October 29, 2026

Rachel Hemphill
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: SSAP No. 109 – October 1, 2026 SAPWG Presentation to LATF

Dear Chair Hemphill:

On behalf of the American Academy of Actuaries'[1] Life Investment Analysis Subcommittee (Subcommittee), we appreciate the opportunity to provide comments in response to the Oct.1, 2026 presentation made by Kevin Clark, Chair of the NAIC Statutory Accounting Principles (E) Working Group, regarding the Exposure Draft of SSAP No. 109—Asset Liability Management (ALM) Derivatives and the related draft Statutory Issue Paper 1XX.

The Academy supports the objectives of SSAP 109. We would like to offer the following considerations on the implementation of SSAP 109. Our comments focus on five areas: refining the accepted interest rate sensitivity metrics used to test hedge effectiveness to focus on absolute measures such as DV01 and effective dollar-duration; adjusting the hedge effectiveness tests to better align with industry practices; permitting option-based hedges; not capping the amortization period; and clarifying reinsurance treatment under SSAP 109.

1. Interest Rate Sensitivity Metrics

In the current draft, SSAP 109 defines three interest rate sensitivity metrics that are allowed as part of determining whether a program is highly effective. The Subcommittee offers three refinements for consideration in this section. First, interest rate sensitivities must take into account interest rate sensitivity on an absolute and not a relative basis. Additionally, interest rate sensitivities should be based on effective measures and not static measures. Finally, the SSAP should encourage the use of more rigorous and comprehensive interest rate risk metrics.

Relative vs. Absolute

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Both modified and Macaulay duration are relative measures of interest rate sensitivity. The duration of two portfolios or instruments can only be directly compared if the two are of the same size (e.g., market value). Otherwise, the size difference between the two can skew the resulting interest rate sensitivity comparison. For example, $1 billion of assets and $500 million of liabilities that each have a duration of 5 would appear matched, yet the assets would gain or lose twice as much value as the liabilities for the same change in rates. Relative measures can also be unstable for derivatives: an interest rate swap typically has a market value near zero, so its duration can be very large or undefined even though its dollar sensitivity is well-behaved.

Static vs. Effective

Both modified and Macaulay duration assume that the cash flows being evaluated are fixed and do not change based on interest rates. Neither is an appropriate measures of price sensitivity for assets or liabilities with any embedded optionality or floating-rate coupons. Effective duration—

a direct measure of change in price of an asset relative to changes in interest rates—is a more appropriate metric for assets and liabilities with path-dependent cash flows. Note that for instruments with non-path dependent cash flows, effective, modified, and Macaulay duration are very similar in magnitude.

Recommended: DV01 or Effective Dollar-Duration

The Subcommittee recommends that only DV01 or effective dollar-duration (EDD) be allowed as interest rate sensitivity metrics for the hedge effectiveness test. DV01 combines the relative interest rate sensitivity of effective duration with a size component (generally market or fair value) to create an absolute interest rate sensitivity that is a more appropriate metric for measuring hedge effectiveness. A similar metric is EDD. The key difference between DV01 and EDD is that DV01 is the dollar value change for a 1-basis point (0.01%) change in the discount rate, while EDD is the dollar value change to a 100-basis point (1.00%) change in interest rates.

Additional Support of Hedge Effectiveness Testing

While DV01 and EDD would be the minimum standards for determining hedge effectiveness under SSAP 109, an insurer employing a strong ALM program will use additional metrics to monitor and define their ALM strategy and practices. These additional metrics can supplement and validate hedge effectiveness under SSAP 109.

Second-order interest rate sensitivities, such as effective dollar-convexity, can illustrate and help a company monitor their interest rate sensitivity to larger interest rate movements. Partial or key-rate metrics measure interest rate sensitivity to different portions of a yield curve. It is important to note that the sum of a complete set of partial or key rate sensitivities is largely equivalent to the result of shifting the entire yield curve.

The Subcommittee recommends that the guidance encourage the use of convexity metrics and ongoing scenario-based sensitivity testing to demonstrate hedge effectiveness, particularly when

the designated portfolios contain embedded optionality or instruments with highly nonlinear price sensitivities.

2. Hedge Effectiveness Tests—Alternative

The draft exposure allows for a single interest rate sensitivity—the interest rate sensitivity gap between the asset portfolio and the liabilities associated with those assets. This metric is not consistent with how most insurers manage their first-order interest rate sensitivity. Most insurers target a combined asset plus hedge interest rate sensitivity and compare that against the liabilities. The example below illustrates this approach:

Hedge Target: Interest rate sensitivity of assets + hedge equals that of the liability.

