

Statement of Statutory Accounting Principles (SSAP) 109: Asset Liability Management Derivatives

Presentation to NAIC Life Actuarial Task Force (LATF)

October 29, 2026

About the Academy

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Agenda

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- Background—What Is SSAP 109?
- Comparison Table—SSAP 86 vs. SSAP 108 vs. SSAP 109
- Concept of “Macro Hedge”
- Requirements & Regulatory Guardrails
- Determination of “Highly Effective Hedge”
- Actuarial Considerations
- Reinsurance Block Transactions and Cherry-Picking Concerns
- Next Steps—LATF Pilot, Comment Letter
- Appendix A—Definition of Duration and DV01
- Appendix B—Background on Asset Liability Derivatives (ALM) Derivative Usage

Background

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- SSAP 109 covers ALM derivatives that do not currently fall under SSAP 86 (accounting-effective) nor SSAP 108 (variable annuity guarantees)
- Sunsetting INT 23-01 (Net Negative (Disallowed) Interest Maintenance Reserve (IMR)0
- Supports use of derivatives for ALM risk management purposes by:
 - 1) book value accounting (instead of mark-to-market) and
 - 2) realized gains/(losses) amortized through IMR

SSAP 86 vs. SSAP 108 vs. SSAP 109

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	SSAP 86	SSAP 108	SSAP 109
Scope	All derivatives	VA GMxB-related hedges	ALM hedges
Description	Defines how derivatives are classified and accounted for (hedge accounting or mark-to-market)	Allows for deferral and amortization of <i>qualifying</i> realized gains or losses	Allows for accounting of highly effective hedging instruments to be consistent with underlying hedged instrument
Impact	"Micro-hedge" derivatives that receive hedge accounting are not subject to mark-to-market accounting, rather are held at amortized cost	Lowers surplus volatility for utilization of qualifying effective VA hedges	Lowers surplus volatility for highly effective ALM "macro hedges"
Need for CDHS?	No, but requires hedge effectiveness testing	Yes	Yes

SSAP 86 Example: Use an interest rate swap to convert a fixed-rate bond's cash flow to a floating rate. Swap would be accounted for same as bond under Statutory accounting. Both bond and swap would be on balance sheet at amortized cost, not market value.

Concept of “Macro Hedge”

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- A “micro hedge” hedges a single instrument—like a bond
- A “macro hedge” hedges a portfolio of investments or liabilities
 - Cash flow hedges not allowed, only hedges lowering ALM risk when measuring interest rate sensitivity (e.g., duration, DV01)

Requirements and Regulatory Guardrails

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- “Highly effective hedge”
- Clearly Defined Hedging Strategy (CDHS)—pre-approval requirement
- Executive sign-off, similar to SSAP 108

Determination of “Highly Effective Hedge” Starting Point

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Item	Size	Duration	DV01 = size*duration/10,000
Asset Portfolio	\$100M market value	6.0	\$60,000
Liabilities	\$100M fair value	7.0	\$70,000
Hedge	\$15M notional / \$0 market	7.0	\$10,500

- Hedge objective is to close the gap between asset and liability DV01
- Does this hedge position achieve the 80/125% hedge effectiveness test?
 - Yes, shortfall is \$(10,000) of DV01. Hedge DV01 of \$10,500 is within 80-125% of hedge objective ($\$10,500/\$10,000 = 105\%$).

Determination of “Highly Effective Hedge” Post-shock of Interest Rates Decrease 100 bps

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Item	Size	Duration	DV01 = size*duration/10,000
Asset Portfolio	\$106.05M market value	6.1	\$64,691
Liabilities	\$107.13M fair value	7.25	\$77,666
Hedge	\$15M notional/\$1.07M market	7.25	\$10,875

- Hedge objective is to close the gap between asset and liability DV01
- Does this hedge position achieve the 80/125% hedge effectiveness test?
 - Yes, shortfall is \$(12,975) of DV01. Hedge DV01 of \$10,875 is within 80-125% of hedge objective ($\$10,875/\$12,975 = 83.8\%$).
 - Hedge remains accounted for on a consistent basis as bond—amortized cost.
- If hedge is unwound (sold), then \$1.07M of market value is incorporated into IMR subject to a 10-year cap on length of amortization period.

Determination of “Highly Effective Hedge” Post-shock of Interest Rates Decrease 200 bps

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Item	Size	Duration	DV01 = size*duration/10,000
Asset Portfolio	\$112.20M market value	6.2	\$69,564
Liabilities	\$114.50M fair value	7.5	\$85,875
Hedge	\$15M notional/\$2.18M market	7.5	\$11,250

- Hedge objective is to close the gap between asset and liability DV01
- Does this hedge position achieve the 80/125% hedge effectiveness test?
 - No, shortfall is \$(16,311) of DV01. Hedge DV01 of \$11,250 is not within 80-125% of hedge objective ($\$11,250 / \$16,311 = 69.0\%$).
 - Hedge is no longer effective and if not rebalanced to remain effective, then no longer eligible to be accounted for under SSAP 109 and hedge is immediately valued at market value instead of amortized cost.

A rates-up scenario has a similar but opposite effect: The DV01 gap narrows, hedge can become over-hedged (> 125%).

Actuarial Considerations

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- Inclusion in Asset Adequacy Testing, particularly Cash Flow Testing (CFT)
 - SSAP 109 is expected to produce more stability in CFT surplus projections:
 - on a projection year basis within a scenario
 - across different interest rate paths
 - from one annual report to the next
 - Cash Flow Testing projections must incorporate IMR amortization schedules of SSAP 109 derivative gains/losses
- Principles-Based Reserve (PBR) Impact
 - Expected to lower PBR levels since reduces ALM risk
 - Reduces PBR volatility due to interest rate changes since market value of hedges less directly reflected in PBR mechanics

Reinsurance Transactions and Cherry-Picking Concerns

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- Block Reinsurance Transactions
 - If the underlying liabilities are derecognized (e.g., traditional coinsurance), the associated deferred derivative gains/losses are immediately recognized.
 - *Open Question:* application to structures where statutory derecognition may not occur strictly and statutory assets/liabilities remain on the ceding company's balance sheet (e.g., Coinsurance Funds Withheld, Modco).
- Cherry-Picking Concerns
 - Concerns on selectively unwinding hedges to artificially accelerate gains
 - SSAP 109 can tie amortization schedules to tenor of the hedge (this is our recommendation, not the current exposure: 10-year cap)

Next Steps

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LATF Pilot

- Pilot will run into 1Q27

Comment Letter

- The Academy expects to submit a comment letter on or before the Oct. 30, 2026, deadline with a number of comments and recommendations

Appendix A: Key Definitions

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- Duration—Relative price sensitivity to a 100-basis point (1.00%) change in interest rates; can be calculated on a modified, Macaulay, effective, and/or key rate duration
- DV01—Absolute price sensitivity of an instrument to a 1 basis point (0.01%) change in interest rates; is usually determined on an effective basis

Background—Why are ALM derivatives utilized?

- High-level adjustments of portfolio-level mismatches (e.g., updated liability assumptions changed liability duration, use ALM hedges to better match revised liability cash flow expectations)
- Ability to manage reinvestment risk for long-dated liability cash flows (e.g., Pension Risk Transfer-PRT) where some cash flows are beyond the investible horizon (e.g., 30 years in the US is generally accepted definition of the horizon)

Questions?

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