

**Statutory Accounting Principles (E) Working Group
Hearing Agenda
May 15, 2024**

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver/Steve Mayhew	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis/Richard Russell	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/Jennifer Blizzard	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

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

Note: This meeting will be recorded for subsequent use.

HEARING - REVIEW of COMMENTS on EXPOSED ITEMS with APRIL COMMENT DEADLINES

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

1. Ref #2023-16: Schedule BA Reporting Categories
2. Ref #2023-28: Collateral Loan Reporting
3. Ref #2024-13: Update SSAP No. 107 Disclosures

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-16 (Julie)	Schedule BA Reporting Categories	1 – Agenda Item 2 – 2023-12BWG	Comments Received	IP – 1

Summary:

On February 20, 2024, after considering comments on the exposed blanks proposal 2023-12BWG, the Working Group exposed this agenda item and directed a modified SAPWG sponsored blanks proposal (2023-12BWG) to be shared with the Blanks (E) Working Group for exposure consideration. (This modified proposal was exposed until April 23, 2024.) The following modifications were reflected in the modified BA blanks proposal and within the agenda item:

- 1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an “Any Other Class of Asset.”
- 2) The Schedule BA reporting category for investments in “Joint Ventures, Partnerships and Limited Liability Companies” has been clarified to identify that investments captured within this reporting category shall be in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. With this clarification, the revisions proposed by industry to clarify the “underlying characteristics of bonds” subcategory to include “collateral that has contractual principal and/or interest payments, excluding mortgage loans,” as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the *SSAP No. 48* restriction has been included to reference structured settlement payment rights in scope of *SSAP No. 21R—*

Other Admitted Assets that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the “non-registered private fund” reporting category as those items shall be reported in the “joint ventures, partnerships and limited liabilities companies” reporting category if in scope of SSAP No. 48.

- 3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning January 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

Interested Parties' Comments:

Since this item was exposed along with a modified SAPWG-sponsored Blanks Working Group proposal (2023-12BWG), interested parties have focused on providing specific comments on the BWG item, which are primarily editorial in nature. Our comments will be provided by separate comment letter (April 23) to the Blanks Working Group.

NAIC staff has provided the following excerpt from the comments provided to the Blanks (E) Working Group:

IPs suggest the following edits on this exposure:

- For consistency among the categories within Schedule BA, refer to ‘*Bonds*’ instead of ‘*Fixed Income Investments*’ in the sub-categories. The Fixed Income Investments category has been interpreted to include Preferred Stocks and Mortgage Loans
- For columns requesting ‘*Maturity Date*’, the instructions state to ‘Use only for securities included in the following subtotal lines.’ Since the only subtotal line referred to is proposed for deletion, IPs recommend that all the Maturity Date columns be removed.

Recommendation:

NAIC staff recommends that the Working Group adopt this agenda item and communicate support for the adoption of modified blanks proposal 2023-12BWG, with additional modifications as noted below. Although this agenda item does not directly impact any SSAPs, the adoption of the Blanks proposal, effective January 1, 2025, provides the Schedule BA reporting changes to detail non-bond debt securities under the adopted bond definition, as well as to incorporate other consistent / more detailed reporting in Schedule BA.

Proposed Modifications:

- 1) Incorporate the interested parties’ proposal to revise the current remaining reference to “Fixed Income Instruments” to reflect “Bonds” for consistency purposes. This will result in a change to the residual tranche category. This is not expected to impact any reporting, as that category already has separate lines for underlying assets that have characteristics of preferred stock and mortgage loans. The instructions for the fixed income categories refer to investments that if held directly would be captured as bonds. To ensure this category is clear that it includes all bonds, revisions are also proposed to reference issuer credit obligations and asset-backed securities. Further, to ensure consistency in reporting, revisions have been proposed to clarify that residual tranches of collateralized loan obligations (CLOs) shall be reported in the ‘underlying characteristics of bonds’ reporting line. Revisions have also been proposed to provide examples of items that shall be captured in the “underlying characteristics of other” reporting line. These examples include, but are not limited to student loans, auto loans, aircraft or train car leases. (These edits are illustrated below.)

- 2) Incorporate revisions to specify that the maturity date column shall be completed for all investments on Schedule BA that have a stated maturity date. (These edits are illustrated below). This action is different from what industry proposed but is in line with the original intent. With the revisions to include non-bond debt securities on Schedule BA, the prior deletion was intended to remove the scope limitation.
- 3) Correct an erroneous deletion in the name of Joint Venture, Partnerships or Limited Liability Companies investment reporting line. (This was identified by interested parties in their collateral loan comments.)

