserve *(Sum of ~~3~~-4-~~6~~8)*	
~~8~~10. Balance before reduction for current year amortization (Line 1 + 2 + 7)	
~~9~~11. Current Year's Amortization ~~Released~~ Recognized in~~to~~ Summary of Operations	
~~10~~12. Reserve as of December 31, current year	

Note – With the proposed change to the Exhibit of Capital and Gains, the amount reported in 2.a (gross transfer to IMR) should agree to the "Allocated to IMR" from that schedule. The amortization schedule is not expected to be revised. (It is shown below abbreviated for space purposes.)

Amortization

Year of Amortization	1 Reserve as of December 31, Prior Year	2 Current Year's Realized Capital Gains/(Losses) Transferred into the Reserve Net of Taxes	3 Adjustment for Current Year's Liability Gains/(Losses) Released From the Reserve	4 Balance Before Reduction for Current Year's Amortization (Cols. 1+2+3)
1. 2025				
2. 2026				
3. 2027				
4. 2028				
5. 2029				
6. 2030				
7. 2031				
8. 2032				
9. 2033				
10. 2034				
11. 2035				
12. 2036				
13. 2037				
14. 2038				
15. 2039				
16. 2040				
17. 2041				
18. 2042				
19. 2043				
20. 2044				
21. 2045				
22. 2046				
23. 2047				
24. 2048				
25. 2049				
26. 2050				
27. 2051				
28. 2052				
29. 2053				
30. 2054				
31. 2055 and Later				
32. Total (Lines 1 to 31)				

INTEREST MAINTENANCE RESERVE

Proposed Instructions – Shown Clean.

The prior ASI are proposed to be deleted. Any key reporting concepts will be brought in separately.

This exhibit is designed to capture the realized capital gains (losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

These instructions cover the Interest Maintenance Reserve (IMR) for both the General Account and Separate Accounts. If an IMR is required for investments in a Separate Account, IMR recognition shall follow all rules applicable to the general account IMR. IMR in a Separate Account shall be kept separate from the General Accounts IMR and all other Separate Accounts.

Line 1 – Reserve as of December 31, Prior Year

Enter the amount from Line 6 of the prior year's schedule.

Line 2a – Current Year's Realized Pre-tax Net Capital Gains (Losses) of $______ Transferred into the Reserve Net of Taxes of $______

In accordance with SSAP No. 7, include interest-rate-related realized capital gains (losses) net of capital gains tax, using the federal marginal tax rate. in accordance with SSAP No. 7.

By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

The amount captured in this line shall reflect the total amount of net IMR allocated throughout the year (each quarter and at year-end) prior to the removal of any new capital losses due to the incompletion or failure of the proof of reinvestment tests.

Net capital gains shall be reported as a positive number. Net capital gains shall be reported as a negative number.

Line 2b Current year net realized losses removed from IMR as a result of not completing or failing the proof of reinvestment tests.

In accordance with SSAP No. 7, reporting entities must complete the proof of reinvestment to support an initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance. Reporting entities that do not complete the proof of reinvestment, or that fail the proof of reinvestment, are only permitted to retain in IMR current year losses that can be offset by current year gains.

The amount shall be reported as a positive number, as the proof of reinvestment shall only be required if the amount reported on line 2a is a net negative.

This reduction from IMR shall exclude current year adjustments to IMR from ceding or assuming reinsurance transactions or transfers to/from the separate account.

Line 3 *IMR Balance Before Adjustments and Amortization (Line 1+2a+2b)*

Line ~~3~~4 – Adjustment for Reinsurance Ceded Released from the Reserve – Subtraction ~~to~~ from Reserve

Ceding Company means an insurer who has sold, transferred or reinsured a block of its in force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*. Pursuant to SSAP No. 7, amounts shall be removed from IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been eliminated. Amounts eliminated shall include:

- IMR from past sales attributed to a reinsured block of business. This includes remaining, unamortized interest related realized gains or losses taken to IMR from prior asset sales associated with the reinsured block of liabilities.

- IMR from current sales incurred, or from the transfer of assets to provide reinsurance premium. This includes the interest related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction. Such amounts shall be recognized initially to IMR and then derecognized as part of the reinsurance transaction.

Insurers ceding business under a modified coinsurance or funds withheld agreement shall follow the guidance in SSAP No. 7 for the immediate IMR derecognition or subsequent pass-through of IMR amortization in accordance with the reinsurance agreement. Insurers with immediate derecognition shall include the elimination of IMR in this line as a subtraction to the reserve. (Enter subtraction amount as a negative number.)

Line ~~4~~5 – Adjustment for Reinsurance Ceded Assumed to the Reserve – Addition to Reserve

Ceding Company means an insurer who assumed a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*.

Pursuant to SSAP No. 7, a U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer, shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior assets sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation. (Enter addition as a positive number)

For insurers assuming business under a modified coinsurance or funds withheld agreement where the cedent is retaining the IMR shall not set up a corresponding IMR reserve.

Line ~~5~~6 – Market Value Adjustment: Gains – Addition to the Reserve

Gains, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. ~~(~~Market value adjustments shall not be captured for separate account products held at fair value. (Enter addition as a positive number)~~)~~

Line ~~6~~7 – Market Value Adjustment: Losses – Subtraction from~~to~~ the Reserve

Losses, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. ~~(~~Market value adjustments shall not be captured for separate account products held at fair value. (Enter subtraction as a negative number)~~)~~

Line 8 Other IMR Adjustments

Include additional IMR adjustments to reflect current year increases or decreases to the IMR not driven from reinsurance arrangements or market value adjustments.

This reporting category shall include IMR impacts from asset transfers to/from the general account and the separate account pursuant to SSAP No. 56. (Enter additions to the IMR as a positive number and subtractions to the IMR as a negative number.)

Line ~~7~~9 – Net Adjustment to the Reserve

Sum of adjustments reflected in lines ~~3-7~~4-8. This total shall be reflected in line 1, column 3 of the amortization schedule.

Line ~~8~~10 – Balance Before Reduction for Amortization

Beginning balance, plus current year IMR, plus net adjustments. (Line 3 + Line 9)

Line ~~9~~11 – Current year's amortization ~~released to~~recognized in the Summary of Operations

Amount should agree to line 1, column 4 of the amortization schedule.

For reporting entities that do not complete or fail the proof of reinvestment and are required to eliminate current year realized losses in excess of realized gains at year-end, any associated amortization recognized previously in the year shall be recorded as an adjustment to column 3 of the amortization schedule to eliminate such amortization.

Line 10 – Reserve as of December 31, current year.

Sum of Line ~~8~~ 10 and Line ~~9~~11. Amount shall be reported on the corresponding line on the asset page (negative IMR) or on the liability page (positive IMR).

Admittance of negative IMR on the asset page shall be determined in accordance with SSAP No. 7.

AMORTIZATION

This supporting schedule calculates the amount of the Interest Maintenance Reserve to be amortized in each year.

Column 1 – Reserve as of December 31, Prior Year

Enter the amount from Column 4 of the prior year's schedule. Total should agree to the reserve as of December 31 of the prior year.

Column 2 – Current Year's Realized Capital Gains (Losses) Transferred into the Reserve Net of Taxes

After a realized capital gain (loss) has been captured in the IMR the Table 1 amortization chart shall be used using the expected remaining life to maturity of the sold asset generating IMR. Total should agree to Line 2 current year amount net of taxes taken to the IMR.

Pursuant to SSAP No. 7, amortization shall follow the standard "simplified" method by which the capital gains (losses), net of capital gains tax, are grouped according to the number of calendar years to expected maturity. The groupings will be in bands of five (5) calendar years, except that, investments with one (1) calendar year to expected maturity will be grouped separately from those with two (2) to five (5) calendar years to expected maturity.

Column 3 – Adjustment for Current Year's Liability Gains (Losses) Released or Added to the Reserve

Report the amortization impact from the net adjustments to IMR from reinsurance transactions and market value adjustments. Total reported shall equal the amount reported on line 7 of the IMR Form.

Column 4 – Balance Before Reduction for Current Year's Amortization (Col 1+2+3)

The current Grouped Amortization Schedule will be posted to the NAIC web site in July of each year.

TABLE 1

Grouped Amortization Schedules
for the Interest Maintenance Reserve
for 2025 Gains (Losses)
Interest Rate = 6.00%

Calendar Years to Maturity
*(Residential Mortgages)

Year-end	over 25	21-25	16-20	11-15 (21-30)	6-10 (11-20)	2-5 (3-10)	1 (1-2)	0 (0)
2025	0.7%	1.0%	1.6%	2.6%	5.0%	13.2%	49.3%	100.0%
2026	1.5%	2.2%	3.3%	5.5%	10.5%	27.6%	50.7%	
2027	1.6%	2.3%	3.5%	5.8%	11.1%	25.3%		
2028	1.6%	2.5%	3.8%	6.1%	11.8%	18.5%		
2029	1.8%	2.6%	3.9%	6.5%	12.5%	11.5%		
2030	1.9%	2.7%	4.2%	6.9%	13.3%	3.9%		
2031	2.0%	3.0%	4.5%	7.4%	12.4%			
2032	2.1%	3.1%	4.8%	7.8%	10.0%			
2033	2.3%	3.3%	5.0%	8.2%	7.3%			
2034	2.4%	3.5%	5.3%	8.8%	4.6%			
2035	2.5%	3.7%	5.7%	9.3%	1.5%			
2036	2.7%	3.9%	6.0%	8.7%				
2037	2.8%	4.2%	6.3%	7.0%				
2038	3.1%	4.4%	6.8%	5.1%				
2039	3.2%	4.7%	7.2%	3.2%				
2040	3.4%	5.0%	7.6%	1.1%				
2041	3.6%	5.3%	7.1%					
2042	3.8%	5.6%	5.7%					
2043	4.1%	5.9%	4.2%					
2044	4.3%	6.3%	2.6%					
2045	4.6%	6.7%	0.9%					
2046	4.8%	6.3%						
2047	5.2%	5.0%						
2048	5.4%	3.7 %						
2049	5.8%	2.3%						
2050	6.2%	0.8%						
2051	5.8%							
2052	4.6%							
2053	3.4%							
2054	2.1%							
2055	0.7%							
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Note: The years shown in parentheticals (highlighted in gray) are specific to residential mortgages.

NOTE 1: "Calendar Years to Expected Maturity" is defined in the preceding text. In the case of residential mortgages, where one-half the number of years to final maturity should be used, the parenthetical headings apply.

Expected Maturity Date

The presence of sinking fund payments, amortization schedules, expected prepayments, and adjustable interest rates complicate the determination of the number of calendar years to expected maturity. The expected maturity date is:

- For fixed income instruments with fixed contractual repayment dates and amounts (including bonds, redeemable preferred stock, callable or convertible bonds and preferred(s), the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or "yield to worst"). Potential retirement dates include all possible call dates, and the contractual maturity date. However, where a convertible bond or convertible preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock's current market price. When the instrument's contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life should be included in the analysis where average life is defined as the date at which the instrument is 50% repaid. For puttable instruments, where the exercise option rests with the investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For SVO Identified Funds designated for systematic value, the expected maturity is the weighted-average life of the underlying bonds. For perpetual instruments, the expected maturity is ~~30~~ 10years from the current date.

The guidance in *SSAP No. 26—Bonds* shall be followed in determining any capital gain or loss for called or tendered bonds. Under the yield-to-worst concept, bonds shall be amortized to the call or maturity date that produces the lowest value. In the event a bond has not been amortized to the lowest value prior to the call, the entire difference between the consideration received and the BACV shall be reported to investment income. As such, in such situations there shall be no capital gain or loss to allocated to the IMR. Similarly, there should be no amortization of any interest-related gain (loss) arising if a convertible bond or redeemable preferred stock is disposed of after the expected maturity date.

For purposes of the simplified grouped method, the following additional assumptions are applicable:

- For fixed income investments, other than residential mortgages and residential mortgage pass-throughs, without a maturity date or sinking fund schedule, a maturity date ~~30~~ 10 years from the current year should be used.

- For mortgage-backed/asset-backed securities, use the remaining weighted average life of principal and interest payments consistent with the prepayment assumptions determined for the investment pursuant to *SSAP No. 43—Asset-Backed Securities*.

NOTE: Amortization of current year gains (losses) should be based on prior year's amortization factors until the current year's table is published. Amortization of each year's gains (losses) for future years must be based on the amortization table applicable to that year (i.e., 2006 gains (losses) use the 2006 table, 2007 gains (losses) use the 2007 table, etc.). Refer to Grouped Amortization Schedule included in this section.

The following aspects are included in the ASI – but outside of the amortization section. NAIC staff is proposing to delete. Consideration should occur on whether they should be retained.

- ~~Where the gain on a convertible bond or preferred stock sold while "in the money" is included in the IMR; the expected maturity date is defined as the next conversion date. "In the money" is defined to mean that the number of shares available currently or at next conversion date, multiplied by their current market price, is greater than the book/adjusted carrying value of the convertible asset. However, for a convertible bond or convertible preferred stock purchased while its conversion value exceeds its par value, any gain or (loss)~~

~~realized from its sale before conversion must be excluded from the IMR and included in the AVR. Conversion value is defined to mean the number of shares available currently or at next conversion date, multiplied by the stock's current market price.~~

- ~~Capital gains (losses) arising from counterparty default or the curing of a previous counterparty default should be separately identified and credited or charged to the bond and preferred stock component of the AVR.~~

- ~~Interest rate related gains (losses) associated with the cash component of a replication (synthetic asset) transaction should be amortized in the same manner as they would be in the absence of the replication (synthetic asset) transaction.~~

- ~~Interest rate related gains (losses) associated with the derivative component of a replication (synthetic asset) transaction that is not a swap of prospectively determined interest rates should be amortized as if they arose from the replicated asset.~~

- ~~Realized capital gains (losses) arising from a swap of prospectively determined interest rates constituting a component of a replication (synthetic asset) transaction should be credited or charged to the Interest Maintenance Reserve using the maturity bucket corresponding to the side of the transaction with the longest interest rate guarantee period.~~

Note: The following components were originally proposed by industry, but subsequent discussion and inclusion in order documents support deletion.

- ~~Capital gains (losses) arising from derivative counterparty default or the curing of a previous counterparty default should be separately identified and credited or charged to the bond and preferred stock component of the AVR.~~

~~For RSATs:~~

- ~~Gains and losses associated with the cash component of an RSAT should be credited or charged to the IMR or AVR in accordance with *SSAP No. 86—Derivatives*. Interest rate related IMR gains and losses shall be amortized in the same manner as they would be in the absence of the RSAT.~~

- ~~Realized capital gains (losses) arising from the derivative component of an RSAT, where the derivative is valued at amortized cost, should be credited or charged to the Interest Maintenance Reserve, using the maturity bucket corresponding to the replicated asset life.~~

- ~~Realized capital gains (losses) arising from the derivative component of an RSAT, where the RSAT and/or derivative are valued at fair value, should be credited or charged to bond and preferred stock component of the AVR.~~

Amortization Example – Revisions Proposed:

The following is an illustration of the application of the rules governing the IMR treatment of reinsurance transactions for the ceding company.

We will make the following assumptions:

- A company has a block of business that it completely reinsures during 1993.

- The assets currently allocable to the block for investment income allocation purposes have a book/adjusted carrying value of $100 million and a ~~market~~ fair value of $110 million.

- Some of the assets backing the block were sold during 1992 generating an interest-rate related gain of $2 million before taxes and $1.32 million after capital gains taxes for which the IMR amortization is:

IMR Amortization of 1992 Capital Gains	
Year	Amortization ($ millions)
1992	0.202
1993	0.383
1994	0.310
1995	0.231
1996	0.144
1997	0.050
TOTAL	1.320

A portion of the original gain, $.202 million, was amortized in 1992, leaving $1.118 million to be amortized in 1993 and later.

- The company pays ~~a~~ consideration to the reinsurer of $105 million.

- The company sells assets allocable to the block with a book/adjusted carrying value of $80 million and a ~~market~~ fair value of $89 million to partially fund the payment to the reinsurer. This sale generates a taxable gain of $9 million resulting in the payment of $3.06 million in capital gains taxes. The after-tax gain from these 1993 sales is amortized as follows:

IMR Amortization of 1993 Capital Gains	
Year	Amortization ($ millions)
1993	0.261
1994	0.570
1995	0.618
1996	0.677
1997	0.743
1998	0.808
1999	0.772
2000	0.630
2001	0.469
2002	0.291
2003	0.101
TOTAL	5.940

- The remaining $19.06 million paid to the reinsurer is borrowed from other lines of business.

- ~~Assets with a book/adjusted carrying value of $20 million and a market value of $21 million from the original block of assets allocable to the line of business remain in the company's portfolio after the transaction is completed. If these assets were to be sold at the time of the reinsurance transaction, they would generate a before tax capital gain of $1 million and an after tax capital gain of $.66 million that would be amortized through the IMR as follows:~~

~~IMR Amortization of the Hypothetical Sale of the Remaining Assets Allocable to the Block~~	
~~Year~~	~~Amortization ($ millions)~~
~~1993~~	~~0.101~~
~~1994~~	~~0.191~~
~~1995~~	~~0.155~~
~~1996~~	~~0.116~~
~~1997~~	~~0.072~~
~~1998~~	~~0.025~~
~~TOTAL~~	~~0.660~~

~~Note that if these assets are actually sold at some point subsequent to the reinsurance transaction, the sale price would be different from the hypothetical price to the extent that interest rates had changed subsequent to the reinsurance transaction.~~

- ~~The block is big enough to exceed the materiality threshold.~~

In order to calculate the IMR amortization associated with the reinsurance of the liability, it is first necessary to determine the IMR amortization from past sales attributed to the reinsured block of business and current sales incurred or the transfer of assets to provide reinsurance premium. ~~, present and hypothetical asset sales of assets allocable to the block of business.~~

IMR Amortization					
	Asset ($ million)				Liability ($ million)
Year	Past (Included in P28 C1)	Present (Included in P28 C2)	~~Future~~	Total	Total (Included in P28 C3)
1993	.383	.261	~~.101~~	0.644	-0.644
1994	.310	.570	~~.191~~	0.88	-0.88
1995	.231	.618	~~.155~~	0.849	-0.849
1996	.144	.677	~~.116~~	0.821	-0.821
1997	.050	.743	~~.072~~	0.793	-0.793
1998		.808	~~.025~~	0.808	-0.808
1999		.772		0.772	-0.772
2000		.630		0.63	-0.63
2001		.469		0.469	-0.469
2002		.291		0.291	-0.291
2003		.101		0.101	-0.101
				~~0.745~~	~~-0.745~~
				~~1.071~~	~~-1.071~~

				~~1.004~~ ~~0.937~~ ~~0.865~~ ~~0.833~~ ~~0.772~~ ~~0.630~~ ~~0.469~~ ~~0.291~~ ~~0.101~~	~~-1.004~~ ~~-0.937~~ ~~-0.865~~ ~~-0.833~~ ~~-0.772~~ ~~-0.630~~ ~~-0.469~~ ~~-0.291~~ ~~-0.101~~
TOTAL	1.118	5.940	~~0.660~~	7.058 ~~7.718~~	-7.058 ~~-7.718~~

The IMR amortization associated with the liability is displayed in the last column of the above table and it is simply the complement of the IMR amortization associated with the past sales attributed to the reinsured block of business and current sales incurred or the transfer of assets to provide reinsurance premium~~past, present and hypothetical future assets sales~~. The liability amortization should be entered in Column 3 of the IMR Amortization Worksheet of the Annual Statement of the ceding company. By definition the size of the interest-rate related gain is the total transferred to the IMR, -$7.058~~718~~ million, which should be included on Line 3 of the IMR worksheet of the ceding company as well as on the Aggregate Write-ins for Deductions on the Summary of Operations and Analysis of Operations by Lines of Business.

Reinsurance Assumed

"Assuming Company" means here the counterparty to the transactions described above for the ceding company.

Pursuant to SSAP No. 7, a U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions or asset transfers the ceding entity incurred to transfer the reinsurance obligation.

The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, if required. In the event the reinsurance transaction is unwound, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. If an assuming entity is not required to maintain IMR, and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date.

~~The assuming company must set up an IMR liability adjustment of the same magnitude but complementary to the adjustment recorded by the ceding company, subject to the following requirements:~~

~~1. Where the assuming company is required to set up a deferred profit liability or deferred loss asset and reflects zero gain (loss) at treaty date, e.g., as for assumption reinsurance, the assuming company must not set up an IMR liability adjustment. Regardless, for non-economic transactions with an affiliate, the assuming company must set up the IMR liability adjustment.~~

~~2. The assuming company may offset a positive IMR adjustment, but not below zero, with any excess of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.~~

~~3. The assuming company must increase a negative IMR adjustment, but not above zero, with any shortfall of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.~~

~~To determine the offset of Item 2 or 3 above, the company would need to calculate policyholder reserves on both the reported and minimum bases as of each valuation date. In lieu of this, a reporting entity may determine the offset as of the treaty effective date, express this offset as a percentage of the IMR adjustment and then apply this same percentage reduction or increase to the IMR adjustment at all subsequent valuation dates. However, whichever method is used for the particular treaty must be consistently applied at all valuation dates.~~

~~In the case of subsequent reinsurance, the retroceding reporting entity has an IMR adjustment net of the offset of Item 2 or 3 above, whereas the IMR transferred over is gross of this offset. The new reinsurer would determine its own adjustment following Item 2 or 3 above.~~

~~Upon recapture or commutation of a reinsurance arrangement where the effective date of the original arrangement was January 1, 1999 or later, the reinsurer must follow the IMR rules for reinsurance ceded and the original insurer (company recapturing the business) must follow the IMR rules for reinsurance assumed, as set forth above, for the portion of business recaptured. Otherwise, no IMR adjustment is made.~~

~~Upon reinsurance assumed, recaptured or commuted from an alien insurer (i.e., not subject to IMR), an IMR liability adjustment is required only where the assuming company, or any of its affiliates, ever held the business and subsequently reinsured the business effective January 1, 1999 or later, and currently holds an unamortized IMR liability adjustment for the business. In this case, the new IMR liability adjustment must be set equal to the complement of the unamortized IMR liability adjustment(s) currently held for the business by the assuming company or by its affiliates. An affiliate may choose to hold the complementary offsetting amount if it holds the applicable unamortized IMR liability adjustment, otherwise, the complementary offsetting amount must be held by the assuming company.~~

This proposed guidance – which would have been new reporting guidance for modco and FWH transactions has been removed from this IMR project. The ACLI comments proposed edits to make it specific to IMR, but NAIC staff would suggest a broader scope, so will include in a subsequent reinsurance project.

