

Statutory Accounting Principles (E) Working Group
2026 Summer National Meeting
ACLI Proposed Edits to IMR Exposure Documents

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
ACLI Proposed Edits for Interest Maintenance Reserve Exposure Documents	
Statement of Statutory Accounting Principles No. 7—Asset Valuation Reserve and Interest Maintenance Reserve – Proposed Revisions - (All Tracked Edits Proposed by ACLI)	1-12
SSAP No. 7 Issue Paper Draft – (All Tracked Edits Proposed by ACLI)	13-54
IMR Issue Paper – Proposed Revisions to Other SSAPs – (ACLI Edits Shaded in Yellow)	55-71
IMR Proposed Reporting Revisions – (Specific Sections Identify ACLI Proposed Edits)	72-91

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

STATUS	1
SCOPE OF STATEMENT	1
SUMMARY CONCLUSION	2
Asset Valuation Reserve	2
Interest Maintenance Reserve.....	3
Adjustments – Market Value Adjustments	4
Amortization	5
Net Negative IMR Recognition Restrictions.....	5
Adjustments – Ceded and Assumed Reinsurance	6
Admittance.....	8
Disclosures	9
Effective Date and Transition.....	11
REFERENCES	12
Relevant Issue Papers	12

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 statement¹. (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 designations², 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 cost³.
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 incurred⁴. (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 year⁵. 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 maturity⁶ 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 account⁷ 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 disclosures⁸ 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 schedule⁹ 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****STATUS****Exposure Draft – 4.20.26****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.

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. 7¹. (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 ~~defers~~ and ~~amortizes~~ 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.

Interest Maintenance Reserve

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 designations³, 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 incurred⁴. (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 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. (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 is 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](#).

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 category⁵ 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 year⁶. 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 Premium⁷: 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 recognized⁸ 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-than-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 maturity⁹ 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 account¹⁰ 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 disclosures¹¹ 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.

account¹² 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 admitted¹³ 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 termination¹⁴ 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 schedule¹⁶ 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 IMR¹⁸. 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 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 on 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
67	Sum of lines 4 + 5 less line 6	Total proceeds from Fixed Income Investments Sold	4341,692,000
78	CF Stmt - Row 1	Premiums collected net of reinsurance	52,020,000
89	CF Stmt - Row 7	Commissions, expenses paid and aggregate write-ins for deductions	11,062,000
910	Annual Statement - Note 35 Separate Account	Total premiums, considerations or deposits as of the end of current period	15,000,000
1011	Internal Systems	Assets in kind received in line 9 above	3,000,000
1112	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
1213	Line 7-8 - line 8-9 - line 9-10 + line 10-11 - line 11-12	Investable Premiums Before Other Investment Adjustment	23,958,000
1314	B/S - Row 1	Bonds - Net Admitted	130,000,000
1415	B/S - Row 3.1	First Lien Mortgages - Net Admitted	20,000,000
1516	B/S - Row 3.2	Other than First Lien Mortgages - Net Admitted	10,000,000
1617	Sum of lines 1314 , 1415 , & 1516	Investments Subject to Proof of Reinvestment	160,000,000
1718	B/S - Row 12	Subtotal, Cash and Invested Assets	200,000,000
1819	Line 17-18 - Line 1617	Allocation for Investment for Other Assets	40,000,000
1920	Line 18-19 Divided by Line 1718	Percent of Investable Premiums Allocable to Equity and Other Investments	20%
2021	Line 12-13 multiplied by Line 1920	Investable Premium Adjustment	4,791,600
2122	Line 12-13 - Line 2021	Investable Premiums	19,166,400
2223	Line 3 - line 6-7 - line 2122	Investments Purchased less Investments Sold and Investable Premiums	5456,378,600
2324	Internal Systems	Weighted average yield of fixed income investments purchased (as reported on line 3) during the year	4.57%
2425	Internal Systems	Weighted average yield of fixed income investments sold (as reported on line 67) during the year	3.96%
2526	Line 23-24 - line 2425	Increase (decrease) of yield of purchased fixed income investment yield over those disposed	0.61%
		Sufficient evidence of reinvestment of fixed income investments	

Interest Maintenance Reserve

Attachment 2.9

IP No. XX

26 <u>27</u>	Test 1	Is line 22 <u>23</u> positive?	Yes
27 <u>28</u>	Test 2	Is line 25 <u>26</u> positive?	Yes
	If lines 26 <u>27</u> & 27 <u>28</u> 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.