In comments provided under a different blanks exposure, industry has suggested renaming Schedule BA from “Other Long-Term Invested Assets” to “Other Invested Assets.” They have noted that this name change would be consistent with the adoptions that require all Schedule BA assets to be reported on Schedule BA regardless of whether the investment would have qualified as a cash equivalent or short-term investment. NAIC staff supports this name change in concept, but recognizes that it would require a multitude of reference updates, and possibly impact references to Schedule BA that are in state statutes, laws, etc. Despite the title, NAIC staff believes the guidance is clear that all Schedule BA assets shall be on Schedule BA regardless of the time from acquisition to maturity. **NAIC staff are requesting Working Group direction on whether this name change should be incorporated.**

Illustrations of Suggested Blank Proposal Edits:

1) **Rename “Fixed Income Instruments” to “Bonds”:**

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of *SSAP No. 21R – Other Admitted Assets*. The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock 4) an investment in common stock, or 5) any other investment structure.

Fixed Income Instruments Bonds

Include: Investments with underlying collateral which, if held individually, would be reported as issuer credit obligations on Schedule D – Part 1 – Long-Term Bonds Section 1, or as asset-backed securities on Schedule D – Part 1 – Section 2. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, auto loans, aircraft leases or train car leases.

2) **Clarify Guidance for Schedule BA, Column 26 – Maturity Date**

Column 26 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not be limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

~~Use only for securities included in the following subtotal lines.
State the date the mortgage loan matures.~~

3) Correct Joint Venture, Partnerships and LLCs Reporting Line. (Change from exposure is shaded.)

As Exposed: Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:

With Correction: Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) ~~Interests with Underlying Assets Having the Characteristics of:~~

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-28 (Julie)	Collateral Loan Reporting	3 – Agenda Item	Comments Received	IP – 2

Summary:

On February 20, 2024, the Working Group adopted a new collateral loan disclosure for year-end 2024 and exposed proposed reporting lines to Schedule BA for collateral loans. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

Interested Parties’ Comments:

Interested parties have the following comments on Ref #2023-28 as a Blanks Working Group exposure draft is developed for changes to the Collateral Loan category on Schedule BA:

- Remove the reference to SSAPs on the face of Schedule BA and, for the Collateral Loan sub-categories that have an SSAP reference, incorporate instructions similar to those in the Residual Tranche category. For example, the Cash, Cash Equivalents & Short-Term Investments sub-category would have instructions as follows:
 - Include: Investments with underlying collateral which, if held individually, would be reported on Schedule E – Part 1 – Cash; Schedule E – Part 2 – Cash Equivalents; Schedule DA – Short-Term Investments.
- Rename the sub-category “*Bonds and Asset-Backed Securities*” to “*Bonds (Issuer Credit Obligations and Asset-Backed Securities)*” as it better reflects reporting terminology.
- Under the “*Joint Ventures, Partnerships or Limited Liability Company Companies*” sub-category, refer to “*Fixed Income Investments*” as “*Bonds*”, which is consistent throughout Schedule BA; the Fixed Income Investments category has been interpreted to include Preferred Stocks and Mortgage Loans.

- Add a “*Preferred Stocks*” category under the “*Joint Ventures, Partnerships or Limited Liability Company Companies*” sub-category for consistency with the main “*Joint Ventures, Partnerships or Limited Liability Company Companies*” category.
- The following underlined wording appears to have been erroneously deleted in the exposure:
 - Interests in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) with Underlying Assets Having the Characteristics of:
- We also suggest a temporary change to the Life RBC risk factor for Collateral Loans with Mortgage Loans as collateral that secures the loan. We will submit proposed changes to the Life RBC WG and the Blanks WG to support these temporary changes until the Life RBC WG addresses the referral from SAP Working Group to adopt permanent changes to the Life RBC for Collateral Loans in the new Schedule BA reporting structure.
- We have no concerns about adding AVR for Collateral Loans since they currently have an RBC factor; this would better align the AVR to RBC for Collateral Loans. Interested parties look forward to working with NAIC Staff and State Insurance Regulators on developing the various AVR factors (e.g., Basic Contribution, etc.) and the related Life RBC factors based on the referral to the Life RBC Working Group.