~~**Modco and Funds Withheld Reporting**~~

~~1. Pursuant to SSAP No. 7, for insurers ceding business under a modified coinsurance or funds withheld agreement, the accounting for IMR depends on the terms of the reinsurance agreement.~~

~~a. For agreements that stipulate that IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the reporting shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. Reporting entities shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under the modco or funds withheld reinsurance agreement. The derecognition of IMR shall be included in the modco reserve or funds withheld liability embedded within ceded reserves.~~

~~For agreements that settle realized gains and losses with the reinsurer over time through inclusion of the IMR amortization, the reporting entity shall retain IMR attributed to the reinsured business and pass through the associated IMR amortization through an adjustment to the funds withheld liability or modco reserve on an ongoing basis. Reporting entities that retain IMR and pass through the amortization shall continue to recognize IMR from any fixed-income investment sales incurred for investments held under the modco or funds withheld reinsurance agreement. The amortization of this IMR shall be passed through as an adjustment to the funds withheld liability or modco reserve.~~

~~**Component**~~	~~**Cedent**~~	~~**Reinsurer**~~	~~**Reporting Notes**~~
~~**Ceded Reserves / Reserve Credit**~~	~~Report net reserves on Page 3 – Aggregate Reserves. Include ceded amounts on reserve exhibits (e.g., Exhibit 5 – Life / Exhibit 7 – Annuity). Modco: Reduce reserve credit by modco deposit; FWH: Report with full ceded reserves netted, with separate funds held liability.~~	~~Page 3 shows aggregate reserves for assumed business. Assumed reserves reported in reserve exhibits.~~	~~Exhibits total to Page 3 Net Reserves. Schedule S Reserve Amounts Agree.~~
~~**Modco Deposit / Cedent Payable**~~	~~Embed with policy reserves on page 3 with disclosure in Notes & Schedule S. Represents amounts owed to reinsurer but retained as assets on the cedent's investment schedules. Amount shall include net IMR attributed to the Modco assets if IMR is retained by the cedent.~~	~~Report as asset (Modco/FWH receivable) on page 2. Reported asset is net of IMR owed from cedent if cedent retains IMR.~~	~~Modco deposit should agree to assets for reinsurer per the restricted asset disclosure.~~
~~**FWH Payable (FWH Liability)**~~	~~Report as liability – Funds held under reinsurance treaties / amounts withheld. (For P/C entities, ties to Schedule F.)~~	~~Report as asset – Funds withheld by ceding company.~~	~~Confirm FWH liability to reinsurer's receivable and to restricted asset disclosure.~~

~~Interest on Withheld Funds~~	~~Record interest credited to reinsurer as expense - Interest on indebtedness / deductions) and increase modco payable (embedded with policy reserves).~~	~~Record interest as income – Aggregate Write-In: Interest on Modco/FWH and increase Modco/FWH Receivable.~~	~~Agree to Treaty settlement calculations and disclose in Schedule S & F.~~
~~Realized Capital Gains/Losses on Assets Supporting Reinsurance Treaty. (Asset supporting treaty has been sold or incurred OTTI.)~~	~~Record realized gains/losses on invested asset schedules with allocation to IMR (Life) pursuant to SSAP No. 7. Increase FWH/Modco Payables. (Modco payable embedded in policy reserves.)~~	~~Recognize gains/loss as increase in FWH / Modco Receivable.~~	~~Reconcile to treaty settlement statements and the FWH/Modco Payable/Receivable Roll forward.~~
~~IMR Balance (Ending)~~	~~If cedent retains IMR for Modco/FWH assets, the IMR balance (page 3) shall include IMR-qualifying interest-related gains/losses on the allocated Modco/FWH assets. If cedent holds IMR, amortization is recognized as income over time (reducing IMR liability). If the cedent fully transfers IMR, the entity shall reduce the Modco Deposit / Payable.~~	~~If cedent transfers the IMR balance allocated to Modco/FWH assets retained by the cedent, a U.S. reinsurer's IMR balance (page 3) shall reflect the IMR transferred as well as qualifying interest-related gains/losses incurred on those assets. If reinsurer holds IMR, amortization is recognized as income over time (reducing IMR liability).~~	~~Only one party (cedent or reinsurer) shall hold IMR related to the Modco/FWH assets. It is an election for the cedent to transfer IMR fully or to retain IMR and transfer the IMR amortization as incurred to the reinsurer.~~
~~IMR Transfer~~	~~If cedent retains IMR for Modco/FWH assets, amortization of the allocated IMR shall be included as an adjustment to the Modco Deposit / Payable embedded with policy reserves or the FWH Payable.~~	~~If cedent retains IMR, amortization of the allocated IMR shall impact the reinsurer's Modco/FWH receivable shown on page 2.~~	~~For cedent, impacts IMR Analysis (Transfer Detail), reported IMR balance and Modco Deposit Payable embedded in Policy Reserves. For reinsurer, Impacts Modco / FWH Receivable.~~
~~Terminations, Including Recapture and Commutations~~	~~Eliminate ceded reinsurance balances. Restore reserves, settle withheld payable. If IMR had been fully transferred, reinstate unamortized IMR. If IMR had been retained, eliminate allocation of amortization to Modco Deposit/Payable.~~	~~Eliminate assumed reserves and receivable. Recognize commutation gain/loss. If reinsurer holds IMR, provide information on unamortized IMR back to the cedent for re-recognition.~~	~~Eliminate impacted reinsurance balances. Any resulting gain/loss shall be recognized as a net realized capital gain or loss.~~

Notes to Financial Statements

The following modifications or additions to the notes to the financial statements will be incorporated to correspond with the revised SSAP No. 7 disclosure requirements:

1) SSAP No. 7, paragraph 29a – Overall disclosure of negative IMR, including totals, amount nonadmitted, the calculation of adjusted capital and surplus, and the percentage of adjusted capital and surplus for which the admitted net negative IMR represents. This is an existing disclosure in Note __, however, the proposed revisions to SSAP No. 7 will only require the disclosure if a company has admitted net negative IMR. Revisions will be proposed to the disclosure to reflect this SSAP change.

2) SSAP No. 7, paragraph 29b – Attestation on known liquidity sale losses. This is a new component that will be satisfied by a new general interrogatory as well as a new financial statement note disclosure on known liquidity sale losses recognized in income.

3) SSAP No. 7, paragraph 29c – The proof of reinvestment will be captured as a new disclosure.

4) SSAP No. 7, paragraph 29d – This disclosure details the unamortized derivative gains and losses from derivatives that did not qualify as effective hedges. Although the SSAP No. 7 guidance will prohibit these derivative gains and losses from being allocated to IMR, the guidance allows a 10-year amortization timeframe for previously allocated amounts. As such, the existing disclosure with a roll-forward of derivative gains and losses will be modified to only detailed the unamortized derivative gains and losses. After the 10-year timeframe, this disclosure will be deleted from SSAP No. 7.

5) SSAP No. 7, paragraph 29e – New disclosure for reporting entities that are required to nonadmit negative IMR based on the 10% unadjusted capital and surplus limit are to disclose the difference between the admitted IMR reflected in the PBR or AAT/CFT reconciliation and what is shown as admitted in the annual financial statement.

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/08-12-26 summer national meeting/hearing/imr alm hearing/2.5 - imr - reporting revisions - revised 7.2.2026.docx

Statement of Statutory Accounting Principles No. 109

Asset Liability Management (ALM) Derivatives

STATUS

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

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 thereof[1].

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 percentage[3] 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 Macauley Duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley Duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley 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 terminated[4]..

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.

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[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 liability[5].) 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's entity' 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 ~~deferred assets and deferred liabilities and begin amortization over a 10-year period.~~ 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 ~~With the reclassification, the derivative's then current fair value shall represent the initial amortized cost basis and~~ follow the provisions of this statement ~~for future measurement~~. 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/hearing/imr alm hearing/2.6 - 24-15 - ssap 109_2027(draft).docx

Statutory Issue Paper No. 1XX

Asset Liability Management (ALM) Derivatives

STATUS
2026 Summer National Meeting 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 ~~15~~16-~~16~~17.)

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.

JMG to expand with subsequent discussion dates.

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

~~9.~~11. 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 is 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.

~~10.~~12. 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.

~~11.~~13. 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

~~12.~~14. 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.

~~13.~~15. 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.

~~14.~~16. 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.

~~15.~~17. 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

~~16.~~18. 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 Macauley duration of 10 years, a highly effective derivative portfolio hedging this difference would place the Macauley duration of the assets with derivatives at between 9.8 years and 10.25 years (80%-125% of the Macauley 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

~~17.~~19. 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.)

~~18.~~20. 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.

~~19.~~21. 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.

~~20.~~22. 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

~~21.~~23. 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.

~~22.~~24. 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.

~~23.~~25. 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

~~24.~~26. 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.

~~25.~~27. 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.

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

~~26.~~29. 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

~~27.~~30. 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.

~~28.~~31. 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~~deferred assets and deferred liabilities~~. 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.

~~29.~~32. With the transition provision, unrealized gains and losses recognized for approved, qualifying programs would be reclassified as ~~deferred assets and liabilities~~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. ~~, with amortization beginning, and~~ 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.

~~30.~~33. 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.

~~31.~~34. 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 11. 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:			

Example Entries

Change in Value

N/A

Derivative Maturity/Termination *(if applicable)*

DR-CR: Cash
DR-CR: Deferred Asset/Liability — *surplus neutral*

Amortization *(subsequent quarters for maturities/terminations, as applicable)*

DR-CR: Deferred Asset/Liability
DR-CR: Net Investment Income — *surplus impact over amort period*

Liquidation Value *(amounts rounded for simplicity)*

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

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

De-designation

DR-CR: Derivative Asset/Liability — *current value*
DR-CR: Deferred Asset/Liability — *(surplus neutral)*
Start amortizing

Subsequent Accounting (MTM)

DR-CR: Derivative Asset/Liability — *(prospective MTM in URGL)*
DR-CR: URGL (Surplus)

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Statutory Accounting Principles (E) Working Group
2026 Summer National Meeting
Comment Letters Received

TABLE OF CONTENTS

June 25, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2023-14 – Interest Maintenance Reserve (IMR)

Submitted Electronically

Dear Chair Clark:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the exposed item Ref #2023-14 – *Interest Maintenance Reserve (IMR)* from the Statutory Accounting Principles (E) Working Group (SAPWG). This letter provides comments on the proposed exposures reflecting changes to the revised SSAP No. 7, Issue Paper for SSAP No. 7, Revisions to Other SSAPs and Proposed Reporting Changes.

ACLI appreciates the NAIC's development of the interim solution and the subsequent Ad Hoc Working Group process to address negative IMR. We believe this work is important to appropriately reflect surplus and, therefore, insurer solvency. Over the past several years, the dialogue among regulators, ACLI, and its member companies has been constructive, transparent, and productive.

IMR was developed during a period of declining interest rates and generally positive IMR balances. At that time, regulators were concerned that insurers could sell higher-yielding bonds and reinvest in lower-yielding bonds while recognizing gains that increased surplus or were distributed, even though the insurer's claims-paying ability had not improved. IMR addressed this concern by requiring realized gains to be deferred and amortized over the remaining life of the assets sold, thereby preserving surplus at a level consistent with the pre-sale position and maintaining consistency between asset yields and the discount rates used for related liabilities.

Although it was recognized in 1992 that IMR conceptually should operate symmetrically, SAP was initially updated to reflect deferral of net gains, with the expectation that negative IMR would be addressed at a later date. That issue became more significant in recent years as rising interest rates, following decades of declining rates, caused IMR balances to turn negative. Through the Ad Hoc Working Group process, NAIC staff, state regulators, ACLI, and its member companies have addressed a number of complex issues necessary to accommodate negative IMR and to strengthen the broader statutory framework. These issues include the treatment of reinsurance, the incorporation of IMR into PBR and asset adequacy testing, the interaction of derivatives with IMR, treatment in separate and general accounts, refinement of IMR-eligible gains and losses, and the support needed for symmetrical treatment of negative IMR. ACLI believes

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

that symmetry is appropriately supported when lower-yielding assets are sold and proceeds are reinvested in higher-yielding assets, as demonstrated through proof of reinvestment. Consistent with positive IMR, deferring and amortizing realized losses over the remaining life of the assets sold helps preserve surplus at a level consistent with the pre-sale position and aligns asset yields in the financial statements with the liability discount rates established when the original assets were purchased.

For these reasons, ACLI supports full admittance of net negative IMR. This treatment is consistent with the adopted definition of IMR as a valuation adjustment intended to maintain consistency between insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support then (where the portfolio yield is updated any time there are fixed income realizations). While IMR was originally applied to realized gains, its broader purpose is to appropriately reflect surplus, and that objective applies equally to realized losses when supported by reinvestment.

The proof-of-reinvestment requirement provides an important safeguard by demonstrating that, in a higher interest rate environment, realized losses are offset by higher future yields with an equivalent present value, making the transaction non-economic from a surplus perspective. The framework should be durable and should not depend on the current interest rate environment. Otherwise, future changes in interest rates could recreate the same challenges as more life insurers experience negative IMR balances. Insurers should not be penalized, and policyowners should not be adversely affected, when insurer solvency is unchanged.

The accounting framework also should not discourage prudent investment activities, such as trades made for credit, duration, or other risk-management purposes—that benefit policyowners, insurers, and regulators. In this context, the framework, including the proof of reinvestment, provides a more targeted and economically grounded approach relative to the broader rules-based limitations, helping to avoid unintended distortions in surplus recognition and better align outcomes with insurers' asset-liability management practices and prudent interest rate risk management.

Summary of Additional Safeguards Proposed for IMR

1. Documented "proof of reinvestment" primarily derived from annual statement data provides evidence of reinvestment in fixed income securities with a higher yield.
2. Asymmetrical treatment of liquidity sales – all gains are deferred but not losses.
3. Requirement to record losses on liquidity sales immediately, have documented controls and procedures in place to identify them, and require related attestation.
4. Requirement to deduct admitted IMR from beginning invested assets used in cash flow testing– increases the likelihood of increasing asset adequacy reserves.
5. Actuarial opinion and memorandum requirement to reconcile admitted IMR to reported IMR for PBR and cash flow testing.
6. Changes to NAIC Designation guidance for determining IMR eligible losses – narrowing losses eligible for IMR but all gains still deferred.
7. Losses related to impairments or credit events are not eligible for IMR deferral.
8. Authorized control level risk-based capital of 300 required to admit negative IMR.
9. Expanded exhibit of capital gains and losses that provides additional discipline around IMR process – reconciles where all current year capital gains and losses are included within the financial statements.
10. Admitted negative IMR shown as a write-in for special surplus.

We look forward to discussing these issues with SAPWG members so we can clarify any points and answer any questions you may have.

The remainder of our letter includes more specifics to the various exposures. Comments of an editorial nature are in appendices although we highlight meaningful items due to their prominence.

Revised SSAP No. 7

The ACLI provides the following comments on key elements of the proposed changes to the accounting guidance for IMR as impacted by net negative IMR. We have also attached a markup version of the exposed SSAP No. 7 reflecting editorial revisions which have been discussed with NAIC staff.

- The editorial changes to SSAP No. 7 should be consistent as is reflected in the Issue Paper.
- For known liquidity sales in paragraph 13, companies must attest to this and additional clarity is needed. The proposal introduces disclosure concepts (paragraph 29b) while retaining principle-based definitions, which avoids rigid rules that could be exploited.
- ACLI proposes editorial changes to paragraphs 20-21 on reinsurance that will assist with the interaction with SSAP No. 61 - *Life, Deposit-Type and Accident and Health Reinsurance* and the Annual Statement Instructions. We support improving clarity and consistency for modified coinsurance ("Modco") and funds withheld ("FWH") reinsurance reporting using the Modco and Funds Withheld Reporting table as part of the Proposed Reporting Revisions. However, the table may be better located outside the IMR section (e.g., to Schedule S) to improve alignment and accessibility.

  We also note that potential overlap with exposure SAPWG Ref #2026-02 and encourage consideration of these interdependencies. The table should include more precise line-item references and more clearly distinguish between Modco and FWH treatment. Given the complexity, we recommend continuing dialogue with ACLI, NAIC staff, and SAPWG to refine the guidance.

Issue Paper

The ACLI provides the following comments on key elements of the proposed changes to the IMR Issue Paper as part of SSAP No. 7. We have also attached a markup version of the exposed Issue Paper for SSAP No. 7 reflecting editorial revisions which have been discussed with NAIC staff.

- The editorial changes to the Issuer Paper should be consistent as is reflected in SSAP No. 7.
- The tables in paragraph 47 and the Appendices should be in the annual statement instructions as they are important to the implementation of changes to IMR.
- ACLI proposes a targeted adjustment to the proof of reinvestment to address known liquidity sale losses. Because these sales are reported in income, they should be excluded from the reinvestment requirement.

Revisions to Other SSAPs

The ACLI provides the following comments on key elements of the proposed changes to other SSAPs. We have also attached markup version of the exposed Revisions to Other SSAPs reflecting editorial revisions which were discussed with NAIC staff.

- We recommend revisions to SSAP No. 86, paragraph 24, and the related guidance in SSAP No. 86, Exhibit B, to clarify the application of the guidance in determining whether realized gains and losses on derivatives should be deferred in the IMR or reflected as an adjustment to the hedged item.

<u>Proposed Reporting Changes</u>

The ACLI provides the following comments on key elements of the Proposed Reporting Changes. We have also attached a markup version of the exposed Proposed Reporting Changes reflecting editorial revisions which have been discussed with NAIC staff.

- Incorporate tables from paragraph 47 and the Appendices in the Issue Paper into the annual statement instructions and modify the 'Modco and Funds Withheld Reporting' table as highlighted at the end of the proposal.

- We evaluated the Exhibit of Capital Gains and Losses as proposed and noted inconsistencies with other Annual Statement exhibits. While we support the Exhibit's intent, refinements are needed to the columns and descriptions. ACLI will continue to work with NAIC staff to create clarifications prior to this item being sent to the Blanks Working Group for exposure.

- We support the new "Form for Calculating the Interest Maintenance Reserve" and related instructions and respectfully suggest a few adjustments to ensure a complete rollforward and consistent reporting across all components.

<u>Other comments</u>

As ACLI has evaluated the proposed above changes to the accounting and reporting of IMR, our members have begun addressing the necessary system and process changes needed to comply with the updates to statutory reporting requirements. Based on discussions with investment accounting vendors, to comply with the 'Designation Change Guidance' located in the proposed SSAP No. 7, paragraph 31a, it will take significant effort to get certain investments held prior to 2020 to be tagged with the appropriate NAIC Designation Category. Vendors will also need to implement broader enhancements, including updates to calculation methodologies, reinvestment tracking, reporting outputs, and related controls.

Implementation will require coordination across multiple insurer systems, data sources, and control environments, including internal processes and reporting frameworks, along with sufficient time for integration, testing, and validation. To the extent these capabilities are not fully developed and deployed by vendors, the burden will shift to insurers to build interim solutions, increasing operational complexity and risk.

Since the effective date needs to be at the beginning of a calendar year, we believe consideration should be given to when is an optimal time to implement the changes, including delaying the implementation by one year to support orderly adoption and mitigate operational and reporting risks.

We welcome the opportunity to discuss our comments further and to address any questions you may have.

Sincerely,

Shannon Jones

Tip Tipton

Shannon Jones, CPA
Senior Director – Financial Reporting
ShannonJones@acli.com
202-624-2029

Tip Tipton, CPA
VP – Accounting Policy
TipTipton@acli.com
202-624-2015

Nationwide® is on your side

June 25, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: SAPWG Ref #2023-14: Interest Maintenance Reserve

Dear Mr. Clark:

We appreciate the opportunity to comment on the Statutory Accounting Principles (E) Working Group ("SAPWG") SSAP No. 7 exposure of the revised guidance pertaining to the interest maintenance reserve ("IMR") and asset valuation reserve ("AVR").

Nationwide and its subsidiaries ("Nationwide") form one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses with combined surplus of $24.1 billion.

Nationwide supports the American Council of Life Insurers ("ACLI") proposal of eliminating the 10% admissibility limitations for negative IMR under INT 23-01 and adopting full admittance of negative IMR.

<u>Reasons for Full Admittance of Net Negative IMR</u>

As clarified in the exposed SSAP No. 7, IMR is a valuation adjustment intended to maintain consistency between the valuation of insurance liabilities and the amortized cost basis of the supporting fixed-income assets. When a book-value IMR eligible asset is sold, IMR defers and systematically amortizes the recognition of non-economic realized gains and losses arising from investment activity that effectively unlocks interest rate–related unrealized gains and losses. This treatment aligns recognition of those amounts with the long-duration nature of insurance liabilities and the reinvestment of asset proceeds.

The proof of reinvestment appropriately emphasizes that the core premise of negative IMR is the reinvestment of proceeds from fixed-income asset sales into new fixed-income assets with higher yields. Nationwide agrees with this principle and believes that, when combined with the revised SSAP No. 7 guidance requiring immediate recognition of material liquidity sale losses and a formal attestation supporting that conclusion, the proof of reinvestment framework provides an adequate basis to support full admittance of net negative IMR. In our view, retaining a quantitative admissibility limitation would create an inconsistency between the valuation of liabilities and the valuation basis of the supporting assets, contrary to the stated purpose of IMR.

Asset adequacy testing provides another important safeguard supporting the full admittance of negative IMR. In asset adequacy testing, admitted negative IMR is incorporated as part of the assets supporting the liabilities, which can make it more difficult to demonstrate asset sufficiency and therefore increases the likelihood that an insurer would need to establish additional asset adequacy reserves. As a result, negative IMR is explicitly contemplated within the actuarial framework ensuring that assets, including negative IMR, are sufficient to meet policyholder obligations under a range of stress scenarios.

As originally highlighted within INT 23-01, we emphasize that limiting the admissibility of net negative IMR would not accurately reflect insurer investment performance, as it would, in cases where the cap is exceeded, result in an immediate reduction to surplus and risk-based capital when bonds are sold in a rising interest rate environment, despite the reinvestment of proceeds at higher prevailing yields. In general, rising interest rates are favorable to the financial health of the insurance industry and policyholders, but the accounting outcome would inappropriately suggest a deterioration in financial strength despite an improvement in future earnings and could encourage companies to avoid prudent investment transactions and strategies. Furthermore, such a limitation may introduce unintended consequences, including potential adverse interpretations by rating agencies and impacts on product pricing, ultimately affecting policyholders.