323. 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[†]. 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~~

[†] 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, if 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.

SSAP No. 101—Income Taxes:

- 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

	<u>Amount</u>
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)	
<i>Adjustments to the Reserve:</i>	
3 4. Reinsurance Ceded – Subtraction to from Reserve	
45. 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 (<i>Sum of 3-6 4-8</i>)	
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 34 – 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 45 – 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 ~~56~~ – 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 ~~67~~ – 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 ~~79~~ – Net Adjustment to the Reserve

Sum of adjustments reflected in lines ~~3-74~~-8. This total shall be reflected in line 1, column 3 of the amortization schedule.

Line ~~810~~ – Balance Before Reduction for Amortization

Beginning balance, plus current year IMR, plus net adjustments. (Line 3 + Line 9)

Line ~~911~~ – 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~~10 years 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	<u>0.644</u>	<u>-0.644</u>
1994	.310	.570	.191	<u>0.88</u>	<u>-0.88</u>
1995	.231	.618	.155	<u>0.849</u>	<u>-0.849</u>
1996	.144	.677	.116	<u>0.821</u>	<u>-0.821</u>
1997	.050	.743	.072	<u>0.793</u>	<u>-0.793</u>
1998		.808	.025	<u>0.808</u>	<u>-0.808</u>
1999		.772		<u>0.772</u>	<u>-0.772</u>
2000		.630		<u>0.63</u>	<u>-0.63</u>
2001		.469		<u>0.469</u>	<u>-0.469</u>
2002		.291		<u>0.291</u>	<u>-0.291</u>
2003		.101		<u>0.101</u>	<u>-0.101</u>
				<u>0.745</u>	<u>-0.745</u>

				1.071	-1.071
				1.004	-1.004
				0.937	-0.937
				0.865	-0.865
				0.833	-0.833
				0.772	-0.772
				0.630	-0.630
				0.469	-0.469
				0.291	-0.291
				0.101	-0.101
TOTAL	1.118	5.940	0.660	7.058	-7.058
				7.718	-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.

<u>Component</u>	<u>Cedent</u>	<u>Reinsurer</u>	<u>Reporting Notes</u>
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.

<u>FWH Payable (FWH Liability)</u>	<u>Report as liability—Funds held under reinsurance treaties / amounts withheld. (For P/C entities, ties to Schedule F.)</u>	<u>Report as asset—Funds withheld by ceding company.</u>	<u>Confirm FWH liability to reinsurer's receivable and to restricted asset disclosure.</u>
<u>Interest on Withheld Funds and Modco Deposits</u>	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.	<u>Agree to Treaty settlement calculations and disclose in Schedule S & FS.</u>
<u>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</u>	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	<u>Reconcile to treaty settlement statements and the FWH/Modco Payable/Receivable Roll forward.</u>

		<u>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.</u>	
<u>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</u>	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.	

<u>IMR Balance (Ending)</u>	<u>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.</u> <u>If the cedent cedes the IMR liability (e.g. passes realized gains and losses gross of IMR amortization):</u> <u>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.</u> <u>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.</u>	<u>If cedent retains IMR, the IMR on the Modco/FWH assets will not be included in the reinsurer's IMR balance</u> <u>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).</u>	<u>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.</u>
<u>IMR Transfer</u>	<u>The IMR is only transferred in treaties where realized gains / losses are passed through gross of IMR deferrals and amortization.</u> <u>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.</u> <u>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</u>	<u>If cedent retains IMR, amortization of the allocated IMR shall impact the reinsurer's Modco/FWH receivable shown on page 2.</u> <u>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.</u>	<u>For cedent, impacts IMR Analysis (Transfer Detail), reported IMR balance and Modco Deposit Payable embedded in Policy Reserves. For reinsurer, Impacts Modco / FWH Receivable.</u>

	<u>sheet there will be no future amortization of the ceded IMR on the cedent's balance sheet</u> <u>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.</u>	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	<u>Eliminate ceded reinsurance balances. Restore reserves, settle withheld payable.</u> <u>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.</u>	<u>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.</u>	<u>Eliminate impacted reinsurance balances. Any resulting gain/loss shall be recognized as a net realized capital gain or loss.</u>