Recommendation:

NAIC staff recommends that the Working Group consider the following two actions:

- 1) **Direct NAIC staff to prepare a memo to the Blanks (E) Working Group to incorporate an instructional change to the AVR instructions that allows collateral loans backed by mortgages to flow through AVR as an “Other Invested Asset with Underlying Characteristics of Mortgage Loans” as an interim step while further consideration occurs on the reporting of collateral loans and how collateral loans should flow through AVR.** If permitted, this would allow companies that had previously captured collateral loans in the “non-registered private fund” category to continue to receive comparable RBC treatment as they had under their prior reporting. It would also permit companies that had captured these collateral loans on the collateral loan reporting line to also receive more-favorable RBC through the AVR look-through.

If this is supported by the Working Group, NAIC staff notes that it would be contingent on the adoption of an exposed editorial change by the Life Risk-Based Capital (E) Working Group. This Life RBC editorial change to the formula adjusts the amount reported as collateral loans to be ‘in part’ so that the reduction for what is backed by mortgage loans could be removed from the collateral loan total, as they would be captured in a different RBC category. This Life RBC change was exposed on April 22 with a comment deadline of May 22. If this change does not get adopted while the blanks direction moves forward, then collateral loans backed by mortgage loans would be captured in two places in the RBC formula.

NAIC staff will provide notice to the Life Risk-Based Capital (E) Working Group of the SAPWG direction, so they are aware as they consider the editorial change to the Life RBC formula.

- 2) **Direct NAIC staff to proceed with sponsoring a blanks proposal for the reporting of collateral loans, using the reporting lines shown in the agenda item modified to reflect a majority of the interested parties’ comments.** NAIC staff notes that specific comments were not received on whether certain collateral loans should flow through AVR, so NAIC staff will be working in the interim with regulators and RBC staff to develop a proposal for initial consideration. **(With this direction, this agenda item is not proposed for re-exposure at this time. Although revisions are not anticipated to SSAP No. 21R, this agenda item will remain active until the blanks revisions are near completion.)**

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2024-13 (Robin)	Update SSAP No. 107 Disclosures	4 – Agenda Item	Comments Received	IP – 3

Summary:

At the Spring 2024 National Meeting the Working Group exposed revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*. The revisions will delete the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. The roll forward illustration in Exhibit B is also proposed to be updated to delete the parts related to the transitional reinsurance program and the risk corridors program. In addition, Blanks proposal 2024-10BWG was concurrently exposed to allow for the disclosures to be considered for removal beginning with the year-end 2024 financial statements.

Interested Parties' Comments:

Interested parties generally support the exposed changes to remove the ACA SSAP No. 107 disclosures related to the transitional reinsurance and risk corridors programs.

However, we note that rather than deleting the outdated disclosures specific to the Risk Corridors program in Note 24E/F(4) and 24E/F(5), the titles in the tables in the disclosure were simply modified to replace "Risk Corridors" with "Risk Adjustment." The disclosures required by Note 24E/F(4) and 24E/F(5) were specifically developed for the ACA Risk Corridors program for years 2014 through 2016. The data elements in these two tables are not applicable to the Risk Adjustment program and/or would be duplicative with the Risk Adjustment information already disclosed in FN 24E/F(2) and 24E/F(3). Similarly, paragraph 62 of SSAP 107 was also modified to replace "Risk Corridor" with "Risk adjustment". However, the disclosure requirements specified in paragraph 62 are specific to the Risk Corridor program. We respectfully request these two Risk Corridors paragraphs be deleted from the Annual Instructions as requested in the Form A submission and paragraph 62 be deleted from SSAP 107.

Recommendation:

NAIC staff recommends that the Working Group adopt the exposed revisions with modifications that incorporate the interested parties' comments effective year end 2024. The primary revision from the exposure is to delete paragraph 62 of *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*. NAIC staff agree with the interested parties' comments that SSAP No. 107, paragraph 62 was previously specific to the risk corridor program which has ended and can therefore be deleted. As noted by interested parties this impacts two additional parts on the notes in the annual statement blanks proposal (Note 24E/F(4) and 24E/F(5)) which will also be recommended for deletion in proposal 2024-10BWG. The only additional revision to SSAP No. 107 proposed to be incorporated by staff from the exposed revisions is shown below.

Additional Proposed Revisions to SSAP No. 107 to address Interested parties' comments:

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:
- a. Estimated amount to be filed or final amounts filed with federal agency
 - b. Amounts impaired or amounts not accrued for other reasons (notwithstanding collectability concerns)
 - c. Amounts received from federal agency
 - d. Asset balance gross of nonadmission
 - e. Nonadmitted amounts

f. ~~Net admitted assets~~

As a side note, the Blanks (E) Working Group also received comments regarding the reporting of risk corridors and the transitional reinsurance program on the Supplemental Health Care Exhibit (SHCE), which need further investigation. Therefore, NAIC staff recommends that those additional SHCE edits be addressed in a separate proposal by Blanks (E) Working Group if needed.