The current admissibility limitation also creates unintended consequences in the reinsurance market, particularly for U.S.-domiciled reinsurers. Depending on the underlying insurance liabilities transferred as part of a reinsurance transaction, and the issue year of those policies, the historical discount rate established at contract issue may be used for all or part of the post reinsurance measurement of those liabilities. These liabilities are not remeasured or “unlocked” as part of the transaction. In contrast, the supporting assets must be brought onto the reinsurer’s balance sheet at fair value, effectively resetting their measurement basis to current market interest rates. This asymmetry—where liabilities remain on a historical basis while assets are recorded at current value—can result in the generation of negative IMR when current market rates differ from the original issue-date assumptions, even though the underlying economics of the block and the asset portfolio have not changed. In this context, IMR serves its intended purpose as a valuation adjustment to restore consistency between the measurement of assets and liabilities. However, because the resulting IMR is treated as newly established on the reinsurer’s books, under the current proposal it can inappropriately contribute to the 10% admissibility cap despite reflecting no new economic loss or incremental risk. As a result, reinsurers would have to actively consider this artificial constraint when pricing transactions, which can increase the cost of reinsurance or limit capacity. This dynamic places U.S. reinsurers at a competitive disadvantage relative to offshore counterparties that are not subject to the same reserving requirements and, therefore, are unimpacted by IMR and related U.S. statutory admissibility limitations.

Additionally, reinsurance transactions are subject to regulatory review and approval and involve transferring an established block of business without altering the underlying liability structure, which fundamentally differentiates the resulting transactional IMR from the IMR generated through discretionary investment activity. For these reasons we believe that negative IMR arising from reinsurance transactions should be fully admitted because it is solely the result of a measurement mechanic and not a change in the underlying risk of the block being transferred.

Based on the above reasons, we fully support the recommendation of the ACLI to eliminate the net negative IMR admissibility limitation from the revised SSAP No. 7 guidance.

Sincerely,

Andrea Iacoboni

Andrea Iacoboni
Vice President, Controller – Financial Reporting and Accounting Policy
Nationwide

MetLife

June 29, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: Comments on SAPWG *Ref #2023-14* - Proposed Revisions to Statement of Statutory Accounting Principles (SSAP) No.7, Asset Valuation Reserve and Interest Maintenance Reserve and Related Issue Paper

Dear Mr. Clark:

MetLife, Inc. appreciates the opportunity to comment on the exposed item *Ref #2023-14 – Interest Maintenance Reserve (IMR) from the Statutory Accounting Principles (E) Working Group (SAPWG)* as referenced above.

MetLife supports the NAIC's efforts to modernize the IMR framework and agrees that a well-designed proof of reinvestment test is a more principles-based approach to evaluating the deferral of realized losses. However, to fully achieve that objective, we believe (i) the existing 10 percent cap should be removed for losses that satisfy the proof, and (ii) the framework must be aligned with operational feasibility to avoid unintended reporting complexity, volatility, and implementation risk. This framework also plays an important role in the insurance context by supporting policyholder outcomes—promoting stability in earnings and capital recognition over time and reinforcing the alignment between assets and liabilities that underpins insurer solvency.

At the same time, the proposed framework introduces significant operational complexity and implementation risks, particularly with respect to current implementation timing, data availability, and reporting processes. Accordingly, MetLife encourages the NAIC to align policy design with operational feasibility to ensure that the framework can be implemented in a manner that supports high-quality, consistent, and decision-useful statutory reporting. MetLife also has significant concern with the unintended consequences of the proposal to reinsurance treaty accounting and the possible introduction of significant volatility to settlements.

Finally, MetLife worked closely with the ACLI in the development of specific feedback on draft SSAP 7, how it integrates with the Issues Paper, and various other relevant issues. MetLife supports the ACLI comment letter submitted in response to SAPWG Ref #2023-14. Our support is focused on the key IMR framework recommendations reflected in that letter.

We outline below more detailed considerations.

MetLife Supports Full Admittance of Net Negative IMR

MetLife supports the proof of reinvestment test in theory (with some operational considerations below) because it provides a robust and effective way to ensure appropriateness of deferring realized losses through IMR. In MetLife's view, the 10 percent cap on admitted net negative IMR was a useful temporary guardrail when there was insufficient time to develop and implement a proof of reinvestment approach and regulators sought to provide timely relief to the industry.

However, MetLife believes the 10 percent cap is no longer necessary once a proof of reinvestment framework is implemented as recommended by the ACLI in their comment letter, which reflects broad industry alignment on this issue. In this context, the proof of reinvestment serves as a more precise and economically grounded safeguard, replacing a broad, rules-based limitation with a targeted validation of reinvestment behavior.

In practice, the existence of the 10 percent cap could result in otherwise qualifying reinvestment losses being non-admitted, which MetLife believes is an unintended consequence of the framework. This potential outcome may be particularly relevant for certain products, such as pension risk transfer (PRT), where asset turnover and reinvestment dynamics during initial portfolio construction can give rise to temporary realized losses even when insurers are prudently managing interest rate risk and aligning assets with liabilities.

For example, in PRT transactions, insurers typically receive a large, one-time premium and subsequently invest those proceeds over a defined period to establish the intended long-term asset portfolio. To manage interest rate risk during this transition, insurers often temporarily invest in duration-matched U.S. Treasury securities, which are then rotated into higher-yielding assets. If interest rates rise during this period, the sale of these temporary investments may generate realized losses, even though reinvestment into higher-yielding assets offsets those losses over time.

Under a proof of reinvestment framework, these outcomes would appropriately support deferral through IMR. However, the 10 percent cap could limit the ability to admit such losses, particularly in larger or longer-duration transactions, where relatively modest interest rate movements could consume the available buffer.

While the cap may be sufficient for lines of business with limited asset turnover, its application in these contexts may disproportionately affect certain products and discourage prudent interest rate risk management. Accordingly, MetLife respectfully recommends that the NAIC remove the 10 percent cap for net negative IMR, consistent with the ACLI recommendation.

MetLife recognizes the policy objective of maintaining guardrails around surplus recognition. However, where a robust proof of reinvestment test is satisfied, the continued application of a cap creates an additional constraint that does not enhance prudential outcomes but instead distorts economic alignment.

MetLife Has Significant Concern with Proof of Reinvestment Operational Complexities
At its core, the proposed framework introduces a structural sequencing mismatch—requiring end-of-period data to validate accounting determinations that must be executed early in the close process.

The proposed framework requires reporting entities to pass both a reinvestment test and a weighted average yield test before moving into, or increasing, a net negative IMR balance. If the proof is not satisfied, realized losses in excess of current-year gains would be recognized directly in surplus rather than deferred through IMR. More fundamentally, the framework requires reassessment of IMR eligibility after initial recognition, introducing the potential for retrospective adjustments within the close process. Of particular concern is the resulting risk of late-stage rework across the statutory reporting cycle. These challenges fall into three primary categories: (i) timing and sequencing constraints within the close process, (ii) data availability and cross-system dependencies, and (iii) downstream reporting and reinsurance impacts. Within these categories, we highlight the following key risks:

- **Timing mismatch between IMR accounting and proof inputs.** IMR accounting is typically performed at the beginning of the statutory reporting process so that amortization, income statement impacts, balance sheet presentation, and downstream exhibits can be prepared within established statutory deadlines.

However, the proposed proof of reinvestment relies on current financial statement information and investment activity data that may not be finalized until later in the reporting period. This creates a timing gap where the IMR position may be calculated before the entity can confirm whether it has passed the required proof.

- **Risk of late-stage rework and downstream reporting impacts if the proof fails.** If the company initially records current-year realized losses through IMR and later determines that the proof of reinvestment was not satisfied, losses originally deferred through IMR may need to be removed and recognized directly in surplus. This would require re-performance of IMR accounting and related reporting in a compressed close window, including updates to the statutory balance sheet, surplus, investment income amortization, IMR roll-forward, annual statement exhibits, notes, disclosures, management reporting, regulatory analytics, RBC-related support, and internal control evidence.

- **Potential inability to increase a negative IMR balance.** Under the proposed approach, failure of the proof would limit the ability to add additional realized losses to an existing negative IMR balance, except to the extent such losses offset current-year realized gains. This creates operational uncertainty for entities managing portfolios in a rising-rate or repositioning environment, as the final statutory treatment may depend on proof results that are not known until late in the process. A further operational constraint is determining which realized losses, and from which portfolios or reinvestment strategies, must be excluded from negative IMR treatment and instead recognized as a direct charge to surplus, particularly when the exclusion cannot be identified until after portfolio activity and proof results are finalized.

- **Data availability and reconciliation complexities.** The proof requires timely access to sale activity, acquisition activity, book yields, investable premiums, mortgage loan activity, bond classifications, and other investment data. Because these data points may reside in different systems and may not be finalized at the same time, the proof would require additional cross-system reconciliations, data validation, and review procedures within an already compressed statutory reporting timeline.

- **Compressed reporting timeline and elevated filing risk.** If the proof cannot be finalized until late in the reporting period, statutory reporting teams may have limited time to revise IMR accounting, update exhibits and disclosures, obtain approvals, and complete quality control reviews. This increases the risk of late adjustments, inconsistent reporting, audit comments, or regulatory questions.

- **Unintended Consequences to Reinsurance Treaties.** The issues presented above for the Proof of Reinvestment will have downstream impacts on reinsurance and present similar operational complexity. Reinsurance agreements typically settle monthly, and any changes to the IMR deferral amounts and related amortization may affect the ModCo or Funds Withheld reserves (inclusive of IMR) and the preparation, timing and amounts net settled. The impacts of precluding IMR deferrals of realized capital losses (RCLs) would generally move in the opposite direction of the direct impacts and may provide a full or partial offset within the income statement and surplus, although the timing of such offsets may vary and will depend on the negotiated terms in the reinsurance agreement.

To address these challenges, MetLife encourages refinements to clarify the sequencing of the proof of reinvestment relative to IMR recognition, including timing expectations within the close process, to minimize the need for retrospective adjustments after initial reporting, and to provide reasonable implementation flexibility to align with existing reporting timelines and cross-system dependencies.

MetLife Supports a One Year Implementation Delay

The proposed changes introduce substantial technical and operational complexities across multiple dimensions of the IMR framework, including revised treatment of negative IMR, proof-of-reinvestment requirements, and the interaction of IMR with reinsurance structures. Implementing the proposed changes would require extensive modifications to reconciliation and reporting systems, including updates to calculation logic, data sourcing, and reporting outputs, as well as alignment across multiple upstream and downstream processes.

In addition, the proposed guidance introduces new interpretive considerations that will require coordinated updates across actuarial, finance, and investment systems. These changes will require sufficient time for design, development, testing, and parallel validation to ensure that results are complete, accurate, and consistent across reporting entities.

Given the current level of uncertainty in certain areas of the proposal and the need for cross-functional integration, a January 1, 2027 effective date presents a significant risk to implementation quality, operational stability, and the integrity of statutory reporting. Absent sufficient implementation time, there is a heightened risk of inconsistent application across insurers, increased audit findings, and additional regulatory inquiries during early adoption periods.

Accordingly, MetLife strongly recommends that the NAIC defer the effective date to January 1, 2028. A one-year preparation period would provide the necessary runway to properly implement system enhancements, perform comprehensive testing, validate results under various market scenarios, and ensure that appropriate governance and control frameworks are in place. This additional time would also allow for more consistent interpretation and application of the guidance across the industry, reducing the risk of divergence in practice. We believe that aligning the effective date with the operational realities of implementation will ultimately support the NAIC's objectives by promoting higher-quality reporting, stronger controls, and more consistent application of the IMR framework across insurers. A measured implementation timeline will be important not only for individual company readiness but also to promote consistent interpretation and application across the industry.

Conclusion

MetLife supports the NAIC's objective of strengthening the IMR framework through a proof-of-reinvestment approach that better reflects economic outcomes. To fully realize these benefits, we recommend removing the 10 percent cap where losses satisfy the proof, thereby avoiding unintended constraints on prudent risk management. Equally important, we urge the NAIC to recognize the significant operational complexity associated with the proposed framework and to provide sufficient time and flexibility for implementation. A measured approach—grounded in both sound policy and practical feasibility—will promote more consistent application across the industry and ultimately enhance the quality, transparency, and reliability of statutory financial reporting. Taken together, we believe these refinements will better align the framework with its intended objectives while ensuring it can be implemented in a robust, consistent, and auditable manner across the industry. Additionally, we believe these recommendations are consistent with the NAIC's objective of promoting financial stability, transparent reporting, and policyholder protection.

We would welcome the opportunity to discuss our comments further and address any questions you may have.

James A. Granese
Chief Financial Officer of Investments
MetLife, Inc

Copied: Julie Gann,
Robin Marcotte,
Jake Stultz,
Jason Farr,
Wil Oden

EVERLAKE

June 30, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2023-14 – Interest Maintenance Reserve (IMR)

Dear Chair Clark:

Everlake Life Insurance Company appreciates the opportunity to comment on SAPWG Ref #2023-14 regarding the proposed revisions to the Interest Maintenance Reserve (IMR) framework.

Everlake strongly supports the adoption of a permanent solution that permits the full admittance of net negative IMR, subject to the safeguards included within the revised framework. The ACLI and numerous industry participants have similarly concluded that full admittance is the appropriate outcome under the proposed framework. As recognized throughout the SAPWG process, these transactions generally do not diminish an insurer's claims-paying ability and therefore should not result in an artificial reduction of admitted surplus.

The following section sets out why we support full admission.

- The fundamental purpose of IMR is to maintain consistency between the valuation of insurance liabilities and the fixed-income assets that support those liabilities. Historically, IMR has deferred the recognition of interest rate-related realized gains to avoid artificial increases in surplus that do not reflect a change in an insurer's underlying financial strength. The same principle should apply when insurers realize losses and reinvest proceeds into higher-yielding assets. In those circumstances, immediate recognition of losses can create a surplus outcome that is inconsistent with the economics of the transaction and with the long-term nature of insurance liabilities.

- The proposed proof-of-reinvestment approach, together with the other protections incorporated into the proposal, provides a sound and principled basis for recognizing negative IMR and appropriately reflects the economic realities of insurers' asset-liability management activities. Other protections include restrictions on liquidity-sale losses, asset adequacy testing considerations, actuarial review and attestation requirements, enhanced reporting and disclosure, limitations related to credit-related losses, and risk-based capital thresholds. Taken together, these safeguards provide regulators with robust oversight while allowing statutory accounting to more faithfully reflect economic substance.

- The accounting framework should support, rather than discourage, prudent portfolio management. Insurers routinely reposition investment portfolios to manage duration, credit exposure, liquidity, and other risks in support of policyholder obligations. The treatment of negative IMR should not create disincentives for risk-management actions that strengthen asset-liability alignment and improve long-term financial outcomes for policyholders.

For these reasons, Everlake respectfully encourages SAPWG to remove the current admissibility limitation and adopt full admittance of net negative IMR as contemplated by the proposed revisions to SSAP No. 7.

We appreciate the considerable work undertaken by SAPWG, NAIC staff, and industry stakeholders on this important issue and thank you for your consideration of our views.

Respectfully submitted,

Micheal Hartt
Senior Vice President & Chief Accounting Officer
Everlake Life Insurance Company

July 1, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2023-14 - Interest Maintenance Reserve

Dear Chair Clark,

Reinsurance Group of America, Incorporated ("RGA") appreciates the opportunity to comment on the exposed item Ref #2023-14 - Interest Maintenance Reserve ("IMR") from the National Association of Insurance Commissioners' ("NAIC") Statutory Accounting Principles (E) Working Group ("SAPWG"). RGA commends the NAIC's development of an interim solution and the subsequent Ad Hoc Working Group process to address negative IMR.

RGA is a leading global life and health reinsurer with approximately $4.3 trillion of life insurance in force and assets of $156.6 billion. On a global basis, RGA provides life and annuity reinsurance as well as risk and capital management solutions and is publicly traded on the New York Stock Exchange (ticker: RGA).

SAPWG Ref #2023-14 proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 7, which will permanently include guidance from Interpretation of the Statutory Accounting Principles Working Group No. 23-01: Net Negative (Disallowed) Interest Maintenance Reserve ("Int 23-01") set to expire on January 1, 2027. INT 23-01allows negative IMR to be included as an admitted asset, providing specific criteria are met, up to 10%of adjusted surplus.

RGA gives its full support to the American Council of Life Insurers (ACLI)'s comment letter dated June 25, 2026, which provided comments on the proposed exposures. ACLI's proposed changes, including the full admittance of negative IMR and technical

Address
16600 Swingley Ridge Road
Chesterfield, Missouri
63017-1706

Contact
636.736.7000
1.888.736.5445

clarifications for reinsurance, are essential to preserving the life and health insurance industry's ability to provide insurance solutions to its policyholders and customers.

Reinsurance plays a critical role in the insurance industry by providing insurance companies with meaningful risk transfer and capital management solutions. It enables insurers to write additional business, strengthens surplus and capital positions, and stabilizes operating results. A symmetric and economically consistent IMR framework ensures that these important risk management solutions are available and are appropriately reflected in the statutory framework, which ultimately better protects policyholders.

For these reasons outlined above, and as further supported in the ACLI comment letter, RGA supports the full admittance of net negative IMR. This approach supports a stable, principle-based framework that accurately reflects an insurer's financial position while promoting sensible investment practices and sustaining the broader industry that benefits policyholders, insurers, reinsurers, and regulators.

Regards,

John Hayden
Executive Vice President, Controller
Reinsurance Group of America, Incorporated

June 22, 2026

Mr. Kevin Clark
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
110 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2024-15: SSAP No. 109 – ALM Derivatives

Dear Chair Clark,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Statutory Accounting Principles (E) Working Group (SAPWG) exposure draft Ref #2024-15: Asset Liability Management (ALM) Derivatives that was released for comment on May 18, 2026. We strongly support this exposure draft of statutory accounting guidance for interest-rate hedging derivatives used for ALM.

ACLI is very appreciative of the on-going dialogue with SAPWG and offers the following additional comment on this topic:

> ALM derivatives are an extremely important part of insurance company risk management, as they are often necessitated by portfolios containing product liabilities with long durations (e.g., 30+ years) and shorter duration bonds (e.g., 5-10 years, which are more readily available in the market). This mismatch creates duration/reinvestment risk which could be filled with longer term/duration bonds; but longer-term bonds that match typical product liabilities (e.g., 30+ years) are limited in supply in the market, so ALM derivatives are used to mitigate or eliminate this risk.
>
> Ultimately (and most importantly), ALM derivatives are hedging the duration difference between assets/liabilities to eliminate deficits in liquidation value and preserve surplus (highlighted appropriately in the example below from the exposure draft issue paper where asset duration=9 and liability duration=10).

Liquidation Value *(amounts rounded for simplicity)*			
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*

Highly effective ALM derivatives protect surplus by shielding insurance companies from negative impacts of interest rate changes. This preserves insurance company solvency and ensures policyowner benefits can be fulfilled (thereby benefitting policy holders, insurance companies and regulators).

We fully agree with this exposure draft, as it will significantly enhance the alignment of each company's reported surplus with its actual solvency/liquidation value and avoid situations where financials contain inappropriate portrayals of surplus and illusory financial strength.

Importantly, the exposure draft permits admittance of all deferred gains/losses of highly effective hedges recognized under the ALM derivative standard to not disincentivize prudent hedging activities. This is a critical component of the exposure draft that ensures the aforementioned surplus reporting benefits; and therefore, we completely support it. Additional reasons for symmetrical admission include:

1) Upon maturity/termination, the derivative fair value will initially be surplus neutral (when admitted) with the deferred asset/liability offset by cash received/paid at maturity/termination and subsequently will amortize over the life of the hedged liabilities. Therefore, the hedge's ultimate surplus impact follows that of the hedged items (appropriate for highly effective hedges); as the derivative amortization will offset product liabilities interest credited/etc. and bond NII over the amortization period.
2) ALM derivatives are hedges of surplus that incorporate extensive safeguards in the form of effectiveness tests and other limitations on eligible derivative types. Not admitting the derivative fair value at termination/maturity impacts surplus at different timing than the hedged item, which defeats the entire purpose of the hedge.
3) Presenting companies with a scenario of asymmetrically deferring gains and recognizing losses will limit (or eliminate) companies' use of this SSAP, thereby limiting (or eliminating) the SSAP's reporting benefits of aligning surplus with actual solvency/liquidation value.

Once again, we support this exposure draft in its entirety and appreciate the opportunity to provide comments on this important topic. If you have any questions regarding this letter, please contact us.

Sincerely,

Shannon Jones
Sr. Director – Financial Reporting Policy
ShannonJones@acli.com
202-624-2029

Hans Avery
Actuary
HansAvery@acli.com
202-624-2012

Cc: Julie Gann, NAIC
Robin Marcotte, NAIC

Statutory Accounting Principles (E) Working Group
2026 Summer National Meeting
ACLI Proposed Edits to IMR Exposure Documents

TABLE OF CONTENTS

Statement of Statutory Accounting Principles No. 7

All Tracked Edits to this Document are Proposed by the ACLI

Asset Valuation Reserve and Interest Maintenance Reserve

STATUS

Type of Issue	Life, Accident and Health
Issued	Initial Draft,
Effective Date	January 1, 2001, Exposure Draft 4.20.26
Affects	No other pronouncements
Affected by	No other pronouncements
Interpreted by	INT 23-01
Relevant Appendix A Guidance	None

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies filing on the *Life, Accident & Health/Fraternal Annual Statement Blank* for the general account as well as book-valued insulated and noninsulated separate accounts.

SUMMARY CONCLUSION

2. Life and accident and health insurance companies shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and noninsulated separate accounts in accordance with the principles included in this statement[1]. (IP 6)

3. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories excluding cash, policy loans, premium notes, and income receivable. (IP 7)

4. The IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized ~~gains and~~ losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls). (IP 8)

5. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortize cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations~~policyholder reserves to reflect partial updating of valuation rates when qualifying fixed income investments are sold and reinvested in different interest rate environments than existed at the time of policy issuance~~. Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (IP 9)

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

Asset Valuation Reserve

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

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

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

9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

a. For those with NAIC designations[2], if the NAIC designation has declined by more than 3 designation categories and does not have an ending NAIC 1 designation.

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

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

d. For mortgage loans:

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

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

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

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

~~e.~~

Interest Maintenance Reserve

10. Realized gains and losses from the following list of qualifying fixed income investments shall be allocated to the IMR, subject to the other provisions and requirements of this standard. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. (IP 22 & 33)

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

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

[2] Mandatory convertible bonds in scope of SSAP No. 26 are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion and reported at amortized cost, the realized gain or loss shall be fully allocated to the IMR. If reported at fair value at the time of sale, the realized gain or loss shall be fully allocated to the AVR.