Item	Fair / Market / Notional Value	Effective Duration	Effective Dollar-Duration (EDD)[1]
Asset	500	5	2,500
Hedge	50	7	350
Total: Asset + Hedge			**2,850**
Liability	**525**	**6**	**3,150**

[1]Note that EDD = Market Value * Effective Duration

In this example, the hedge effectiveness test, if defined as the ratio of EDD (asset + hedges) vs. EDD (liability), would be 90.5% (2,850/3,150), well within the 80-125% range. However, under the currently proposed test, the hedge EDD (350) would only be 54% (350/650) of the interest sensitivity difference.

While the Subcommittee is comfortable that the proposed effectiveness test could be utilized in some cases, this alternative approach provides a more complete picture of a company's risk management.

A secondary benefit of this alternative approach is that it avoids a mathematical issue inherent in the proposed corridor test: the 80% to 125% corridor measures the derivatives against the DV01 difference between liabilities and non-derivative assets. When that difference is near zero, the denominator approaches zero, and de minimis differences could cause hedge effectiveness failures even when total asset and liability durations are tightly matched.

If a gap-based test is retained, we recommend that LATF consider adding a minimum absolute tolerance, so that near-zero duration differences do not trigger failures when the overall asset-liability match remains within a reasonable range.

3. Excluding Options

From a risk management perspective, there is no conceptual basis for restricting derivatives to linear instruments and excluding caps, floors, swaptions, and other options. In many cases where liabilities and/or assets contain embedded options, utilizing only option-based ALM derivatives or a combination of linear ALM hedges along with option-based hedges would provide a more

robust ALM risk management program than a dynamically rebalanced approach, which is the only type of program under consideration under SSAP 109.

Option-based hedges are common derivative instruments that may be appropriate for managing interest rate risk. The market value fluctuations during the life of an option may cause the same surplus distortions and period-to-period surplus volatility that SSAP 109 is intended to address. For example, if rates drop and the market value of the option increases while the liability remains unchanged, not deferring the MV gain would allow surplus to increase and potentially overstate a company's financial strength. Although the maximum potential loss is ultimately limited to the option premium, period-to-period market value and surplus fluctuations may exceed the premium (e.g., a large increase in market value from lower interest rates could easily be reversed if interest rates were to subsequently increase).

One potential approach to addressing concerns around deferring premiums and not just interest rate-related changes could be addressed by explicitly excluding the premium from any deferrals.

4. Amortization Cap

The current exposure proposes a 10-year cap on the amortization period for deferred derivative gains and losses. Imposing a strict 10-year limit can create an artificial timing mismatch for life insurance, annuity, and other related liabilities, which frequently have cash flows well beyond 10 years. Forcing the offsetting hedge to amortize over a shorter timeframe is not consistent with a company's actual risk management strategy. Therefore, we recommend permitting the amortization period to align with the remaining life of the hedge, rather than being restricted by the proposed 10-year cap.

This approach is conceptually consistent with the treatment of bonds and IMR. The realized capital gain/(loss) is generally amortized over the remaining maturity of that bond. A 30-year bond purchased five years ago and subsequently sold at a gain would have that gain amortized through IMR over a 25-year period.

5. Treatment of Block Reinsurance Transactions

We recommend further clarification regarding the treatment of deferred derivative gains and losses in the context of block reinsurance transactions. The exposed draft indicates that if the underlying hedged liabilities are derecognized, the associated deferred derivative balances must be immediately recognized as income. While this aligns with standard IMR principles for traditional coinsurance, the guidance does not address varying reinsurance structures where statutory derecognition may not occur strictly, such as Coinsurance with Funds Withheld or Modified Coinsurance (Modco). In these structures, while the underlying interest rate risk is transferred to the reinsurer, the designated statutory assets and/or liabilities often remain on the ceding company's balance sheet. It is felt that the reinsurer could maintain the hedge position(s) and strategy as the cedant previously. The insurer would have the same amortized cost accounting treatment for the investments post-cession. The Subcommittee sees a parallel for a

derivative hedge strategy supporting those same assets and liabilities under a Modco or Coinsurance with Funds Withheld structure and sees a logical parallel that the derivatives continue their cost treatment as long as they are considered hedge effective under SSAP 109. We recommend that the guidance explicitly clarify how the immediate recognition provision and ongoing hedge effectiveness testing apply to these different reinsurance structures to ensure consistent application.

As you continue to move forward with these efforts, the Subcommittee would be happy to present and answer any questions attendees may have.

If you have any questions or would like to discuss these comments further, please contact Marie Fabienne Amisial (Amisial@actuary.org), the Academy's policy project manager, life.

Sincerely,

David Bulin, MAAA, FSA
Interim Chairperson, Life Investment Analysis Subcommittee
American Academy of Actuaries