The comment letters are included in Attachment 5 (4 pages).

MEETING – ITEMS ON THE MAINTENANCE AGENDA

1. Ref #2019-24: Principles-Based Bond Project

Ref #	Title	Attachment #
#2019-21 (Julie)	Principles-Based Bond Project	6 - Issue Paper

Summary:

The issue paper documenting the discussions and decisions within the principles-based bond project has been updated to reflect the final actions. Additionally, consistency edits and reorganization has been reflected as the authoritative SAP revisions have been adopted. (As a reminder, issue papers are not authoritative, and simply provide background and discussion elements for historical reference.) Changes from the prior exposed version are shown as tracked within the document.

Recommendation:

NAIC staff recommends that the Working Group expose the draft issue paper for a comment period ending June 21.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/05-15-24/00 - 5-15-24 SAPWG Hearing Agenda.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2024/05-15-24/00%20-%205-15-24%20SAPWG%20Hearing%20Agenda.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Schedule BA Reporting Categories

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity’s classification as to the underlying asset characteristics:

- Bonds/Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

* *Bond /fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Existing Authoritative Literature:

A/S Instructions – Life, Accident and Health/Fraternal Companies

Reporting Categories on Schedule BA:

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Bonds	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated.....	0799999
Affiliated.....	0899999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated.....	0999999
Affiliated.....	1099999
Mortgage Loans	

	Unaffiliated.....	1199999
	Affiliated.....	1299999
Other Fixed Income Instruments		
	Unaffiliated.....	1399999
	Affiliated.....	1499999

Joint Venture, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics of:

Fixed Income Instruments		
NAIC Designation Assigned by the Securities Valuation Office (SVO)		
	Unaffiliated.....	1599999
	Affiliated.....	1699999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)		
	Unaffiliated.....	1799999
	Affiliated.....	1899999
Common Stocks		
	Unaffiliated.....	1999999
	Affiliated.....	2099999
Real Estate		
	Unaffiliated.....	2199999
	Affiliated.....	2299999
Mortgage Loans		
	Unaffiliated.....	2399999
	Affiliated.....	2499999
Other		
	Unaffiliated.....	2599999
	Affiliated.....	2699999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments		
	Unaffiliated.....	4699999
	Affiliated.....	4799999
Common Stock		
	Unaffiliated.....	4899999
	Affiliated.....	4999999
Preferred Stock		
	Unaffiliated.....	5099999
	Affiliated.....	5199999
Real Estate		
	Unaffiliated.....	5299999
	Affiliated.....	5399999
Mortgage Loans		
	Unaffiliated.....	5499999
	Affiliated.....	5599999
Other		
	Unaffiliated.....	5699999
	Affiliated.....	5799999

Schedule BA Classification Instructions/Guidance:

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: Leveraged Buy-out Fund.

A fund investing in the “Z” strip of Collateralized Mortgage Obligations.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captures securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See *SSAP No. 43R* for accounting guidance.

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories.

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

- Bond Project: Under the principle-based bond definition project, revisions are proposed to combine the non-registered provide funds within the reporting category for joint ventures, partnerships and limited liability companies as those items would also be in scope of SSAP No. 48. With that change the category of “fixed income instruments” would be retained.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): NA

Recommendation:

NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification/potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback to further define and provide examples for the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- Fixed-Income Instruments
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

As detailed in the current A/S instructions, descriptions are included for non-registered private funds, joint ventures, partnerships, and limited liability companies, whereas references to the SSAP the underlying assets would be captured in are included for residual interests.

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within ‘Activity to Date,’ revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

Staff Review Completed by: Julie Gann - NAIC Staff, May 2023

Status:

On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions, as detailed below, to further define the investments captured on Schedule BA along with the continued proposed to combine non-registered private funds within the proposed reporting lines for joint ventures, partnerships, or limited liability companies. The Working Group also requested additional regulator and industry feedback on whether more specificity is needed since the existing Schedule BA descriptions are fairly broad.