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

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

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

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

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

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

i. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is reported at amortized cost[3].

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

12. Realized losses on sales of qualifying fixed income investments that have not experienced credit deterioration under paragraph 9 shall be allocated to IMR, unless it represents a known liquidity sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4]. (IP 24)

13. Known liquidity sale losses are realized losses that occur when ~~an~~ IMR qualifying fixed income investments ~~is~~ are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments due to liquidity needs. These include situations such as, but not limited to, sales used to fund surrenders/withdrawals as well as any other situation (e.g., derivative collateral calls or any other business entity expenses) where the entity does not have liquid funds available from general operations to meet those cash outflows other than from selling the otherwise qualifying IMR fixed income investments. Reporting entities shall implement control procedures designed to identify material known liquidity sale losses and shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (IP 25)

Adjustments – Market Value Adjustments

14. Gains or losses resulting from market value adjustments (MVA), ~~including~~ net of the federal marginal tax impact, shall be captured in the IMR as they are incurred throughout the year[5]. Reporting

[3] Allocation to IMR or AVR for RSAT transactions shall follow the designation change guidance in paragraph 9a based on the SVO-assigned NAIC designation for the RSAT. Gains or losses from RSAT transactions when the derivative is reported at fair value are not permitted to be recognized in the IMR.

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

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

entities that have recognized known liquidity sale losses in the current year are permitted to reclassify current year net market value adjustment gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net market value adjustment gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (IP 70)

Amortization

15. Reporting entities shall amortize IMR into income over the expected remaining life of the investment sold using a standard method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity[6] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (IP 89)

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

Net Negative IMR Recognition Restrictions

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

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

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

18. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment

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

concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed -income investments is greater than the yield of fixed income investments sold. (IP P. 27)

19. Reporting entities that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. (IP P. 28) If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year net negative IMR losses beyond what is offset by current year realized gains resulting from the following two exceptions. These exceptions are permitted as the net negative losses are not from the sale of a fixed-income investment, as such these IMR impacts are outside the parameters of the proof of reinvestment calculation. Outside of these two limited exceptions, if the reporting entity does not complete or pass the proof of reinvestment for a particular account, the reporting entity is only permitted to recognize realized losses in the IMR to the extent the realized losses are offset by realized gains recognized in the IMR.

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

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

~~a. If the reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current-year net negative IMR losses resulting from transfers between the general account and book-value separate account. This is an exception to the guidance in paragraph 19, as the net negative losses are not the result of the sale of a fixed-income investment, but from a transfer to/from the general/separate account that occurred at fair value. As such, these IMR impacts are outside the parameters of the proof of reinvestment calculation. Outside of this exception, if the reporting entity does not complete or pass the proof of reinvestment for a particular account, the reporting entity is only permitted to recognize realized losses from sales in the IMR to the extent they are offset by gains also recognized in the IMR.~~

(Staff Note: Do not intend to include templates in SSAP appendix. They will be in the ASI and in the issue paper for historical reference.)

Adjustments – Ceded and Assumed Reinsurance

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

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

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

21. For insurers ceding business under a ~~modified coinsurance~~modco or ~~funds withheld~~FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the ~~IMR~~ Annual Statement Instructions for ceding/assuming reinsurance business using a ~~modco~~ modco or ~~funds withheld~~FWH agreement. (IP P. 78)

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the ~~reporting~~ insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. ~~Reporting entities~~An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under the modco or ~~funds withheld~~FWH reinsurance agreement. ~~The derecognition of~~An insurer ceding entity) shall derecognize the IMR ~~shall be~~as a direct adjustment to IMR with the offset to Aggregate Write-Ins for ~~included in the modco reserve or funds withheld~~Deductions ~~liability embedded within ceded reserves~~.

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

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

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

Admittance

Admittance guidance subject to WG discussion. The guidance below is predominantly from INT 23-01 and includes the current 10% admittance limits to both prior period adjusted capital and surplus and current period unadjusted capital and surplus.

24. Reporting entities that meet the requirements of paragraph 25 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[7] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the ~~company~~ reporting entity has experienced a decline in capital and surplus, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account). (IP P. 94)

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

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and cash flow testing pursuant to paragraph 25.c. Rather, any reconciliation difference from the admitted IMR originally ~~captured~~ determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

25. Requirements to admit net negative IMR: (IP P. 95)

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative ~~(disallowed)~~ IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon

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

state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures described in paragraph 29. If a reporting entity does not fully complete the data-captured disclosures[8] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT)/ cash flow testing (CFT) pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance,* ~~*Section 7.D.7*~~ *VM-21: Requirements for Principle-Based Reserves for Variable Annuities,* and *VM-30: Actuarial Opinion and Memorandum Requirements*~~*, Section 3.B.5*~~. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and CFT to ensure reserves are appropriately stated.

26. Reporting entities ~~shall~~ are permitted to admit net negative IMR ~~between~~ in the general account and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net admittance limit as detailed in paragraph 24. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request. ~~based on methodologies consistent with the Valuation Manual.~~ (IP P. 97)

27. Reporting entities that admit net negative IMR shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (~~line 34,~~ named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (IP P. 98)

Disclosures

28. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are also required to complete the IMR rollforward and amortization schedule[9] in the annual financial statements. (IP. P 101)

Note: The above will require an expanded Exhibit of Capital Gains and Loss

29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)

a. Reporting entities with admitted net negative IMR shall complete a note disclosure that details the following:

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

[9] For reporting entities subject to paragraph 29.c., the annual amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

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

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

iii. The calculated adjusted capital and surplus per paragraph 24.a., and

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

b. Reporting entities shall include an attestation regarding known liquidity sale losses: (IP 103)

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

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

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

c. Reporting entities that have moved from a net positive IMR position to a net negative position or that ~~has~~ have increased a net negative position in any account (general account or separate accounts) shall complete the proof of reinvestment template applicable to the account with a net negative IMR balance. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (IP. 104)

d. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (IP P. 105)

e. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy/cash flow testing reconciliation to the admitted IMR ultimately shown in the ~~year-end~~annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually. (IP P. 106)

Effective Date and Transition

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

31. Revisions to this statement, adopted month/year, that incorporate revisions reflecting a comprehensive review of the ~~interest maintenance reserve~~IMR, are effective January 1, 2027, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items noted in the following subparagraphs. Issue Paper No. ___ includes additional discussion and other revisions incorporated. (IP. P 98)

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

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

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

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

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

f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital losses from known liquidity sales and not defer them through the IMR. A new disclosure attestation was incorporated with the effective date of this statement to identify known liquidity sales losses.

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

REFERENCES

Relevant Issue Papers

Issue Paper No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

Issue Paper No. XX – Interest Maintenance Reserve

Statutory Issue Paper No.

Interest Maintenance Reserve

All Tracked Edits to this Document are Proposed by the ACLI

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SUMMARY OF ISSUE

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

SUMMARY CONCLUSION

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

DISCUSSION

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

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

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

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

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

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

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

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

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

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

Discussion of IMR Concepts

Overview and IMR Definition

6. Life and accident and health companies, filing on the *Life, Accident and Health/Fraternal Annual Statement Blank*, shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and non-insulated separate accounts in accordance with key principles included in the revised SSAP No. 7[1]. (SSAP P. 2)

7. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories, excluding cash, policy loans, premiums notes and income receivables. (SSAP P. 3)

8. Pursuant to the broad IMR definition supported by the Statutory Accounting Principles (E) Working Group in agenda item #2025-03, the IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (~~the assumptions~~ for which the rate used to discount cash flows is~~are~~ often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated ~~assumptions can essentially be revisited~~ any time there are fixed income realizations). IMR intends to defer~~s~~ and amortize~~s~~ the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses ~~for either assets or liabilities~~. IMR is not intended to defer economic realized ~~gains and~~ losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls)[2]. (SSAP P. 4)

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

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

Clarification edits from the definition in agenda item 2025-03 are shown above as tracked changes. After review, these revisions will be shown clean in the final issue paper, with the footnote detailing the differences from the agenda item.

9. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations. ~~policyholder reserves to reflect partial updating of valuation rates when qualifying fixed income investments are sold and reinvested in different interest rate environments than existed at the time of policy issuance.~~ Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (SSAP P. 5)

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

11. Although there are various debates on the historical, full concept of IMR, it is generally agreed that a key intent was to prevent insurance companies from recognizing a surplus benefit from the sale of investments in a gain position, caused by a decrease in interest rates (increase in fair value), when the funds received from the sale had to be reinvested at lower interest rates as sufficient assets would still be needed to satisfy future policyholder obligations. This distortion was a regulatory priority for gains due to the consistent decreasing interest rate environment at that time creating gains and the overstatement of surplus could mask solvency issues. Negative IMR was to be addressed at a later date and was acknowledge in the supporting materials that theoretically IMR should be symmetrical. By recognizing such realized gains as an IMR liability, and amortizing that gain into surplus overtime, reporting entities' surplus would not immediately benefit from actions to churn liabilities for gain potential from a decline in interest rates, where the insurance entity would ultimately result with lower-yielding assets. The positive IMR essentially puts the financial statements back in the same financial position (both surplus and income) as if the trade never took place by replacing unrealized gains with IMR and amortizing it into income to normalize the yield

12. With the discussions around the definition of IMR, ACLI comments were received that negative IMR (realized losses) should be supported as a recognized, admitted asset so, like positive IMR, surplus is not misstated, as the IMR facilitates better alignment of the timing of interest rate related gain or loss realizations on certain fixed income investments with the interest rate assumptions embedded in policyholder liabilities that the assets support. These comments noted that inconsistent asset and liability valuations could provide false indicators of financial strength or weakness. Although these ACLI comments supported full admitted asset recognition of negative IMR, the proposed ACLI IMR definition was modified to not include statements implying support for the full admittance of negative IMR. As previously identified, neither negative IMR nor positive IMR reflects actual assets or liabilities and including these items in the financial statements as assets and liabilities may present an inaccurate presentation of the assets available to pay claims, as well as the actual obligations of the insurance reporting entity, but ACLI believes are needed to prevent for the proper reflection of surplus if the premise of reinvestment in fixed

income securities is fulfilled. If fulfilled, it ensures consistent measurement of assets and liabilities and no distortion of surplus. Although for positive IMR regulators have opted to be conservative by deferring all gains, for negative IMR, the ACLI believes the proof of reinvestment and other safeguards work to achieve the assurance needed. Although the Working Group could decide to retain the current statutory recognition of IMR, discussion on the extent (if any) to which negative IMR is permitted as an admitted asset is a key aspect that warrants specific focus, as realized losses recognized as assets are clearly not available to pay policyholder claims. As such, the proposed ACLI IMR definition was supported without the inclusion of broad statements that implies negative IMR (realized losses) should always be permitted to reflect an admitted asset in the statutory financial statements and that the admittance of negative IMR always provides an appropriate reflection of statutory surplus. Subsequently, the proof of reinvestment was established to help ensure the premise of IMR is achieved and IMR was incorporated into both AAT and PBR to more fully update the statutory framework since the concept of IMR was incorporated in 1992.

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

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

Allocation to IMR and AVR

15. This issue paper includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be recognized as either a change in net unrealized foreign exchange gains or losses or as realized foreign exchange capital gains or losses immediately (excluded from both IMR and AVR), with the remaining portion subject to the AVR/IMR requirements of the revised statement. (SSAP P.6)

Allocation to AVR

16. The accounting and reporting guidance for the AVR is primarily contained within the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve and other relevant guidance. The AVR guidance contained in the revised statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the

IMR. Unrealized gains and losses as referred to in this issue paper are those which are recorded in the financial statements in accordance with the applicable SSAP. (SSAP P. 7)

17. All realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR. (SSAP P. 8)

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

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

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

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

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

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

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

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

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

21. Realized losses on sales of fixed income investments that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment has experienced credit deterioration, as defined as one of the following: (SSAP P. 9)

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

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

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

d. For mortgage loans:

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

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

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

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

Allocation to Interest Maintenance Reserve

22. Realized gains and losses from the list of qualifying fixed-income investments, identified in paragraph 33, shall be allocated to the IMR, subject to the other provisions and requirements of the revised standard. Investments not included on that list are not permitted to have realized gains or losses to be allocated to the IMR. (SSAP. P. 10)

23. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during period in which the entity has incurred known liquidity sales. (SSAP. P. 11)

24. Realized losses on sales of qualifying fixed income investment that have not experienced credit deterioration under paragraph 10, shall be allocated to the IMR, unless it represents a known liquidity

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

sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4]. (SSAP. P. 12)

25. Known liquidity sale losses are realized losses that occur when an investment is sold and the proceeds are not reinvested into fixed income investments. Reporting entities shall implement control procedures designed to identify material known liquidity sale losses and shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (SSAP. P. 13)

Net Negative IMR Recognition Restrictions

26. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or net positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general account and each separate account) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year. (SSAP P. 17)

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

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

27. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment concept with 1) a test that determines if investments acquired exceeds investments sold and investable premium and 2) a test that determines whether the yield of purchased fixed-income investments is greater than the yield of fixed income investments sold. (SSAP P. 18)

28. Reporting entities that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realizes losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. (SSAP P. 19)

a. If the reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current-year net negative IMR losses resulting from transfers between the general account and book-value separate account. This is an exception to the guidance in paragraph 19, as the net negative losses are not the result of the sale of a fixed-income investment, but from a transfer to/from the

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

general/separate account that occurred at fair value. As such, these IMR impacts are outside the parameters of the proof of reinvestment calculation. Outside of this exception, if the reporting entity does not complete or pass the proof of reinvestment for a particular account, the reporting entity is only permitted to recognize realized losses from sales in the IMR to the extent they are offset by gains also recognized in the IMR.

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

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

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

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

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

Fixed-Income Investments Subject to IMR:

33. When the provisions permit, allocation to IMR shall only include interest-related realized impacts from the sale of qualifying fixed-income investments. The following list details the fixed-income instruments for which qualifying interest-related realized gains and losses can be allocated to the IMR. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. In all instances, whether the realized gains and losses from the sale of these investments are permitted to the IMR are subject to the other provisions and requirements of the adopted guidance. (SSAP P. 11)

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

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

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

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

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

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

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

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

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

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

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

36. For derivative instruments, the list of fixed-income instruments for which interest-related gains and losses are permitted to the IMR has been clarified. The permissible structures are limited to highly effective hedging derivatives that qualify for hedge accounting treatment (e.g. amortized cost accounting), terminated income-generating (written) derivative structures that are covered by an asset accounted for at amortized cost, and replication (synthetic asset) transactions where the derivative is reported at amortized cost. The clarifications should make it clear that any RSAT for which the derivative is held at fair value is not permitted to have realized gains and losses taken to IMR. Further discussion on derivative transactions begins at paragraph 53.

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

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

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

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

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

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

42. With the discussion of designation changes, an exception was incorporated for investments that end with an NAIC 1 designation as it was noted that this grouping reflects the highest quality, where investment risk is the lowest and the issuer's credit profile is stable. From a review of credit and interest spreads from 2018-2023, it was noted that investments within this NAIC 1 category, even with designation declines within the category, predominantly reflected interest related changes, and not credit impacts.

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

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

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

b. For investments with realized losses:

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

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

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

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

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

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

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

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

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

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

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

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

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

c. Loan is in process of foreclosure,

d. Loan is in course of voluntary conveyance, or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

54. With the original discussion of net negative IMR in 2023, it was identified that some reporting entities were allocating realized gains and losses to IMR from derivatives that did not qualify for "hedge accounting" as defined under SSAP No. 86. These companies noted that the annual statement IMR instructions referred to "hedging" transactions, and some companies took the position that their derivatives were hedging transactions although they did not qualify as highly effective hedges that could follow the "hedge accounting" measurement method prescribed in SSAP No. 86. As these derivative transactions did not qualify for "hedge accounting" they were reported at fair value, with changes in fair

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

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

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

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

58. For income generation transactions with realized gains or losses that go to IMR, the amortization timeframe shall follow the remaining useful life of the covering asset, underlying interest or derivative contract maturity as follows: (Note: the SSAP references are for exposure reference only and will be removed from the final issue paper.)

a. For written fixed income covered options, realized gains and losses taken to IMR shall be amortized over the remaining life of the covered asset or underlying interest. This is a slight change from the existing guidance in SSAP No. 86 that stipulates that the callable bond rules should be used to determine the remaining life. (SSAP No. 86, P 52c)

b. For written covered put options, realized gains and losses taken to IMR shall be amortized over the remaining life of the underlying interest. (SSAP No.86, P 53b.)

c. For written fixed income caps and floors, realized gains and losses taken to IMR shall be amortized over the expected derivative contract's maturity. (SSAP No. 86, P 55b.)

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

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

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

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

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

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

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

c. In year 5 with termination, the realized gain or loss would be determined based on the bond price at that time. If the bond price increased to 109, the reporting entity would recognize a realized gain of $400,000, as they would be able to acquire the bond at the forward price of 107.

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

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

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

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

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

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

Further discussion on potential SSAP No. 86 revisions, particularly with RSATs and Income Generation Derivatives, is expected as a subsequent SAPWG project.

General Account and Separate Account IMR Allocation:

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

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

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

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

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

IMR Adjustments – Market Value Adjustments

70. Gains and losses resulting from market value adjustments (MVA), including the marginal tax impact, shall be captured in the IMR as they are incurred throughout the year[6]. Reporting entities that have recognized known liquidity sale losses in the current year are permitted to reclassify current year net market value adjustment gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net market value adjustment gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (SSAP P. 14)

71. For market value (liability) adjustments taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a market value adjustment, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a market value adjustment that would have incurred a market value adjustment if surrendered through 2015, has five calendar years to expected maturity. (SSAP P. 16)

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

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

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

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

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

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

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

Reinsurance Adjustments:

77. An insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most YRT agreements, shall derecognize associated IMR at the time the business is ceded unless the transaction is a modified coinsurance or coinsurance with funds withheld agreement. Amounts recognized to IMR shall be removed from IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been eliminated. (SSAP P. 20)

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

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

78. For insurers ceding business under a modified coinsurance or funds withheld agreement, the accounting for IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the IMR Annual Statement Instructions for ceding/assuming reinsurance business using a modco or funds withheld agreement. (SSAP P. 21)

a. For agreements that stipulate that IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the reporting shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 77. Reporting entities shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under modco or funds withheld reinsurance agreements. The derecognition of IMR shall be included in the modco reserve or funds withheld liability embedded within ceded reserves.

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

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

[7] Reporting entities are presumed to sell the associated assets and transfer cash to the assuming insurer. If a reporting entity transfers assets to the assuming entity, the transfer and calculation of realized gain or loss shall be completed at fair value unless the transaction reflects a non-economic transaction between related parties pursuant to paragraph 19b of *SSAP No. 25—Affiliates and Other Related Parties*. In those situations, the transfer shall occur at the lower of book value or fair value. For these non-economic transactions, there will either be no realized gain or loss (transfer at book), or the reporting entity will have a realized loss on the transfer (transfer at the lower fair value).

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

80. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equivocal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of realized gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation. (SSAP P. 22)

81. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, is required. In the event the reinsurance transaction is unwound, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. As IMR is strictly a statutory-accounting concept, non-U.S. domiciled insurance reporting entities would not be subject to the recognition of IMR. If an assuming entity is not required to maintain IMR, and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date.(SSAP P. 23)

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

Note: With this discussion, the ad hoc group requested inclusion of the prior annual statement instruction guidance within the issue paper, so broader assessment could occur on whether further guidance is needed for assuming entities before finalization. *The following guidance will only be reflected in the exposed issue paper. If no comments are received the prior 2025 ASI guidance will be deleted.*

2025 Annual Statement Instructions – IMR Reinsurance Assumed:

> "Assuming Company" means here the counterparty to the transactions described above for the ceding company.

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

The assuming company must set up an IMR liability adjustment of the same magnitude but complementary to the adjustment recorded by the ceding company, subject to the following requirements:

1. Where the assuming company is required to set up a deferred profit liability or deferred loss asset and reflects zero gain (loss) at treaty date, e.g., as for assumption reinsurance, the assuming company must not set up an IMR liability adjustment. Regardless, for non-economic transactions with an affiliate, the assuming company must set up the IMR liability adjustment.

2. The assuming company may offset a positive IMR adjustment, but not below zero, with any excess of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.

3. The assuming company must increase a negative IMR adjustment, but not above zero, with any shortfall of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.

To determine the offset of Item 2 or 3 above, the company would need to calculate policyholder reserves on both the reported and minimum bases as of each valuation date. In lieu of this, a reporting entity may determine the offset as of the treaty effective date, express this offset as a percentage of the IMR adjustment and then apply this same percentage reduction or increase to the IMR adjustment at all subsequent valuation dates. However, whichever method is used for the particular treaty must be consistently applied at all valuation dates.

In the case of subsequent reinsurance, the retroceding reporting entity has an IMR adjustment net of the offset of Item 2 or 3 above, whereas the IMR transferred over is gross of this offset. The new reinsurer would determine its own adjustment following Item 2 or 3 above.

Upon recapture or commutation of a reinsurance arrangement where the effective date of the original arrangement was January 1, 1999 or later, the reinsurer must follow the IMR rules for reinsurance ceded and the original insurer (company recapturing the business) must follow the IMR rules for reinsurance assumed, as set forth above, for the portion of business recaptured. Otherwise, no IMR adjustment is made.

Upon reinsurance assumed, recaptured or commuted from an alien insurer (i.e., not subject to IMR), an IMR liability adjustment is required only where the assuming company, or any of its affiliates, ever held the business and subsequently reinsured the business effective January 1, 1999 or later, and currently holds an unamortized IMR liability adjustment for the business. In this case, the new IMR liability adjustment must be set equal to the complement of the unamortized IMR liability adjustment(s) currently held for the business by the assuming company or by its affiliates. An affiliate may choose to hold the complementary offsetting amount if it holds the applicable unamortized IMR liability adjustment, otherwise, the complementary offsetting amount must be held by the assuming company.

Elimination of Excess Withdrawal Guidance:

83. During the IMR Ad Hoc discussions, ACLI representatives presented information highlighting that the historical excess withdrawal guidance may inappropriately permit or prevent a company from deferring realized gains and losses to the IMR. With the information presented, supported by the

requirement to prove reinvestment when deferring losses that result in (or increase) a net negative IMR balance, the ad hoc group supported the elimination of the historical excess withdrawal guidance. This elimination was supported on the basis that reporting entities would include an attestation that assets sales did not reflect known liquidity sales to fund liabilities that are no longer recognized as insurance obligations and/or known liquidity sales were not in response to other liquidity needs, such as to provide derivative collateral. Further, the attestation shall identify that the company has a documented process to identify forced sales that would be subject to examination.

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

85. With the elimination of the excess withdrawal guidance, reporting entities will be required to provide the following attestation each year in the statutory financial statements: (SSAP P. 29b.)

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

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

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

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

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

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

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

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

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

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

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

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

Tax Impact:

87. The realized capital gains and losses that result from changes in the overall level of interest rates allocated to IMR shall be net of tax, using the federal marginal tax rate. By capturing the realized capital gains and losses net of tax, the capital gains tax associated with those capital gains/losses due to an

interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization. This guidance is consistent with what has been historically captured in the IMR instructions.

Amortization of IMR Into Income:

88. Reporting entities shall amortize IMR using a standard method in which capital gains and losses net of capital gains tax, are grouped according to the number of calendar years to expected maturity[9] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year to maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (SSAP P. 15)

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

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

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

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

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

expected maturity are grouped separately from those with two (2) to five (5) calendar years to maturity, as shown below:

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

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

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

Note – The ASI includes specific amortization timeframes for certain investments. It is proposed to review and retain these items as applicable in the ASI. The items are noted below for historical purposes.

i. When a convertible bond or convertible redeemable preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock's current market price. There should be no amortization of any interest-related gain or loss arising if a convertible bond or preferred stock is disposed after the expected maturity date.

j. When an instrument's contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life shall be included in the analysis where average life is defined as the date at which the instrument is 50% repaid.

k. For puttable instruments, where the exercise option rests with the reporting entity investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For callable bonds purchased at a premium that is called or sold after the expected maturity date, there should be no amortization of the call premium or interest-related gain/loss.

l. For perpetual debt investments, the expected maturity is 30 years from the current date.

m. For purposes of the grouped method, the following additional assumptions are applicable:

   i. For fixed-income instruments other than residential mortgages and residential mortgage pass-throughs, without a maturity date or sinking fund schedule, a maturity date 30 years from the current year should be used.

   ii. For mortgage-backed/asset-backed securities, use the remaining average weighted life of principal and interest payments consistent with the prepayment assumptions that would have been used to value the security had the security been repurchased at its sale price.

   iii. For SVO Identified Funds designated for systematic value, the expected maturity is the weighted-average life of the underlying bonds.

Admittance of IMR:

Discussion of IMR admittance / admittance cap is expected at the SAPWG. The following section will be revised accordingly based on that direction.

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

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

94. Reporting entities that meet the requirements of paragraph 95 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[10] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed statement with the domiciliary state commissioner. Further, to safeguard from situations in which the company has experienced a decline in capital and surplus and/or had significant increases in net admitted IMR in the current period, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account) (SSAP P. 24)

a. For the adjusted capital and surplus calculation: Capital and surplus shall be adjusted to exclude any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and net negative IMR. The adjusted capital and surplus calculation shall reflect the most recently filed financial statements for all admitted

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

components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR as reported in the third quarter financial.)

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and cash flow testing pursuant to paragraph 24.c. Rather, any reconciliation difference from the admitted IMR originally captured based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

95. Requirements to admit net negative IMR: (SSAP P. 25)

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

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

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

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

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

a. Reporting entities that qualify pursuant to paragraph 9.b., are permitted to admit net negative (disallowed) IMR up to 10% of the reporting entity's adjusted general

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

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

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

c. The net negative (disallowed) IMR permitted for admittance shall not include losses from derivatives that were reported at fair value prior to derivative termination[14] unless the reporting entity has historically followed the same process for interest-rate hedging derivatives that were terminated in a gain position. In other words, there is a requirement for documented, historical evidence illustrating that unrealized gains from derivatives reported at fair value were reversed to IMR (as a liability) and amortized as part of IMR. Reporting entities that do not have evidence of this past application are required to remove realized losses from derivatives held at fair value from the net negative (disallowed) IMR balance to determine the amount permitted to be admitted. Reporting entities that begin a new process for the use of hedging derivatives, perhaps with a theoretical process to treat derivative losses and derivative gains similarly, but do not have evidence illustrating the historical treatment of derivative gains through IMR are not permitted to include derivative losses in the net negative (disallowed) IMR permitted to be admitted. This evidence is required separately for the general account, insulated separate account and non-insulated separate account if losses from derivatives previously reported at fair value are currently being allocated to IMR in those accounts.

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

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

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

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

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

97. Reporting entities shall admit net negative IMR between the general account and the separate account based on methodologies consistent with the Valuation Manual. (SSAP P. 26)

98. Reporting entities shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as "Admitted Disallowed IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (SSAP P. 27)

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

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

Disclosures / Reporting:

101. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting

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

entities are required to complete the IMR rollforward and amortization schedule[16] in the annual financial statements. (SSAP P. 28)

The IMR project proposes to revise the Exhibit of Capital Gains and Losses to allow tracking to the investment schedules, and to better illustrate the allocation to IMR and AVR from recognized capital gains and losses.

102. Consistent with what was established in INT 23-01, reporting entities with negative IMR are required to complete a note disclosure that details the following: (SSAP P. 29a)

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

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

c. The calculated adjusted capital and surplus; and

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

103. Pursuant to the discussion involving excess withdrawals and the elimination of the excess withdrawal calculation, reporting entities shall include an attestation regarding known liquidity sale losses: (SSAP P. 29b)

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

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

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

104. Reporting entities that have moved from a net positive IMR position to a net negative position or that has increased a net negative position in any account (general account or separate accounts) shall complete the proof of reinvestment template applicable to the account with a net negative balance. Reporting entities that fair the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (Further discussion on the proof of reinvestment is detailed in paragraphs 107-109.) (SSAP P. 29c)

105. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between

[16] For reporting entities subject to paragraph 104., the annual IMR amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (SSAP P. 29d)

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

106. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy/cash flow testing reconciliation to the admitted IMR ultimately shown in the year-end financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum. (SSAP P. 29e)

Proof of Reinvestment

107. As discussed in paragraphs 26-32, reporting entities with a net negative balance, for which current year losses exceed gains, in any general or separate account, are required to complete the "proof of reinvestment.[17]" This is a new disclosure template required in the annual financial statements that reporting entities are required to complete when their year-end IMR balance initially goes net negative, or when their year-end net negative balance has increased from their prior year net negative balance. This disclosure is required regardless of any admittance of net negative IMR. This template provides support that a reporting entity has reinvested the proceeds from sold fixed-income investments into new, higher-yielding, fixed-income investments. The concept of IMR, which defers and amortizes interest-related gains and losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that reinvestment of proceeds into fixed-income securities with higher yields has occurred. This reinvestment presumably allows reporting entities to acquire more-desirable assets that support existing liabilities for policyholder obligations. Key concepts within the proof of reinvestment calculation and the specific sources for the data as initially developed include:

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

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

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

[18] The proof of reinvestment only focuses on bonds and mortgage loans as they represent the majority of fixed-income items acquired and sold by reporting entities. Consideration was given to requiring an assessment of other

c. Proceeds from Investments: Include the proceeds from sales of bonds and mortgage loans. As of year-end 2025, there was no data-captured disclosure that identified the proceeds from bond sales specifically, as available information aggregated proceeds from both sales and maturities. Revisions for year-end 2026 will include new data-captured disclosures for bonds to separately detail proceeds from sales and maturities. Upon implementation of the new disclosure, the proof of reinvestment calculation will refer to the location of that specific disclosure. Company internal records will be used for mortgage loans, which are not activity traded and have limited sales occurrences.

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

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

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

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

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

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

fixed-income investments if they represented 10% or more of a reporting entity's fixed-income sales for a given year, however, with the decision to require AVR allocation for items held at fair value, this provision was eliminated. If included, it would have a required a manual adjustment to the proof by the reporting entity.

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

108. A reporting entity only passes the proof of reinvestment if the results from the calculated results of acquisitions to sales and investable premium and the comparison of weighted average yields are both positive. Even if one aspect is positive, and the other is negative, the company does not pass the proof of reinvestment. A reporting entity is only able to increase an IMR net negative from current year IMR realized losses position beyond what would be offset beyond current year IMR realized gains if they pass the proof of reinvestment. Reporting entities that had allocated current year negative realized losses to the IMR in any account that does not pass proof of reinvestment are required to eliminate the current year realized losses that are not offset by gains and recognize the current year realized losses as immediate capital losses. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. Assumed IMR and the related amortization recognized by reinsurers is excluded from reallocation from IMR to current earnings when the proof of reinvestment is failed.

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

Effective Date and Transition

110. Revisions to SSAP No. 7, adopted month/year, that incorporate revisions reflecting a comprehensive review of the interest maintenance reserve, are effective January 1, 2027, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items in the following subparagraphs. (SSAP P. 31)

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

b. Disallowed IMR: Prior the effective date of this statement, IMR in the general account and the separate accounts was compared to determine whether the IMR was “disallowed.” Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability instead of a nonadmitted asset if the separate account IMR was in an offsetting positive balance. With the changes reflected, IMR shall be separately contained within each account and the reporting shall be based on the position of IMR in each account.

The provisions of this statement do not allow reporting of the IMR as a contra-liability, and the concept of "disallowed" IMR has been eliminated.

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

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

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block a business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. (Discussion of this rationale is included for historical purposes in the NAIC Proceedings – Summer 2025, Accounting Practices and Procedures (E) Task Force, Attachment One-N.)

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

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

Revisions to Other SSAPs:

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

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

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

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

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

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

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

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

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

i. *SSAP No. 86—Derivatives*: Revisions are proposed to 1) eliminate the optionality for when accounting-effective hedges are taken to IMR, and 2) Incorporate updates to revise and clarify IMR and AVR guidance for RSATs. (Note – There are no edits currently proposed for income-generation derivatives. Further review of RSATs and Income Generating Derivatives will be addressed in a subsequent project.)

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

Reporting Revisions:

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

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

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

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

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

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

    i. Investment specific maturity timeframes for amortization purposes. *(This may be a limited number of items, so may assess need to retain or location.)*

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

Note – Appendices for the proof of reinvestment follow. Other appendices will be included if they should be included. (References in the issue paper are shaded for discussion.)

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

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

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

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

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

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

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

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

Appendix ___ – Proof of Reinvestment Disclosure Illustration – General Account

Line	Data Source	Description	2024 YTD
1	CF Stmt - Row 13.1	Cost of investments acquired (long-term only) - Bonds	103,056,000
2	CF Stmt - Row 13.3	Cost of investments acquired (long-term only) - Mortgage Loans	14,181,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**117,237,000**
4	Note 5D(6)	Proceeds from FI investments sold - Bonds	39,861,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	3,831,000
6	Income Statement	Known liquidity sale losses recognized in the income statement	2,000,000
~~6~~7	Sum of lines 4 + 5 less line 6	**Total proceeds from Fixed Income Investments Sold**	**~~43~~41,692,000**
~~7~~8	CF Stmt - Row 1	Premiums collected net of reinsurance	52,020,000
~~8~~9	CF Stmt - Row 7	Commissions, expenses paid and aggregate write-ins for deductions	11,062,000
~~9~~10	Annual Statement - Note 35 Separate Account	Total premiums, considerations or deposits as of the end of current period	15,000,000
~~10~~11	Internal Systems	Assets in kind received in line 9 above	3,000,000
~~11~~12	Annual Statement - Analysis of operations by lines of business - A&H: Column 1 minus column 11^ minus column 12	Premiums for accident and health contracts (short-term)	5,000,000
~~12~~13	Line ~~7~~ 8 - line ~~8~~ 9 - line ~~9~~ 10 + line ~~10~~ 11 - line ~~11~~12	**Investable Premiums Before Other Investment Adjustment**	**23,958,000**
~~13~~14	B/S - Row 1	Bonds - Net Admitted	130,000,000
~~14~~15	B/S - Row 3.1	First Lien Mortgages - Net Admitted	20,000,000
~~15~~16	B/S - Row 3.2	Other than First Lien Mortgages - Net Admitted	10,000,000
~~16~~17	Sum of lines ~~13~~14, ~~14~~15, & ~~15~~16	**Investments Subject to Proof of Reinvestment**	**160,000,000**
~~17~~18	B/S - Row 12	Subtotal, Cash and Invested Assets	200,000,000
~~18~~19	Line ~~17~~ 18 - Line ~~16~~17	**Allocation for Investment for Other Assets**	**40,000,000**
~~19~~20	Line ~~18~~ 19 Divided by Line ~~17~~18	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**20%**
~~20~~21	Line ~~12~~ 13 multiplied by Line ~~19~~20	**Investable Premium Adjustment**	**4,791,600**
~~21~~22	Line ~~12~~ 13 - Line ~~20~~21	**Investable Premiums**	**19,166,400**
~~22~~23	Line 3 - line ~~6~~ 7 - line ~~21~~22	**Investments Purchased less Investments Sold and Investable Premiums**	**~~54~~56,378,600**
~~23~~24	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.57%**
~~24~~25	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line ~~6~~7) during the year	**3.96%**
~~25~~26	Line ~~23~~ 24 - line ~~24~~25	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**0.61%**
		Sufficient evidence of reinvestment of fixed income investments	

~~26~~27	**Test 1**	Is line ~~22~~ 23 positive?	**Yes**
~~27~~28	**Test 2**	Is line ~~25~~ 26 positive?	**Yes**
	If lines ~~26~~ 27 & ~~27~~ 28 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		
	^Column 11 is for disability business that includes both long and short term disability. RBC is determined based on this differentiation in LR 19 where total earned premiums are broken out between long and short term and are a close approximation of column 11 premiums in aggregate. Only the long-term premium categories (i.e., lines 21 through 26) included in LR 19 are to be subtracted for purposes of this test.		

Appendix ___ – Proof of Reinvestment Disclosure Illustration – Separate Account

Line	Data Source	Description	2024 YTD
1	Internal Systems	Cost of investments acquired (long-term only) - Bonds	430,000
2	Internal Systems	Cost of investments acquired (long-term only) - Mortgage Loans	128,000
3	Sum of lines 1 + 2	**Cost of Fixed Income Investments Purchased**	**558,000**
4	Internal Systems	Proceeds from FI investments sold - Bonds	502,000
5	Internal Systems	Proceeds from FI investments sold - Mortgage Loans	14,000
6	Sum of lines 4 + 5	**Total proceeds from Fixed Income Investments Sold**	**516,000**
7	Blue Book Note 35B / Internal Systems	Book value separate accounts premiums	7,000
8	Internal Systems	Assets in kind received in line 7 above	-
9	Line 7 -line 8	**Investable Premiums Before Other Investment Adjustment**	**7,000**
10	Green Book - B/S Row 1	Bonds - Net Admitted	2,450,000
11	Green Book - B/S Row 3	Mortgages - Net Admitted	570,000
12	Line 10 + line 11	**Investments Subject to Proof of Reinvestment**	**3,020,000**
13	Green Book - B/S Row 11	Subtotal, Cash and Invested Assets	3,124,000
14	Line 13 - Line 12	**Allocation for Investment for Other Assets**	**104,000**
15	Line 14 Divided by Line 13	**Percent of Investable Premiums Allocable to Equity and Other Investments**	**3%**
16	Line 9 multiplied by Line 15	**Investable Premium Adjustment**	**233**
17	Line 9 - Line 16	**Investable Premiums**	**6,767**
18	Line 3 - line 6 - line 17	**Investments Purchased less Investments Sold and Investable Premiums**	**35,233**
19	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	**4.00%**
20	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line 6) during the year	**3.00%**
21	Line 19 - line 20	**Increase (decrease) of yield of purchased fixed income investment yield over those disposed**	**1.00%**
		Sufficient evidence of reinvestment of fixed income investments	
22	**Test 1**	Is line 18 positive?	**Yes**
23	**Test 2**	Is line 21 positive?	**Yes**
	If lines 22 & 23 are both positive - current year negative IMR that exceeds positive IMR can be added to either originate a net negative IMR balance or increase an existing unamortized negative IMR balance. Admittance is subject to limitations included within SSAP No. 7.		

Revisions Shaded in Yellow in this Document Proposed by the ACLI

IMR Issue Paper – Proposed SSAP Revisions
Exposure Draft - April 20, 2026

In addition to the rewrite of SSAP No. 7, many revisions to other SSAPs are proposed in accordance with the IMR project. These revisions are detailed in this document. (Note: It is intended that this document will be incorporated into and/or accompany the issue paper with adoption.)

A search of "Interest Maintenance Reserve" and "IMR" was completed for the 2025 Manual. SSAP references are detailed separately by those with proposed revisions and those without proposed revisions.

SSAP's with Proposed Revisions

SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments

A. New Paragraph 7: Revisions address IMR/AVR treatment for cash equivalents:

7. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of cash equivalents shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to that guidance, all unrealized gains and losses shall be allocated to the AVR, however, realized capital gains and losses from the sale of cash equivalents shall not be allocated to the IMR. Any realized loss deemed to be non-interest related shall be allocated to the AVR, with interest-related realized gains or losses retained as an immediate capital gain or loss.

B. Paragraph 16: Revisions clarify IMR/AVR treatment for short-term investments:

16 All short-term investments shall be accounted for in the same manner as similar long-term investments, except for the allocation to IMR. For reporting entities required to maintain an IMR and AVR, the accounting for realized capital gains and losses on sales of short-term investments shall be in accordance with SSAP No. 7. Pursuant to that guidance, all unrealized gains and losses shall be allocated to the AVR, however, realized capital gains and losses from the sale of short-term investments shall not be allocated to the IMR. Any realized loss deemed to be non-interest related shall be allocated to the AVR, with interest-related realized gains or losses retained as an immediate capital gain or loss.

SSAP No. 21—Other Admitted Assets

No explicit revisions are proposed to this SSAP. Although the issue paper proposes to revise the way in which IMR/AVR allocations occur for non-bond debt securities, the guidance in SSAP No. 21 points to the guidance in SSAP No. 43 for application. With this pointer, no revisions are needed to SSAP No. 21 as the revisions will be reflected in SSAP No. 43 and be applicable in accordance with the existing guidance.

SSAP No. 26—Bonds

A. Paragraphs 17-18: Revisions are proposed to improve existing guidance:

17. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of bonds shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to SSAP No. 7, ~~For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for~~all unrealized gains and losses, excluding foreign exchange gains and losses, shall be ~~in accordance with SSAP No. 7~~recognized to the AVR.

18. For reporting entities not required to maintain an IMR and AVR, realized gains and losses on sales of bonds shall be reported as net realized capital gains or losses in the statement of income. ~~For reporting entities not required to maintain an AVR, u~~ Unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

B. Paragraph 23: Revisions are proposed to improve existing guidance:

23. An other-than-temporary(INT 06-07) impairment (OTTI) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. Pursuant to this guidance, realized losses from an OTTI recognized as it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the debt security (credit impairment) shall be fully allocated to the AVR. Realized losses from an OTTI recognized as the entity has decided to sell a security prior to its maturity at an amount below its carrying value shall be fully allocated to either the IMR or AVR pursuant to the guidance in SSAP No. 7. ~~The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.~~

C. Paragraph 37: This paragraph is specific to SVO-Identified ETFs. Minor reference revisions:

37. For reporting entities required to hold an IMR and AVR reserve, realized and unrealized gains and losses for the SVO-identified bond ETF investments shall be consistent with bonds within the scope of this standard. With this guidance, recognition of gains/losses (and corresponding AVR/IMR impacts) will be based on the ETF, and not activity that occurs within the ETF (e.g., such as changes in the underlying bonds held within the ETF). Also consistent with the guidance for bonds, recognized losses from other-than temporary impairments shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with SSAP No. 7.~~the annual statement instructions.~~

SSAP No. 32—Preferred Stock

A. Paragraph 8: Incorporate guidance for sales of preferred stock. (This guidance is generic to apply to both redeemable and perpetual preferred stock.)

8. At acquisition, preferred stock shall be reported at cost, including brokerage and other related fees. Preferred stock received as dividends shall be recorded at fair value. Acquisitions and dispositions shall be recorded on the trade date. Private placement stock transactions shall be recorded on the funding date. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR) sales of preferred stock shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.*

B. Paragraph 12.b.iv: Clarify AVR treatment of unrealized gains and losses:

12.b.iv For preferred stocks reported at fair value, the accounting for unrealized gains and losses shall be fully to the AVR in accordance with SSAP No. 7~~—*Asset Valuation Reserve and Interest Maintenance Reserve*~~.

C. Paragraph 13: Clarify OTTI guidance for redeemable preferred stock to mirror the bond guidance:

13. An other-than-temporary(INT 06-07) impairment (OTTI) shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the preferred stock in effect at the date of acquisition. An assessment of other-than-temporary impairment shall occur whenever mandatory redemption rights or sinking fund requirements do not occur. A decline in fair value which is other-than-temporary includes situations where the reporting entity has made a decision to sell the preferred stock prior to its maturity at an amount below its carrying value (i.e., amortized cost). If it is determined that a decline in the fair value of a redeemable preferred stock is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the redeemable preferred stock's carrying value and its fair value, not to exceed any currently effective call price, at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR, realized losses shall be accounted for in accordance with SSAP No. 7. Pursuant to this guidance, realized losses from an OTTI recognized as it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the redeemable preferred stock (credit impairment) shall be fully allocated to the AVR. Realized losses from an OTTI recognized as the entity has decided to sell a redeemable preferred stock prior to its maturity at an amount below its carrying value shall be fully allocated to either the IMR or AVR pursuant to the guidance in SSAP No. 7.

SSAP No. 37—Mortgage Loans

A. New Paragraph 16: Incorporate guidance for sales of mortgage loans

16. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses on sales of mortgage loans shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

B. Renumbered Paragraph 17: Incorporate clarifying revisions:

17. A mortgage loan shall be considered to be impaired when, based on current information and events, it is probable that a reporting entity will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. According to the contractual terms means that both the contractual principal payments and contractual interest payments of the mortgage loan will be collected as scheduled in the mortgage agreement. A reporting entity shall measure impairment based on the fair value (as determined by acceptable appraisal methodologies) of the collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan shall be recognized as an impairment by creating a valuation allowance with a corresponding charge to unrealized loss or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to unrealized gain or loss. Subsequent to the initial measurement of impairment, if there is a

significant change (increase or decrease) in the net value of the collateral, the reporting entity shall adjust the valuation allowance; however, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan. For reporting entities required to maintain an ~~asset valuation reserve (~~AVR~~)~~, the unrealized gain or loss on impairments shall be recognized ~~included in the calculation of~~ to the AVR. If the impairment is other than temporary (INT 06-07), a direct write down shall be recognized as a realized loss (recognized to the AVR for reporting entities maintaining an AVR), and a new cost basis is established. This new cost basis shall not be changed for subsequent recoveries in value. Mortgage loans for which foreclosure is probable shall be considered permanently impaired.

C. Paragraph ~~32~~ 33 – original effective date guidance – addresses previously recognized IMR related to prepayment penalties. No changes are proposed. Its historical guidance no longer applicable.

3~~2~~3. This statement is effective for years beginning January 1, 2001. Initial recognition of the impairment losses resulting from the application of this statement shall apply to mortgage loans held at January 1, 2001, and be based on management's best estimates as of that date. Insurers shall release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in this paragraph related to unamortized amounts included in IMR was originally contained within INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification and was effective March 8, 1999.

SSAP No. 41—Surplus Notes

A. Paragraph 12: Incorporate clarifying guidance, including guidance for sales:

12. For reporting entities required to maintain an AVR, the ~~accounting for~~ unrealized gains and losses shall be fully allocated to the AVR and realized capital gains and losses from the sale of capital notes or surplus notes shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).

SSAP No. 43—Asset-Backed Securities

A. Paragraph 15: Directs treatment for prepayment penalties, no revisions proposed.

15. The amount of prepayment penalty and/or acceleration fees to be reported as investment income shall be calculated as follows:

    a. The amount of investment income reported is equal to the total proceeds (consideration) received less the par value of the investment; and

    b. Any difference between the book adjusted carrying value (BACV) and the par value at the time of disposal shall be reported as realized capital gains and losses subject to the authoritative literature in SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.

B. Paragraph 36: Revisions to eliminate the IMR/AVR bifurcated allocation and incorporate consistent language.

36. For reporting entities required to maintain an interest maintenance reserve (IMR) and asset valuation reserve (AVR), the accounting for realized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Pursuant to SSAP No. 7, all unrealized gains and losses shall be recognized to the AVR. Further, realized losses from an OTTI recognized under paragraph 35, as the reporting entity does not expect to recover the entire amortized cost basis even if the entity has no intent to sell and the entity has the intent and ability to hold (credit impairment) shall be fully allocated to the AVR. ~~AVR or IMR, all unrealized gains and losses shall be reported through the AVR. For realized gains and losses, an analysis is required on whether the realized loss reflects an interest or non-interest related decline[1]. The analysis required is the same regardless of whether a realized loss results from an impairment write-down or whether there was a gain or loss upon sale. Guidance on specific scenarios resulting in realized gains and losses are as follows:~~

~~36. a. Unrealized Gains and Losses – Record all unrealized gains and losses through AVR. At the time an unrealized gain or loss is realized, allocation between AVR or IMR will depend on the analysis and bifurcation between interest or non-interest related declines Unrealized gains or losses that are realized shall be reversed from AVR before the recognition of the realized gain or loss within AVR and IMR.~~

~~37. b. Other-Than-Temporary Impairment – Non-interest related other-than-temporary impairment losses shall be recorded through the AVR and interest-related OTTI losses shall be recorded through the IMR. If the reporting entity wrote the security down to fair value due to the intent to sell or because the entity does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the entity shall bifurcate the realized loss between non-interest related (AVR) and interest related (IMR). The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined. Entities that recognized an OTTI based on the difference between amortized cost and the present value of expected cash flows shall recognize the full realized loss through AVR.~~

~~38. c. Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest and non-interest related declines in accordance with the analysis performed as of the date of sale.~~

~~39. d. Security Sold at a Loss With Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest and non-interest related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.~~

~~40. Security Sold at a Gain With Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis~~

~~[1] Pursuant to INT 06-07, the term interest-related includes a declining value due to both increases in the risk free interest rate and general credit spread widening. Credit spreads can widen or contract for a variety of reasons, including supply/demand imbalances in the marketplace or the perceived higher/lower risk of an entire sector. If the declining value is caused, in whole or in part, due to credit spreads widening, but not due to fundamental credit problems of the issuer, the change in credit spreads is deemed to be interest-related.~~

~~performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.~~

~~41. f. Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.~~

C. Q&A 7 – Directs IMR/AVR based on recognized OTTI. Reference revisions proposed.

7. Question – If an impairment loss is recognized based on the "present value of projected cash flows" in one period is the entity required to get new cash flows every reporting period subsequent or just in the periods where there has been a significant change in the actual cash flows from projected cash flows?

7.1 The guidance in paragraph 38 of SSAP No. 43 indicates that a reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the asset-backed security. This guidance is explicit that the reporting entity shall continue to estimate the present value of cash flows expected to be collected over the life of the loan-backed or structured security.

7.2 As provided in paragraph 2.2 of this Q&A, if the entity does not want to assess cash flows of an impaired security (fair value is less than amortized cost), the entity can designate the security as one the entity intends to sell, or one that the entity does not have the intent and ability to hold, providing it is reflective of the true intent and assessment of the ability of the entity. Reporting entities subject to the requirements of AVR and IMR should allocate the impairment loss between AVR and IMR in accordance with SSAP No. 7~~accordingly~~.

D. Q&A 8 – Discusses reporting in lots and the requirement to track separately for IMR/AVR allocation. No revisions proposed.

8. Question – Do ABS purchased in different lots result in a different NAIC designation for the same CUSIP? Can reporting entities use a weighted average method determined on a legal entity basis?

8.1 Under the financial modeling process (applicable to qualifying RMBS/CMBS reviewed by the NAIC Structured Securities Group), the amortized cost of the security impacts the "final" NAIC designation used for reporting and RBC purposes. As such, securities subject to the financial modeling process acquired in different lots can result in a different NAIC designation for the same CUSIP. In accordance with the current instructions for calculating AVR and IMR, reporting entities are required to keep track of the different lots separately, which means reporting the different designations. For reporting purposes, if a SSAP No. 43 security (by CUSIP) has different NAIC designations by lot, the reporting entity shall either 1) report the aggregate investment with the lowest applicable NAIC designation or 2) report the investment separately by purchase lot on the investment schedule. If reporting separately, the investment may be aggregated by NAIC designation. (For example, all acquisitions of the identical CUSIP resulting with an NAIC 1 designation may be aggregated, and all acquisitions of the identical CUSIP resulting with an NAIC 3 designation may be aggregated.)

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance

A. Update Reference to Guidance.

(Note – Additional revisions to SSAP No. 61 are considered under agenda item 2025-22.)

54. The ~~interest-related gain or loss~~IMR (net of taxes) associated with the sale, transfer or reinsurance of a block of liabilities must be credited or charged to the IMR in accordance with SSAP No. 7. ~~the IMR instructions contained in the NAIC Annual Statement Instructions for Life and Accident and Health Insurance Companies.~~

SSAP No. 86—Derivatives

A. Paragraph 24, with corresponding edits to Exhibit B and Exhibit C, to mandate consistent use of IMR when applicable for effective hedges.

24. For those derivatives which qualify for hedge accounting, the change in the carrying value or cash flow of the derivative shall be recorded consistently with how the changes in the carrying value or cash flow of the hedged asset, liability, firm commitment or forecasted transaction are recorded. When the hedged item is held at amortized cost, the derivative is also recognized at amortized cost, therefore there is no recognized carrying value change over the life of the derivative. In such situations, if the settlement of the derivative results in a realized gain or loss from the derivative acquisition basis, then upon termination of a derivative that qualified for hedge accounting, the following guidance shall be followed:~~Upon termination of a derivative that qualified for hedge accounting, the gain or loss shall adjust the basis of the hedged item and be recognized in income in a manner that is consistent with the hedged item (alternatively, if the item being hedged is subject to~~ the ~~Interest Maintenance Reserve (IMR), the gain or loss on the hedging derivative may~~ shall ~~be realized and shall be subject to IMR upon termination.) Entities who choose the alternative method shall apply it consistently thereafter.~~

a. If the hedged item is not terminated, the derivative gain or loss shall adjust the basis of the hedged item, and amortized/accreted into income over the remaining life of the hedged item. (For example, if a bond was hedged, a realized derivative gain would be offset by a credit to the bond's book/adjusted carrying value, reducing the bond BACV as a basis adjustment. This adjustment would be accreted into income over the remaining life of the bond to bring the bond BACV to par value.)

b. If the hedged item is terminated, the derivative gain or loss shall be recognized consistently with how the gain or loss from the hedged item is recognized. If the gain or loss from the hedged item is taken to IMR, then the derivative gain or loss shall be taken to IMR. If the hedged item gain or loss is recognized as an immediate capital gain or loss, then the derivative gain or loss shall also be recognized as an immediate capital gain or loss.

~~a.~~c.

Exhibit B

An open derivative hedging a forecasted transaction or firm commitment shall be recorded at cost until the hedged transaction occurs. When the hedged forecasted transaction or firm commitment occurs, an open derivative shall be accounted for in a manner consistent with the hedged item (i.e., amortized cost or fair value).

Upon termination of a derivative that qualified for hedge accounting, the following guidance shall be followed:

a. If the hedged item is not terminated, the derivative gain or loss shall adjust the basis of the hedged item, and amortized/accreted into income over the remaining life of the hedged item. (For example, if a bond was hedged, a realized derivative gain would be offset by a credit to the bond's book/adjusted carrying value, reducing the bond BACV as a basis adjustment. This adjustment would be accreted into income over the remaining life of the bond to bring the bond BACV to par value.)

b. If the hedged item is terminated, the derivative gain or loss shall be recognized consistently with how the gain or loss from the hedged item is recognized. If the gain or loss from the hedged item is taken to IMR, then the derivative gain or loss shall be taken to IMR. If the hedged item gain or loss is recognized as an immediate capital gain or loss, then the derivative gain or loss shall also be recognized as an immediate capital gain or loss.

For terminated derivatives, indicate on Schedule DB, Section 2, Parts A and B, the nature of the assets or liabilities so adjusted and the schedule or exhibit where they are presented.~~Upon termination of a derivative that qualified for hedge accounting of an existing asset or liability or a forecasted transaction or firm commitment, the resulting gain or loss shall be recognized in income in a manner that is consistent with the hedged item. If the hedged item is recorded at amortized cost, the gain or loss shall adjust, individually or in the aggregate, the basis of the hedged item subject to amortization. Alternatively, iIf the item being hedged is subject to the IMR, the gain or loss on the terminated hedging derivative may shall be realized and shall be subject to IMR upon termination. For terminated derivatives, indicate on Schedule DB, Section 2, Parts A and B, the nature of the assets or liabilities so adjusted and the schedule or exhibit where they are presented.~~

Note – Consistent revisions would need to be reflected throughout Exhibit B in 1d, 2d, & 3c.

B. Paragraphs 57-63: Revisions to clarify RSAT guidance

Note – The following edits are currently proposed after initial discussions with industry. These revisions propose to delete exception reference in paragraph 61, as this would be a very limited exception as all unrealized gains and losses go to AVR.

Derivatives Used in Replication (Synthetic Asset) Transactions

57. Replication (Synthetic Asset) (RSAT) transaction means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered a RSAT ~~replication (synthetic asset)~~ transaction.

58. Any premium paid or received shall be carried as an asset or liability on the balance sheet (Derivative line on the Assets (or) Liabilities pages). Premiums paid or received on the RSAT ~~replication (synthetic asset)~~ derivative ~~should~~ shall be amortized into investment income or expense until the exercise, termination or maturity date of the derivative.

59. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at amortized cost and the cash instrument used is carried at amortized cost, then the derivative used ~~should~~ shall be carried at amortized cost. The derivative may be valued at fair value when both the replication (synthetic asset) and the cash instrument are valued at amortized cost. This is consistent with the alternative valuation methods available for hedges. If the RSAT~~replication (synthetic asset)~~ transaction would be carried at fair value and/or the cash instrument used is carried at fair value, then the derivative used ~~should~~ shall be carried at fair value.

	(a)	(b)	(c)	(d)
	If the Replication (Synthetic Asset) is Valued at:	And Cash Instrument(s) Used is (are) Valued at:	The Derivative is Valued at:	Alternative Derivative Value Basis:
1.	Amortized Cost	Amortized Cost	Amortized Cost	Fair value
2.	Fair value	Fair value	Fair value	N/A
3.	Amortized Cost	Fair value	Fair value	N/A
4.	Fair value	Amortized Cost	Fair value	N/A

60. When the derivative component is held at fair value, the change in fair value shall be recognized as an unrealized gain or loss throughout the life of the transaction and included in the AVR.

~~60.~~61. In the case of ~~No.~~example 3 in the chart ~~above~~, the fair values for the cash instrument and derivative, when added together, shall not exceed the replication (synthetic asset) statement value. If this ~~does~~ occurs, the excess shall reduce the fair value of the derivative and shall be recorded as an unrealized loss ~~gain.~~ ~~separate from the Asset Valuation Reserve (AVR)~~.

Note – The current SSAP No. 86 guidance for the above paragraph refers to unrealized gains and directs that it be captured outside of AVR. This has been revised to reflect losses and removes the AVR exception. Industry is not familiar with this treatment, speculating that perhaps it relates to NAIC 6 bonds, and agrees it is odd to have the AVR exclusion. With broad exposure, will highlight the change and see if any other industry reps are more familiar / impacted by the guidance.

62. If the ~~replication (synthetic asset)~~RSAT transaction involves a periodic settlement with the exchange of interest related cash flows (default free assets), then the cash flows on the derivative component ~~should~~shall be accrued as investment income. If the ~~replication (synthetic asset) transaction~~RSAT involves a periodic settlement with the exchange of total return or change in index cash flows, then the cash flows ~~should~~ shall be segregated between interest income and settlement of other fair value ~~(equity)~~ changes. The interest income portion ~~should~~ shall be accrued as investment income and settlement of any other fair value changes shall be recognized as gains or losses in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

~~61.~~63. Any realized gains or loss recognized at maturity, termination or reset of the derivative component of the RSAT shall be allocated to IMR or AVR in accordance with SSAP No. 7[FN]. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

~~If the derivative is carried at fair value, the periodic change in the fair value should be recorded as an unrealized gain or loss adjustment to surplus until the transaction is terminated. If the replication (synthetic asset) transaction involves the exchange of total return or change in index cash flows, then the cash flows should be segregated between interest income and fair value (equity) changes. The fair value (equity) change should be recognized as a deferred asset/liability until the termination of the contract. Gains or losses on the derivative at termination or sale should be recognized as realized.~~

New FN: For qualifying RSAT derivatives (held at amortized cost), upon termination, the gain or loss shall be allocated to IMR or AVR based on interest and non-interest factors. For simplicity, this IMR and AVR allocation shall be based on the designation category change guidance, applied to the RSAT designation received by the SVO.

C. Guidance for Income Generation transactions

The current references to IMR are shaded below. No revisions have yet to be proposed.

50. The principal features of income generation transactions are:

a. Premium received is initially recorded as a deferred liability.

b. The accounting of the covering asset or underlying interest controls the accounting of the derivative. The covering asset/underlying interest is accounted at either fair value (e.g., common stocks) or (amortized) cost (e.g., bonds).

c. The gain/loss on termination of the derivative is a capital item. For life insurance companies, it shall be subject to IMR treatment if interest rate related.

d. For options that are exercised, the remaining premium shall adjust the proceeds (cost) associated with the exercise resulting in no explicit gain or loss reported for the derivative itself.

51. The principal features of written fixed income covered call options are:

a. The general approach is to value at cost (i.e., consideration received) without amortization over the life of the contract if the original duration is less than one year, otherwise carry at amortized cost.

b. An alternative to the general approach combines the accounting of the written option with the covering asset and then uses standard accounting for callable bonds (yield to worst amortization) on the adjusted asset. This method prevents the possibility of future loss recognition upon exercise while at the same time providing recognition of the income feature of the option over time. This approach would appear most relevant for longer-lived covered European call options, which are in substance like callable bonds.

c. For life insurance companies, the gain or loss flows through the IMR if the covering asset or underlying interest is subject to the IMR using callable bond rules to determine the remaining life.

d. Reporting entities are responsible for timely recognition of any probable losses that may occur as a result of the strategy. If the exercise price is below the covering asset's book value, the asset shall be evaluated for write down or disclosure treatment in accordance with SSAP No. 5. All relevant factors such as whether the option is currently exercisable, the fair value of the bond relative to its exercise price, to what extent the statement value of the option premium offsets any loss on the asset, or how any IMR transaction on exercise would affect unassigned funds (surplus) and income shall be considered.

52. Written fixed income covered call options shall be accounted for as follows:

Only the IMR references included in the chart below. For expired only gains are referenced.

Closed – Expired: Gain from expiration to flow through IMR, if applicable. (1)

Closed – Exercised: Gain or loss from disposition to flow through IMR, if applicable (1)

Closed – Terminated: Gain or loss from disposition to flow through IMR, if applicable (1)

NOTE (1) If premium is attached to covering asset, the accounting treatment for the covering asset applies.

53. The principal features of written covered put options are:

a. The accounting for the underlying interest instead of the covering asset governs the accounting of the written put while it is open. For example, if a reporting entity wrote a put requiring it to purchase a certain common stock (underlying interest) at a specific price, the reporting entity might cover that option by holding cash or cash equivalents (covering asset). The accounting for the common stock would govern the accounting of the option in this case.

b. As with covered call writing for life insurance companies, gain/loss on termination may be subject to IMR over the remaining life of the underlying interest.

c. As with covered call writing, entities writing put options for income generation purposes are responsible for timely recognition of any probable losses that may occur as a result of the strategy.

54. Written covered put options shall be accounted for as follows:

Only the IMR references included in the chart are below. For expired only gains are referenced.

Closed – Expired: Gain from expiration to flow through IMR, if applicable.

Closed – Exercised: No reference to IMR

Closed – Terminated: Gain or loss from disposition to flow through IMR, if applicable

55. The principal features of written fixed income caps and floors are:

 a. The value of the premium received shall be amortized into income over the life of the contract. For caps and floors, where the entity is selling off possible excess interest/income, the value of the covering asset is not relevant.

 b. Gain/loss may be subject to IMR. The expected maturity would be the derivative contract's maturity.

56. Written fixed income caps and floors shall be accounted for as follows:

Only the IMR references included in the chart are below. For expired only gains are referenced.

Closed – Matured: No reference to IMR

Closed – Exercised: Included in chart as not applicable. No reference to IMR.

Closed – Terminated: Gain or loss on termination to flow through IMR, if applicable

SSAP No. 105—Working Capital Finance Investments

A. Paragraph 23: Revise guidance to eliminate allocation to IMR. This elimination is supported as these items have underlying short-term investments, that would be amortized in less than a one-year timeframe if allocated to IMR. The revisions also eliminate reference to unrealized gains/losses, as the guidance in SSAP No. 105 does not utilize a fair value measurement method. No revisions are proposed to paragraph 28 as it already specifies that all OTTI is allocated to the AVR.

 23. For all reporting entities, including those required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized capital gains and losses from working capital finance investments shall not be taken to the IMR and shall be retained as immediate capital gains and losses. For these entities, all unrealized gains and losses shall be allocated to the AVR. ~~be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized gains and losses from working capital finance investments shall be reported as net realized capital gains or losses in the statement of income. For reporting entities not required to maintain an AVR, unrealized gains and losses shall be recorded as a direct credit or charge to unassigned funds (surplus).~~

B. Paragraph 26 – Proposed to remove reference to SSAP No. 7. Under SSAP No. 105, the OTTI recognized would be due to a credit impairment. However, to avoid potential confusion with the pointer to SSAP No. 7, propose to just direct to AVR in the SSAP.

 28. For reporting entities required to maintain an AVR/IMR, the entire amount of the realized loss from the other-than-temporary impairment shall be recorded through the AVR~~, in accordance with SSAP No. 7~~.

SSAP's with IMR References – No Revisions Currently Proposed
Items noted for potential discussion are shaded.

Preamble:

37. Liabilities require recognition as they are incurred. Certain statutorily mandated liabilities may also be required to arrive at conservative estimates of liabilities and probable loss contingencies (e.g., interest maintenance reserves, asset valuation reserves, and others).

56. There are instances where the Codification of Statutory Accounting Principles (E) Working Group (Statutory Accounting Principles (E) Working Group as of January 1, 2000) has established an accounting principle in a SSAP but deferred maintenance and update of the detailed guidance to other NAIC task forces and their working groups. Those instances are specifically set forth in the individual SSAPs and include specific guidance for calculation of the Interest Maintenance Reserve (IMR), the Asset Valuation Reserve (AVR), the provision for overdue reinsurance, and periodic update to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments

8. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets

41. ….This statement also adopts Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 2 and 3 with the modification that AVR, IMR and Schedule F Penalty shall be shown gross. Appropriation of retained earnings discussed in paragraph 15 of FAS 5 is addressed in SSAP No. 72—Surplus and Quasi-Reorganizations. *(Only last two sentences shown.)*

(Note – This reference to "gross" is referring to the IMR not being combined with the associated asset but shown separately on a dedicated line. This reference is not addressing IMR being shown net of positive and negative impacts.)

SSAP No. 21—Other Admitted Assets

25. Debt securities that do not qualify as bonds in the scope of this statement shall follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing other-than temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).

SSAP No. 30—Unaffiliated Common Stock

10. For reporting entities required to maintain an Asset Valuation Reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with SSAP No. 7—Asset Valuation

Reserve and Interest Maintenance Reserve. For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus.

SSAP No. 56—Separate Accounts

Note - Guidance Revised in 2026.

20. Asset sales for cash between the general account and "fair value" separate accounts:

    a. The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value.

    b. Assets sold from the general account shall result in a realized gain or loss based on the difference between fair value and book adjusted carrying value (BACV). The realized gain or loss, if resulting from interest rate changes, shall be allocated to the general account IMR and amortized as if the asset had been sold to an unrelated third party. Realized gains from these transactions shall not be deferred pursuant to *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 17. Realized losses from credit-related factors shall be allocated to the AVR.

21. Asset sales for cash between the general account and "book value" separate accounts:

    a. Seller – The account (either general or separate account) selling the asset shall receive cash equal to fair value and dispose of the asset from the investment schedules at fair value with recognition of a realized gain or loss. The realized gain or loss, if resulting from interest rate changes, shall be allocated to IMR and amortized in the selling account as if the asset had been sold to an unrelated third party. The transfer of an asset under this guidance that results in a gain shall not be deferred by the selling account pursuant to SSAP No. 25, paragraph 17, as such a deferral would create a mismatch in the IMR recognition between the general/separate accounts. Realized losses from credit-related factors shall be allocated to the AVR.

    b. Purchaser – The account (either general or separate account) purchasing the asset shall recognize the acquired asset at the BACV from the selling account. The difference between the asset's fair value and the BACV shall be reported to IMR in the purchasing account.

    c. The IMR activity between the selling account and the purchasing account shall be equal and offsetting resulting in a net zero impact in the IMR between the two accounts. IMR is tracked and reported separately in the general account and the separate account, but the net impact of the two accounts shall equal zero for each transfer transaction.

    d. Subsequent to initial acquisition, the purchasing account shall account for the acquired asset pursuant to the measurement method of the applicable SSAP.

22. Asset transfers that do not reflect sales for cash between the general account and separate account are subject to domiciliary state approval and shall be recorded at fair value with gains and losses offset to IMR similar to asset sales for cash guidelines as detailed in paragraphs 20 and 21. Any transfer that does not represent an asset sale for cash shall be specifically disclosed in both the general account and separate account as detailed in paragraph 34.e. This shall include, but not be limited to, the following transfers:

    a. Asset-to-asset swaps

b. Contributions of general account assets to support separate account deficiencies

c. Dividends of assets from the separate account to the general account

Separate Account AVR and IMR Reporting

23. An AVR is required for separate accounts when the reporting entity, rather than the policyholder/contractholder, suffers the loss in the event of asset default or fair value loss.

24. Assets supporting separate accounts, excluding products captured in paragraph 18, do not require an AVR because the policyholders/contractholders bear the risk of change in the value of the assets. However, for those contracts, an AVR is required for that portion of the assets representing seed money (including accumulated earnings on seed money) from the general account.

25. Assets supporting separate account contracts where the insurer bears the risk of investment performance, which shall include all book value separate accounts, require an AVR because the insurer is responsible for credit related asset or fair value loss.

26. "Book value" separate accounts, pursuant to paragraph 18, are required to maintain an interest maintenance reserve (IMR). Once an IMR is required for a separate account, all of the investments in that separate account are subject to the requirement. If an IMR is not required for a separate account, none of the investments in that separate account are subject to the requirement.

27. As detailed in the annual statement instructions, separate account IMR is kept separate from the general account IMR and accounted for in the separate accounts statement.

28. The AVR and IMR shall be calculated and reported in accordance with SSAP No. 7 and the annual statement instructions.

49. Revisions adopted in February 2025 in agenda item 2024-10, that clarify the measurement of separate account assets, particularly for "book value separate accounts" and that prescribe the treatment for transfers between the general account and separate account with IMR and AVR recognition, are effective January 1, 2026, with early adoption permitted. The January 1, 2026, effective date intends to allow reporting entities to modify their separate account product "plans/memorandums of operation" with the state of domicile as necessary to comply with this revised statement. After January 1, 2026, reporting entities are required to have an approved permitted or prescribed practice to utilize a book value measurement method or a different approach for transfers and recognition of IMR/AVR outside of what is detailed within this statement.

<u>SSAP No. 101—Income Taxes:</u>

7. A reporting entity's deferred tax assets and liabilities are computed as follows:

   a. Temporary differences are identified and measured using a "balance sheet" approach whereby statutory and tax basis balance sheets are compared;

   b. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased;

1.4 Unique Statutory Accounting Items

- SSAP No. 101 – In addition to the exceptions provided in FAS 109, temporary differences do not include asset valuation reserve (AVR), interest maintenance reserve (IMR), Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased.

2.1 A – An enterprise shall record a gross deferred tax liability or asset for all temporary differences and operating loss, capital loss and tax credit carryforwards. Temporary differences include unrealized gains and losses and nonadmitted assets but do not include AVR, IMR, Schedule F penalties and, in the case of a mortgage guaranty insurer, amounts attributable to its statutory contingency reserve to the extent that "tax and loss" bonds have been purchased. In general, temporary differences produce taxable income or result in tax deductions when the related asset is recovered or the related liability is settled. A deferred tax asset or liability represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year. Additionally, gross DTAs are reduced by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the gross DTAs will not be realized. The statutory valuation allowance adjustment, determined in a manner consistent with paragraphs 20-25 of FAS 109, shall reduce gross DTAs to the amount that is more likely than not to be realized (the adjusted gross deferred tax assets).9 This answer only addresses the recognition of adjusted gross DTAs and gross DTLs and does not address the admissibility of such amounts. See Question 4 for a discussion of the admissibility criteria of SSAP No. 101.

SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

11. Upon completion of a transfer of an entire financial asset or a group of entire financial assets that satisfies the conditions to be accounted for as a sale (see paragraph 8), the transferor (seller) shall:

    a. Derecognize the transferred financial assets;

    b. Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained (including a transferor's beneficial interest in the transferred financial assets) and liabilities incurred1 in the sale (paragraphs 60 and 62-66).

    c. For reporting entities required to maintain an Interest Maintenance Reserve (IMR), the accounting for realized and unrealized capital gains and losses shall be determined per the guidance in the SSAP for the specific type of investment, or if not specifically stated in the related SSAP, in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. For reporting entities not required to maintain an IMR, realized capital gains and losses shall be reported as net realized capital gains or losses in the statement of income, and unrealized capital gains and losses shall be reported as net unrealized gains and losses in unassigned funds (surplus).

131. The accounting guidance in this statement adopts with modification *FAS 166, Accounting for the Transfers of Financial Assets, an Amendment to FAS 140* (FAS 166), *FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), as amended by FAS 166, and FAS 156, *Accounting for Servicing of Financial Assets, an amendment*

of FASB Statement No. 140, as amended by FAS 166. Statutory modifications from these adoptions include:

iv. Guidance on the accounting of sale transactions for entities required to maintain an interest maintenance reserve (IMR). This guidance requires such entities to account for realized and unrealized capital gains and losses per the guidance in the SSAP for the specific type of investment, or if not specifically stated in the related SSAP, in accordance with SSAP No. 7 (paragraph 11.c.).

Appendix C – AG XLVIII – 2019 Valuations (Page - AG43a-15)

A1.1) Projection of Accumulated Deficiencies

G) AVR/IMR. The AVR and the IMR shall be handled consistently with the treatment in the company's cash flow testing.

Appendix C-2 – Actuarial INT 39 (Page C-84)

6. For purposes of this comparison for 12/31/16 and later, the actual portfolio net investment return is adjusted by the current amortization of IMR allocated to the portfolio. This adjustment is made only for the comparison of portfolio yields to determine the appropriate portfolio to use in the development of the deterministic reserve. The reserve amount is then determined following the procedure defined in VM-20.

Appendix G – Implementation Guide – Attachment A (page G-29)

Asset Valuation Reserve ("AVR")
The AVR represents a statutory contingency reserve for life and health insurers for credit related risk on most invested assets, and is charged to surplus pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.* No such reserve is required under GAAP/IFRS accounting.

Interest Maintenance Reserve ("IMR")
The IMR represents the deferral of interest-related realized gains and losses, net of tax, on primarily fixed maturity investments, amortized into income over the remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. No such reserve is required under GAAP/IFRS accounting.

See Specific Section Notes to Identify
Proposed Revisions from the ACLI

IMR – Proposed Reporting Revisions
Exposure April 20, 2026

In accordance with the project to review IMR and clarify accounting guidance, reporting revisions are also being proposed. (Note: It is intended that this document will be incorporated into and/or accompany the issue paper with adoption.)

Asset & Liability Pages

A. Asset Page - New distinct reporting lines to separately capture IMR and deferred derivative assets.

New Reporting Line 17 with all other lines renumbered.

Note – Proposed to use one reporting line for deferred derivatives, with a separate note that identifies the balance between SSAP No. 108 and 109. Could divide into separate lines if preferred.

17. Miscellaneous Assets:
    17.1 Negative Interest Maintenance Reserve
    17.2 Deferred Derivative Assets – (Variable Annuity Guarantees & Asset-Liability Management)

B. Liability Page - New distinct reporting lines to separately deferred derivative assets.

Added to existing Miscellaneous Liabilities listing.

24. Miscellaneous liabilities:
    24.01 Asset valuation reserve (AVR, Line 16, Col. 7)
    24.02 Reinsurance in unauthorized and certified ($..........) companies
    24.03 Funds held under reinsurance treaties with unauthorized and certified ($..........) reinsurers
    24.04 Payable to parent, subsidiaries and affiliates
    24.05 Drafts outstanding
    24.06 Liability for amounts held under uninsured plans
    24.07 Funds held under coinsurance
    24.08 Derivatives
    24.09 Deferred Derivative Liabilities – (Variable Annuity Guarantees & Asset-Liability Management)
    24.09 Payable for securities
    24.10 Payable for securities lending
    24.11 Capital notes $……… and interest thereon $……… ....

Once the new lines are set, new Instructions will be proposed to specify what should be included.

Exhibit of Capital Gains (Losses)

Revisions are proposed to revise this schedule to allow for tracking to investment types and the allocation to IMR and AVR.

Proposed New Schedule: This schedule captures capital gains and losses, then shows the allocation to IMR and AVR to get to the net capital gains and losses that should agree to the Summary of Operations. It is shown clean for review purposes. New columns are shaded. *(Note: Prior reporting lines identified "bonds exempt from US tax" – comments are requested on whether that line should be retained. It is only applicable to P/C entities.)*

	Realized Gains (Loss) on Sales or Maturity	Other Realized Adjustments	Total Realized Capital Gain (Loss)	Allocated to IMR	Allocated to AVR	Net Realized Capital Gains (Loss)	Change in Unrealized Capital Gain or Loss	Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. Bonds (Unaffiliated):								
2. Bonds (Affiliated):								
3. Preferred Stocks (Unaffiliated):								
4. Preferred Stock (Affiliated):								
5. Common Stock (Unaffiliated):								
6. Common Stock (Affiliated):								
7. Mortgage Loans								
8. Real Estate								
9. Contract Loans								
10. Cash, Cash Equivalents								
11. Short-Term Investments								
12. Derivative Instruments								
13. Other Invested Assets								
14. Aggregate Write-Ins for Capital Gains & Losses								
Total								
Detail of Write-Ins:								

The existing Exhibit of Capital Gains (Losses) is shown as a pic below. As shown, it separately captures U.S. Government Bonds and Bonds Exempt from US Tax (which applies only to property and casualty companies). If separate carve-outs are needed for these categories, then it would be recommended that they be captured as footnotes to the schedule so that the amounts reported agreed to the year-end disposal schedules. (If preferred, could separate lines by D-4 and D-5 so it is a direct crosscheck per schedule.)

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds					
1.1	Bonds exempt from U. S. tax					
1.2	Other bonds (unaffiliated)					
1.3	Bonds of affiliates					
2.1	Preferred stocks (unaffiliated)					
2.11	Preferred stocks of affiliates					
2.2	Common stocks (unaffiliated)					
2.21	Common stocks of affiliates					
3.	Mortgage loans					
4.	Real estate					
5.	Contract loans					
6.	Cash, cash equivalents and short-term investments					
7.	Derivative instruments					
8.	Other invested assets					
9.	Aggregate write-ins for capital gains (losses)					
10.	Total capital gains (losses)					
DETAILS OF WRITE-INS						
0901.						
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page					
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9 above)					

INTEREST MAINTENANCE RESERVE

Proposed New "Form for Calculating the Interest Maintenance Reserve"

New Rows are shaded and separate the adjustments to the reserve for transparency.

Note: Tracked Changes Below are from the ACLI

	Amount
1. Reserve as of December 31, prior year	
2a. Current year's realized pre-tax capital gains and losses of $_______ ~~(2.a)~~ transferred into the reserve net of taxes of $________ ~~(2.b)~~	
2b. Net realized losses removed from IMR as a result of failing the proof of reinvestment	
3. **IMR Balance before Adjustments and Amortization (Line 1 + Line 2a + Line 2b)**	
Adjustments to the Reserve:	
~~3~~4. Reinsurance Ceded – Subtraction ~~to~~ from Reserve	
~~4~~5. Reinsurance Assumed – Addition to Reserve	
~~5~~6. Market Value Adjustment: Gain – Addition to Reserve	
~~6~~7. Market Value Adjustment: Loss – Subtraction ~~to~~ from Reserve	
8. IMR Transferred In	
~~7~~9. Net Adjustment to Reserve *(Sum of ~~3-6~~4-8)*	
~~8~~10. Balance before reduction for current year amortization (Line ~~1 + 2 + 7~~3 + Line 9)	
~~9~~11. Current Year's Amortization ~~Released~~ Recognized ~~to~~ in Summary of Operations	
~~10~~12. Reserve as of December 31, current year	

Note – With the proposed change to the Exhibit of Capital and Gains, the amount reported in 2.a (gross transfer to IMR) should agree to the "Allocated to IMR" from that schedule. The amortization schedule is not expected to be revised. (It is shown below abbreviated for space purposes.)

Amortization

Year of Amortization	1 Reserve as of December 31, Prior Year	2 Current Year's Realized Capital Gains/(Losses) Transferred into the Reserve Net of Taxes	3 Adjustment for Current Year's Liability Gains/(Losses) Released From the Reserve	4 Balance Before Reduction for Current Year's Amortization (Cols. 1+2+3)
1. 2025				
2. 2026				
3. 2027				
4. 2028				
5. 2029				
6. 2030				
7. 2031				
8. 2032				
9. 2033				
10. 2034				
11. 2035				
12. 2036				
13. 2037				
14. 2038				
15. 2039				
16. 2040				
17. 2041				
18. 2042				
19. 2043				
20. 2044				
21. 2045				
22. 2046				
23. 2047				
24. 2048				
25. 2049				
26. 2050				
27. 2051				
28. 2052				
29. 2053				
30. 2054				
31. 2055 and Later				
32. Total (Lines 1 to 31)				

INTEREST MAINTENANCE RESERVE

Proposed Instructions – Shown Clean.

The prior ASI are proposed to be deleted. Any key reporting concepts will be brought in separately.

Note: Tracked Changes in this section are from the ACLI

This exhibit is designed to capture the realized capital gains (losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold pursuant to *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*.

These instructions cover the Interest Maintenance Reserve (IMR) for both the General Account and Separate Accounts. If an IMR is required for investments in a Separate Account, IMR recognition shall follow all rules applicable to the general account IMR. IMR in a Separate Account shall be kept separate from the General Accounts IMR and all other Separate Accounts.

Line 1 – Reserve as of December 31, Prior Year

Enter the amount from Line 6 of the prior year's schedule.

Line 2a – Current Year's Realized Pre-tax Capital Gains (Losses) of $______ Transferred into the Reserve Net of Taxes of $______

In accordance with SSAP No. 7, include interest-rate-related realized capital gains (losses) net of capital gains tax, using the federal marginal tax rate. in accordance with SSAP No. 7.

By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Line 2b – Net realized losses removed from IMR as a result of failing the proof of reinvestment, less ceded current year net negative IMR and net negative IMR resulting from assets transferred out

In accordance with SSAP No. 7, paragraph 19, reporting entities that fail the proof of reinvestment shall recognize realized losses to the extent they exceed realized gains. This amount must be reported as a positive value and reduced by the current-year generated net negative IMR ceded, as reported on line 4, and reduced by the net negative IMR resulting from assets transferred out in accordance with SSAP 56, paragraph 21(a).

Line 3 – Line 1 + Line 2a + Line 2b

Line ~~3~~4 – Adjustment for Reinsurance Ceded Released from the Reserve – Subtraction ~~to~~ from Reserve

Ceding Company means an insurer who has sold, transferred or reinsured a block of its in force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*. Pursuant to SSAP No. 7, amounts shall be removed from IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been eliminated. Amounts eliminated shall include:

- IMR from past sales attributed to a reinsured block of business. This includes remaining, unamortized interest related realized gains or losses taken to IMR from prior asset sales associated with the reinsured block of liabilities.

- IMR from current sales incurred, or from the transfer of assets to provide reinsurance premium. This includes the interest related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction. Such amounts shall be recognized initially to IMR and then derecognized as part of the reinsurance transaction.

Insurers ceding business under a modified coinsurance or ~~funds withheld~~FWH agreement shall follow the guidance in SSAP No. 7 for the immediate IMR derecognition or subsequent pass-through of IMR amortization in accordance with the reinsurance agreement. Insurers with immediate derecognition shall include the elimination of IMR in this line as a subtraction to the reserve.

Positive IMR amounts shall be input as negative values and negative IMR amounts shall be input as positive values.

Line ~~4~~5 – Adjustment for Reinsurance Ceded Assumed to the Reserve – Addition to Reserve

Ceding Company means an insurer who assumed a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*.

Pursuant to SSAP No. 7, a U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer, shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior assets sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions the ceding entity incurred to transfer the reinsurance obligation.

For insurers assuming business under a modified coinsurance or ~~funds withheld~~FWH agreement where the cedent is retaining the IMR shall not set up a corresponding IMR reserve.

Positive IMR amounts shall be input as positive values and negative IMR amounts shall be input as negative values.

Line ~~5~~6 – Market Value Adjustment: Gains – Addition to the Reserve

Gains, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. (Market value adjustments shall not be captured for separate account products held at fair value.)

Line ~~6~~7 – Market Value Adjustment: Losses – Subtraction ~~to~~ from the Reserve

Losses, net of marginal tax impact, recognized by the insurance reporting entity as a result of market value adjustments that were backed by fixed-income investments. (Market value adjustments shall not be captured for separate account products held at fair value.)

Line 8 – IMR Transferred In

For asset transfers pursuant to SSAP 56, paragraph 21(b), the purchasing account shall input positive IMR amounts as positive values and negative IMR amounts as negative values.

Line ~~7~~9 – Net Adjustment to the Reserve

Sum of adjustments reflected in lines ~~3-7~~4-8. This total shall be reflected in line 1, column 3 of the amortization schedule.

Line ~~8~~10 – Balance Before Reduction for Amortization

Beginning balance, plus current year IMR, plus net adjustments. (Line 3 + Line 9)

Line ~~9~~11 – Current year's amortization ~~released to~~recognized in the Summary of Operations

Amount should agree to line 1, column 4 of the amortization schedule.

For reporting entities that fail the proof of reinvestment and are required to recognize realized losses in excess of realized gains, the associated amortization shall be recorded as an adjustment to column 3 of the amortization schedule to eliminate such amortization.

Line ~~10~~12 – Reserve as of December 31, current year.

Sum of Line ~~8~~ 10 and Line ~~9~~11. Amount shall be reported on the corresponding line on the asset page (negative IMR) or on the liability page (positive IMR).

Admittance of negative IMR on the asset page shall be determined in accordance with SSAP No. 7.

AMORTIZATION

This supporting schedule calculates the amount of the Interest Maintenance Reserve to be amortized in each year.

Column 1 – Reserve as of December 31, Prior Year

Enter the amount from Column 4 of the prior year's schedule. Total should agree to the reserve as of December 31 of the prior year.

Column 2 – Current Year's Realized Capital Gains (Losses) Transferred into the Reserve Net of Taxes

After a realized capital gain (loss) has been captured in the IMR the Table 1 amortization chart shall be used using the expected remaining life to maturity of the sold asset generating IMR. Total should agree to Line 2 current year amount net of taxes taken to the IMR.

Pursuant to SSAP No. 7, amortization shall follow the standard "simplified" method by which the capital gains (losses), net of capital gains tax, are grouped according to the number of calendar years to expected maturity. The groupings will be in bands of five (5) calendar years, except that, investments with one (1) calendar year to expected maturity will be grouped separately from those with two (2) to five (5) calendar years to expected maturity.

Column 3 – Adjustment for Current Year's Liability Gains (Losses) Released or Added to the Reserve

Report the amortization impact from the net adjustments to IMR from reinsurance transactions and market value adjustments. Total reported shall equal the amount reported on line 7 of the IMR Form.

Column 4 – Balance Before Reduction for Current Year's Amortization (Col 1+2+3)

The current Grouped Amortization Schedule will be posted to the NAIC web site in July of each year.

TABLE 1

Grouped Amortization Schedules
for the Interest Maintenance Reserve
for 2025 Gains (Losses)
Interest Rate = 6.00%

Calendar Years to Maturity
*(Residential Mortgages)

Year-end	over 25	21-25	16-20	11-15 (21-30)	6-10 (11-20)	2-5 (3-10)	1 (1-2)	0 (0)
2025	0.7%	1.0%	1.6%	2.6%	5.0%	13.2%	49.3%	100.0%
2026	1.5%	2.2%	3.3%	5.5%	10.5%	27.6%	50.7%	
2027	1.6%	2.3%	3.5%	5.8%	11.1%	25.3%		
2028	1.6%	2.5%	3.8%	6.1%	11.8%	18.5%		
2029	1.8%	2.6%	3.9%	6.5%	12.5%	11.5%		
2030	1.9%	2.7%	4.2%	6.9%	13.3%	3.9%		
2031	2.0%	3.0%	4.5%	7.4%	12.4%			
2032	2.1%	3.1%	4.8%	7.8%	10.0%			
2033	2.3%	3.3%	5.0%	8.2%	7.3%			
2034	2.4%	3.5%	5.3%	8.8%	4.6%			
2035	2.5%	3.7%	5.7%	9.3%	1.5%			
2036	2.7%	3.9%	6.0%	8.7%				
2037	2.8%	4.2%	6.3%	7.0%				
2038	3.1%	4.4%	6.8%	5.1%				
2039	3.2%	4.7%	7.2%	3.2%				
2040	3.4%	5.0%	7.6%	1.1%				
2041	3.6%	5.3%	7.1%					
2042	3.8%	5.6%	5.7%					
2043	4.1%	5.9%	4.2%					
2044	4.3%	6.3%	2.6%					
2045	4.6%	6.7%	0.9%					
2046	4.8%	6.3%						
2047	5.2%	5.0%						
2048	5.4%	3.7 %						
2049	5.8%	2.3%						
2050	6.2%	0.8%						
2051	5.8%							
2052	4.6%							
2053	3.4%							
2054	2.1%							
2055	0.7%							
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Note: The years shown in parentheticals (highlighted in gray) are specific to residential mortgages.

NOTE 1: "Calendar Years to Expected Maturity" is defined in the preceding text. In the case of residential mortgages, where one-half the number of years to final maturity should be used, the parenthetical headings apply.

Expected Maturity Date

The presence of sinking fund payments, amortization schedules, expected prepayments, and adjustable interest rates complicate the determination of the number of calendar years to expected maturity. The expected maturity date is:

- For fixed income instruments with fixed contractual repayment dates and amounts (including bonds, redeemable preferred stock, callable or convertible bonds and preferred(s), the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or "yield to worst"). Potential retirement dates include all possible call dates, and the contractual maturity date. However, where a convertible bond or convertible preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock's current market price. When the instrument's contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life should be included in the analysis where average life is defined as the date at which the instrument is 50% repaid. For puttable instruments, where the exercise option rests with the investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For SVO Identified Funds designated for systematic value, the expected maturity is the weighted-average life of the underlying bonds. For perpetual instruments, the expected maturity is ~~30~~ 10years from the current date.

The guidance in *SSAP No. 26—Bonds* shall be followed in determining any capital gain or loss for called or tendered bonds. Under the yield-to-worst concept, bonds shall be amortized to the call or maturity date that produces the lowest value. In the event a bond has not been amortized to the lowest value prior to the call, the entire difference between the consideration received and the BACV shall be reported to investment income. As such, in such situations there shall be no capital gain or loss to allocated to the IMR. Similarly, there should be no amortization of any interest-related gain (loss) arising if a convertible bond or redeemable preferred stock is disposed of after the expected maturity date.

For purposes of the simplified grouped method, the following additional assumptions are applicable:

- For fixed income investments, other than residential mortgages and residential mortgage pass-throughs, without a maturity date or sinking fund schedule, a maturity date ~~30~~ 10 years from the current year should be used.

- For mortgage-backed/asset-backed securities, use the remaining weighted average life of principal and interest payments consistent with the prepayment assumptions determined for the investment pursuant to *SSAP No. 43—Asset-Backed Securities*.

NOTE: Amortization of current year gains (losses) should be based on prior year's amortization factors until the current year's table is published. Amortization of each year's gains (losses) for future years must be based on the amortization table applicable to that year (i.e., 2006 gains (losses) use the 2006 table, 2007 gains (losses) use the 2007 table, etc.). Refer to Grouped Amortization Schedule included in this section.

The following aspects are included in the ASI – but outside of the amortization section. NAIC staff is proposing to delete. Consideration should occur on whether they should be retained. (**Tracked Changes Below in Exposure.)**

- ~~Where the gain on a convertible bond or preferred stock sold while "in the money" is included in the IMR; the expected maturity date is defined as the next conversion date. "In the money" is defined to mean that the number of shares available currently or at next conversion date, multiplied by their current market price, is greater than the book/adjusted carrying value of the convertible asset. However, for a convertible bond or convertible preferred stock purchased while its conversion value exceeds its par value, any gain or (loss)~~

~~realized from its sale before conversion must be excluded from the IMR and included in the AVR. Conversion value is defined to mean the number of shares available currently or at next conversion date, multiplied by the stock's current market price.~~

- ~~Capital gains (losses) arising from counterparty default or the curing of a previous counterparty default should be separately identified and credited or charged to the bond and preferred stock component of the AVR.~~

- ~~Interest rate related gains (losses) associated with the cash component of a replication (synthetic asset) transaction should be amortized in the same manner as they would be in the absence of the replication (synthetic asset) transaction.~~

- ~~Interest rate related gains (losses) associated with the derivative component of a replication (synthetic asset) transaction that is not a swap of prospectively determined interest rates should be amortized as if they arose from the replicated asset.~~

- ~~Realized capital gains (losses) arising from a swap of prospectively determined interest rates constituting a component of a replication (synthetic asset) transaction should be credited or charged to the Interest Maintenance Reserve using the maturity bucket corresponding to the side of the transaction with the longest interest rate guarantee period.~~

Industry has proposed the following derivative guidance to replace what is currently included:

Note: Tracked Changes Below are from the ACLI

- ~~Capital gains (losses) arising from derivative counterparty default or the curing of a previous counterparty default should be separately identified and credited or charged to the bond and preferred stock component of the AVR.~~

For RSATs:

- Gains and losses associated with the cash component of an RSAT should be credited or charged to the IMR or AVR in accordance with *SSAP No. 86--Derivatives*.~~Interest rate related IMR gains and losses shall be amortized in the same manner as they would be in the absence of the RSAT.~~

- ~~Realized capital gains (losses) arising from the derivative component of an RSAT, where the derivative is valued at amortized cost~~IMR qualifying interest-related gains and losses on the derivative component of an RSAT, should be credited or charged to the ~~Interest Maintenance Reserve~~IMR, using the maturity bucket corresponding to the replicated asset life. IMR qualifying gains and losses on the cash component of an RSAT shall be amortized in the same manner as they would in the absence of the RSAT.

- ~~Realized capital gains (losses) arising from the derivative component of an RSAT, where the RSAT and/or derivative are valued at fair value, should be credited or charged to bond and preferred stock component of the AVR.~~

Amortization Example – Revisions Proposed:
These Revisions Were Proposed by the NAIC and in the Exposure – No ACLI Edits

The following is an illustration of the application of the rules governing the IMR treatment of reinsurance transactions for the ceding company.

We will make the following assumptions:

- A company has a block of business that it completely reinsures during 1993.
- The assets currently allocable to the block for investment income allocation purposes have a book/adjusted carrying value of $100 million and a ~~market~~ fair value of $110 million.
- Some of the assets backing the block were sold during 1992 generating an interest-rate related gain of $2 million before taxes and $1.32 million after capital gains taxes for which the IMR amortization is:

IMR Amortization of 1992 Capital Gains	
Year	Amortization ($ millions)
1992	0.202
1993	0.383
1994	0.310
1995	0.231
1996	0.144
1997	0.050
TOTAL	1.320

A portion of the original gain, $.202 million, was amortized in 1992, leaving $1.118 million to be amortized in 1993 and later.

- The company pays ~~a~~ consideration to the reinsurer of $105 million.
- The company sells assets allocable to the block with a book/adjusted carrying value of $80 million and a ~~market~~ fair value of $89 million to partially fund the payment to the reinsurer. This sale generates a taxable gain of $9 million resulting in the payment of $3.06 million in capital gains taxes. The after-tax gain from these 1993 sales is amortized as follows:

IMR Amortization of 1993 Capital Gains	
Year	Amortization ($ millions)
1993	0.261
1994	0.570
1995	0.618
1996	0.677
1997	0.743
1998	0.808
1999	0.772
2000	0.630
2001	0.469
2002	0.291
2003	0.101
TOTAL	5.940

- The remaining $19.06 million paid to the reinsurer is borrowed from other lines of business.

- ~~Assets with a book/adjusted carrying value of $20 million and a market value of $21 million from the original block of assets allocable to the line of business remain in the company's portfolio after the transaction is completed. If these assets were to be sold at the time of the reinsurance transaction, they would generate a before-tax capital gain of $1 million and an after-tax capital gain of $.66 million that would be amortized through the IMR as follows:~~

~~IMR Amortization of the Hypothetical Sale of the Remaining Assets Allocable to the Block~~	
~~Year~~	~~Amortization ($ millions)~~
~~1993~~	~~0.101~~
~~1994~~	~~0.191~~
~~1995~~	~~0.155~~
~~1996~~	~~0.116~~
~~1997~~	~~0.072~~
~~1998~~	~~0.025~~
~~TOTAL~~	~~0.660~~

~~Note that if these assets are actually sold at some point subsequent to the reinsurance transaction, the sale price would be different from the hypothetical price to the extent that interest rates had changed subsequent to the reinsurance transaction.~~

- ~~The block is big enough to exceed the materiality threshold.~~

In order to calculate the IMR amortization associated with the reinsurance of the liability, it is first necessary to determine the IMR amortization from past sales attributed to the reinsured block of business and current sales incurred or the transfer of assets to provide reinsurance premium. ~~, present and hypothetical asset sales of assets allocable to the block of business.~~

IMR Amortization					
	Asset ($ million)				Liability ($ million)
Year	Past (Included in P28 C1)	Present (Included in P28 C2)	~~Future~~	Total	Total (Included in P28 C3)
1993	.383	.261	~~.101~~	0.644	-0.644
1994	.310	.570	~~.191~~	0.88	-0.88
1995	.231	.618	~~.155~~	0.849	-0.849
1996	.144	.677	~~.116~~	0.821	-0.821
1997	.050	.743	~~.072~~	0.793	-0.793
1998		.808	~~.025~~	0.808	-0.808
1999		.772		0.772	-0.772
2000		.630		0.63	-0.63
2001		.469		0.469	-0.469
2002		.291		0.291	-0.291
2003		.101		0.101	-0.101
				~~0.745~~	~~-0.745~~

				~~1.071~~ ~~1.004~~ ~~0.937~~ ~~0.865~~ ~~0.833~~ ~~0.772~~ ~~0.630~~ ~~0.469~~ ~~0.291~~ ~~0.101~~	~~-1.071~~ ~~-1.004~~ ~~-0.937~~ ~~-0.865~~ ~~-0.833~~ ~~-0.772~~ ~~-0.630~~ ~~-0.469~~ ~~-0.291~~ ~~-0.101~~
TOTAL	1.118	5.940	~~0.660~~	7.058 ~~7.718~~	-7.058 ~~-7.718~~

The IMR amortization associated with the liability is displayed in the last column of the above table and it is simply the complement of the IMR amortization associated with the past sales attributed to the reinsured block of business and current sales incurred or the transfer of assets to provide reinsurance premium~~past, present and hypothetical future assets sales~~. The liability amortization should be entered in Column 3 of the IMR Amortization Worksheet of the Annual Statement of the ceding company. By definition the size of the interest-rate related gain is the total transferred to the IMR, -$7.058~~718~~ million, which should be included on Line 3 of the IMR worksheet of the ceding company as well as on the Aggregate Write-ins for Deductions on the Summary of Operations and Analysis of Operations by Lines of Business.

Reinsurance Assumed

"Assuming Company" means here the counterparty to the transactions described above for the ceding company.

Pursuant to SSAP No. 7, a U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding insurance entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions or asset transfers the ceding entity incurred to transfer the reinsurance obligation.

The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, if required. In the event the reinsurance transaction is unwound, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. If an assuming entity is not required to maintain IMR, and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date.

~~The assuming company must set up an IMR liability adjustment of the same magnitude but complementary to the adjustment recorded by the ceding company, subject to the following requirements:~~

~~1. Where the assuming company is required to set up a deferred profit liability or deferred loss asset and reflects zero gain (loss) at treaty date, e.g., as for assumption reinsurance, the assuming company must not set up an IMR liability adjustment. Regardless, for non-economic transactions with an affiliate, the assuming company must set up the IMR liability adjustment.~~

~~2. The assuming company may offset a positive IMR adjustment, but not below zero, with any excess of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.~~

~~3. The assuming company must increase a negative IMR adjustment, but not above zero, with any shortfall of policyholder reserves initially established by the assuming company over their re-computed values using maximum valuation interest rates based on the original issue dates of the reinsured policies.~~

~~To determine the offset of Item 2 or 3 above, the company would need to calculate policyholder reserves on both the reported and minimum bases as of each valuation date. In lieu of this, a reporting entity may determine the offset as of the treaty effective date, express this offset as a percentage of the IMR adjustment and then apply this same percentage reduction or increase to the IMR adjustment at all subsequent valuation dates. However, whichever method is used for the particular treaty must be consistently applied at all valuation dates.~~

~~In the case of subsequent reinsurance, the retroceding reporting entity has an IMR adjustment net of the offset of Item 2 or 3 above, whereas the IMR transferred over is gross of this offset. The new reinsurer would determine its own adjustment following Item 2 or 3 above.~~

~~Upon recapture or commutation of a reinsurance arrangement where the effective date of the original arrangement was January 1, 1999 or later, the reinsurer must follow the IMR rules for reinsurance ceded and the original insurer (company recapturing the business) must follow the IMR rules for reinsurance assumed, as set forth above, for the portion of business recaptured. Otherwise, no IMR adjustment is made.~~

~~Upon reinsurance assumed, recaptured or commuted from an alien insurer (i.e., not subject to IMR), an IMR liability adjustment is required only where the assuming company, or any of its affiliates, ever held the business and subsequently reinsured the business effective January 1, 1999 or later, and currently holds an unamortized IMR liability adjustment for the business. In this case, the new IMR liability adjustment must be set equal to the complement of the unamortized IMR liability adjustment(s) currently held for the business by the assuming company or by its affiliates. An affiliate may choose to hold the complementary offsetting amount if it holds the applicable unamortized IMR liability adjustment, otherwise, the complementary offsetting amount must be held by the assuming company.~~

Modco and ~~Funds Withheld~~FWH Reporting

Note: Exposed as New Section. All Changes in this Section Proposed by the ACLI

Pursuant to SSAP No. 7, for insurers ceding business under a modified coinsurance (modco) or funds withheld (FWH) reinsurance agreement, the accounting for the IMR depends on the terms of the reinsurance agreement.~~. The derecognition of IMR shall be included in the modco reserve or funds withheld liability embedded within ceded reserves~~.

For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, an insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. An insurer (ceding entity) shall continue to recognize and derecognize the IMR generated from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to the IMR with the offset to Reserve Adjustments on Reinsurance Ceded for Modco agreements or Aggregate Write-in for Deductions for FWH agreements.

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

Component	Cedent	Reinsurer	Reporting Notes
~~**Ceded Reserves / Reserve Credit**~~	~~Report net reserves on Page 3 – Aggregate Reserves. Include ceded amounts on reserve exhibits (e.g., Exhibit 5 - Life / Exhibit 7 - Annuity). Modco: Reduce reserve credit by modco deposit; FWH: Report with full ceded reserves netted, with separate funds held liability.~~	~~Page 3 shows aggregate reserves for assumed business. Assumed reserves reported in reserve exhibits.~~	~~Exhibits total to Page 3 Net Reserves. Schedule S Reserve Amounts Agree.~~
~~**Modco Deposit / Cedent Payable**~~	~~Embed with policy reserves on page 3 with disclosure in Notes & Schedule S. Represents amounts owed to reinsurer but retained as assets on the cedent's investment schedules. Amount shall include net IMR attributed to the Modco assets if IMR is retained by the cedent.~~	~~Report as asset (Modco/FWH receivable) on page 2. Reported asset is net of IMR owed from cedent if cedent retains IMR.~~	~~Modco deposit should agree to assets for reinsurer per the restricted asset disclosure.~~

~~**FWH Payable (FWH Liability)**~~	~~Report as liability – Funds held under reinsurance treaties / amounts withheld. (For P/C entities, ties to Schedule F.)~~	~~Report as asset – Funds withheld by ceding company.~~	~~Confirm FWH liability to reinsurer's receivable and to restricted asset disclosure.~~
Interest on Withheld Funds and Modco Deposits	Funds Withheld: Record interest credited to reinsurer as expense (Aggregate write-ins for deductions)~~ Interest on indebtedness / deductions)~~ and increase either the FWH Payable or Other Amounts Payable on Reinsurance Assumed and Ceded Reinsurance). Modco: Record interest credited to the reinsurer as an expense (Reserve adjustments on reinsurance ceded) and increase the Other amounts payable on reinsurance contracts.~~modco payable (embedded with policy reserves).~~	Funds Withheld: Record interest credited as income - (Aggregate write-ins for miscellaneous income) ~~Aggregate Write-In: Interest on Modco/FWH~~ and either the ~~increase Modco/~~FWH Receivable or Other Amounts Receivable Under Reinsurance Contracts Modco: Record interest as income (Aggregate write-ins for deductions) and increase Other amounts receivable under reinsurance contracts.	Agree to Treaty settlement calculations and disclose in Schedule ~~S & F~~S.
Realized Capital Gains/Losses on Assets Supporting Reinsurance Treaty. (Asset supporting treaty has been sold or incurred OTTI.) and the treaty cedes RCGL gross of IMR	The cedent will record the gross~~Record~~ realized gains/losses on invested asset schedules with allocation to IMR (Life) pursuant to SSAP No. 7. ~~Increase FWH/Modco Payables. (Modco payable embedded in policy reserves.)~~ **Funds Withheld:** The gross realized gains / losses (before consideration of amounts deferred to IMR or any IMR amortization) is recorded as part of the FWH interest credited reported in Aggregate write-ins for deductions, with an offset to either the FWH Payable or Other Amounts Payable on Assumed and Ceded Reinsurance. The IMR is handled separately, refer to "IMR Transfer" below. **Modco**: The gross realized gains / losses (before consideration of amounts deferred to IMR or any IMR amortization) is recorded as part of the Reserve adjustments on reinsurance ceded) and offset to other amounts receivable/payable on reinsurance ceded. The IMR is handled separately, refer to "IMR Transfer" below.	Recognize gains/loss as increase in FWH / Modco Receivable. **Funds Withheld**: The gross realized gains / losses (before consideration of amounts deferred to IMR or any IMR amortization) is recorded as part of the FWH interest credited reported in Aggregate write-ins for miscellaneous income, with an offset to either the FwH Receivable or Other Amounts Receivable Under Reinsurance Contracts. The IMR is handled separately, refer to "IMR Transfer" below. **Modco:** The gross realized gains / losses (before consideration of amounts deferred to IMR or any IMR amortization) is recorded as part of the reserve adjustment on reinsurance assumed recorded in	Reconcile to treaty settlement statements and the FWH/Modco Payable/Receivable Roll forward.

		Aggregate write-ins for deductions and offset to Other amounts receivable/payable under reinsurance contracts on Assumed Reinsurance. The IMR is handled separately, refer to "IMR Transfer" below.	
Realized Capital Gains/Losses on Assets Supporting Reinsurance Treaty. (Asset supporting treaty has been sold or incurred OTTI.) and the treaty cedes RCGL net of IMR	The cedent will record the gross realized gains/losses on invested asset schedules with allocation to IMR (Life) pursuant to SSAP No. 7 **Funds Withheld**: The net realized gains / losses (the realized gains / losses netted with amounts deferred to IMR or any IMR amortization) is recorded as part of the FWH interest credited reported in Aggregate write-ins for deductions, with an offset to either the FwH Payable or Other Amounts Payable on Assumed and Ceded Reinsurance. **Modco**: The net realized gains / losses (the realized gains / losses netted with amounts deferred to IMR or any IMR amortization) is recorded as part of the Reserve adjustments on reinsurance ceded) and offset to other amounts receivable/payable on reinsurance ceded.	**Funds Withheld**: The net realized gains / losses (the realized gains / losses netted with amounts deferred to IMR or any IMR amortization) is recorded as part of the FWH interest credited reported in Aggregate write-ins for miscellaneous income, with an offset to either the FwH Receivable or Other Amounts Receivable Under Reinsurance Contracts. **Modco:** The net realized gains / losses (the realized gains / losses netted with amounts deferred to IMR or any IMR amortization) is recorded as part of the reserve adjustment on reinsurance assumed recorded in Aggregate write-ins for deductions and offset to Other amounts receivable/payable under reinsurance contracts on Assumed Reinsurance.	

IMR Balance (Ending)	If cedent retains IMR for Modco/FWH assets, the IMR balance (page 3) shall include IMR-qualifying interest-related gains/losses on the allocated Modco/FWH assets. If cedent holds IMR, amortization is recognized as income over time (reducing IMR liability). If the cedent fully transfers IMR, the entity shall reduce the Modco Deposit / Payable. If the cedent cedes the IMR liability (e.g. passes realized gains and losses gross of IMR amortization): Funds withheld: The IMR associated with the FWH assets has been removed from the cedent's balance sheet, as such, it is not reported in future periods and there is no amortization recorded with respect to the IMR on the FWH assets. Refer to "IMR Transfer" below for how the transfer of this IMR is recorded. Modco: The IMR associated with the Modco assets has been removed from the cedent's balance sheet, as such, it is not reported in future periods and there is no amortization recorded with respect to the IMR on the Modco assets. Refer to "IMR Transfer" below for how the transfer of this IMR is recorded.	If cedent retains IMR, the IMR on the Modco/FwH assets will not be included in the reinsurer's IMR balance If cedent transfers the IMR balance allocated to Modco/FWH assets retained by the cedent, a U.S. reinsurer's IMR balance (page 3) shall reflect the IMR transferred ~~as well as qualifying interest-related gains/losses incurred on those assets~~. If reinsurer holds IMR, amortization is recognized as income over time (reducing IMR liability).	Only one party (cedent or reinsurer) shall hold IMR related to the Modco/FWH assets. It is an election for the cedent to transfer IMR fully or to retain IMR and transfer the IMR amortization as incurred to the reinsurer.
IMR Transfer	The IMR is only transferred in treaties where realized gains / losses are passed through gross of IMR deferrals and amortization. If cedent retains IMR for Modco/FWH assets, refer to the section "Realized Capital Gains/Losses on Assets Supporting Reinsurance Treaty. (Asset supporting treaty has been sold or incurred OTTI.) and the treaty cedes RCGL net of IMR" above. **Funds Withheld & Modco:** The cedent transfers the realized gains / losses deferred to IMR in the current period to the Reinsurer as a direct adjustment to IMR (through line [3] of the Form for Calculating the Interest Maintenance Reserve) with an offset to Aggregate write-ins for deductions. As the IMR associated with the treaty has been ceded and removed from the cedent's balance	~~If cedent retains IMR, amortization of the allocated IMR shall impact the reinsurer's Modco/FWH receivable shown on page 2~~. The IMR is only transferred in treaties where realized gains / losses are passed through gross of IMR deferrals and amortization. If cedent retains IMR for Modco/FWH assets, refer to the section "Realized Capital Gains/Losses on Assets Supporting Reinsurance Treaty. (Asset supporting treaty has been sold or incurred OTTI.) and the treaty cedes RCGL net of IMR" above.	For cedent, impacts IMR Analysis (Transfer Detail), reported IMR balance and Modco Deposit Payable embedded in Policy Reserves. For reinsurer, Impacts Modco / FWH Receivable.

	sheet there will be no future amortization of the ceded IMR on the cedent's balance sheet ~~If cedent retains IMR for Modco/FWH assets, amortization of the allocated IMR shall be included as an adjustment to the Modco Deposit / Payable embedded with policy reserves or the FWH Payable.~~	**Funds Withheld and Modco**: The Reinsurer records the assumed IMR as a direct adjustment to IMR (through line [3] of the Form for Calculating the Interest Maintenance Reserve) with an offset to Aggregate write-ins for deductions. In future periods the IMR assumed will be amortized through "Amortization of Interest Maintenance Reserve."	
Terminations, Including Recapture and Commutations	Eliminate ceded reinsurance balances. ~~Restore reserves, settle withheld payable.~~ If IMR had been fully transferred, reinstate unamortized IMR. If IMR had been retained, future IMR ~~eliminate allocation of~~ amortization will no longer be ceded. ~~to Modco Deposit/Payable.~~	Eliminate assumed ~~reserves and receivable~~balances. ~~Recognize commutation gain/loss.~~ If reinsurer holds IMR, provide information on unamortized IMR back to the cedent for re-recognition.	Eliminate impacted reinsurance balances. ~~Any resulting gain/loss shall be recognized as a net realized capital gain or loss.~~