Proposed Interested Parties' Edits to the Schedule BA Instructions from Separate Attachment:

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: ~~Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans~~~~Leveraged Buy-out Fund.~~

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds ~~or other underlying equity investments.~~

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – *Loan-Backed and Structured Securities* Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

Fixed Income Instruments

Include: ~~Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans, if held individually, would be reported on Schedule D—Part 1—Long-Term Bonds.~~

Common Stocks

Include: ~~Investments with underlying collateral which are securities that represent a subordinate equity ownership, if held individually, would be reported on Schedule D—Part 2—Section 2—Common Stocks~~

Preferred Stocks

Include: ~~Investments with underlying collateral which is a security that represents ownership of a corporation and gives the holder a claim prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation, if held individually, would be reported on Schedule D—Part 2—Section 1—Preferred Stocks~~

Real Estate

Include: ~~Investments with underlying collateral which is defined as directly-owned real estate properties and single real estate property investments that are directly and~~

~~wholly-owned through a limited liability company, if held individually, would be reported on Schedule A—Real Estate Owned~~

Mortgage Loans

Include: Investments with underlying collateral which ~~is secured by a mortgage on real estate, if held individually, would be reported on Schedule B—Mortgage Loans~~

Other

Include: Items that do not qualify for inclusion in the above subcategories.

On February 20, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG. After the discussion, the Working Group exposed this agenda item and directed a modified SAPWG-sponsored blanks proposal (2023-12BWG) to recommend for exposure during the February 21, 2024, Banks (E) Working Group conference call. (This agenda item does not propose any SSAP revisions.)

The following key modifications are reflected in the modified Schedule BA blanks proposal and for documentation within this agenda item:

- 1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an “Any Other Class of Asset.”
- 2) The Schedule BA reporting category for investments in “Joint Ventures, Partnerships and Limited Liability Companies” has been clarified to identify that investments captured within this reporting category shall be in scope of SSAP No. 48. With this clarification, the revisions proposed by industry to clarify the “underlying characteristics of bonds” subcategory to include “collateral that has contractual principal and/or interest payments, excluding mortgage loans,” as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the SSAP No. 48 restriction has been included to reference structured settlement payment rights in scope of *SSAP No. 21R—Other Admitted Assets* that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the “non-registered private fund” reporting category as those items shall be reported in the “joint ventures, partnerships and limited liabilities companies” reporting category if in scope of SSAP No. 48.
- 3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning Jan. 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/05-15-24/01-23-16-ScheduleBACategories_1.docx

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: right;">DATE: <u>09/07/2023</u></p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Dale Bruggeman</u></p> <p>TITLE: <u>Chair SAPWG</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50W. Town St., 3rd FL., Ste. 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2023-12BWG MOD</u> Year <u>2025</u> Changes to Existing Reporting [X] New Reporting Requirement []</p> <hr/> <p style="text-align: center;">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [] Modifies Required Disclosure [X]</p> <p>Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No] ***If Yes, complete question below***</p> <p style="text-align: center;">DISPOSITION</p> <p>[] Rejected For Public Comment [] Referred To Another NAIC Group [] Received For Public Comment [] Adopted Date _____ [] Rejected Date _____ [] Deferred Date _____ [X] Other (Specify) <u>Re-exposed 2/21</u></p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input type="checkbox"/> INSTRUCTIONS | <input checked="" type="checkbox"/> CROSSCHECKS |
| <input checked="" type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> BLANK | |
| <input checked="" type="checkbox"/> Life, Accident & Health/Fraternal | <input checked="" type="checkbox"/> Separate Accounts | <input checked="" type="checkbox"/> Title |
| <input checked="" type="checkbox"/> Property/Casualty | <input checked="" type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input checked="" type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | <input type="checkbox"/> Life (Health Supplement) |

Anticipated Effective Date: 1st Quarter 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Categorize debt securities on Schedule BA that do not qualify as bonds under SSAP No. 26 – Bonds or SSAP No. 43R – Asset-Backed Securities and are captured in scope of SSAP No. 21R – Other Invested Assets.

Note on adopted SAP Item 2023-28 for collateral loan reporting – the effective date for the collateral loan reporting is Annual 2024. Due to this being effective before proposal 2023-12BWG, the changes for collateral loan reporting are not shown in this proposal but will be incorporated into the Annual and Quarterly Statement Instructions once this proposal is adopted and implemented into the statement instructions.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates the Schedule BA categories per the Statutory Accounting Principles Working Group’s bond project and clarify/streamline reporting on Schedule BA.

IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

** This section must be completed on all forms.

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS

Include only those classes of invested assets not clearly or normally includable in any other invested asset schedule, or that have been specifically identified for reporting on Schedule BA: Other Invested Assets. Investments shall be reported in the designated reporting category and reporting line that represents the investment. Investments that do not fit within any specific reporting line shall be captured as an “Any Other Class of Asset”. Such assets should include any assets previously written off for book purposes, but which still have a market or investment value. Give a detailed description of each investment and the underlying security. If an asset is to be recorded in Schedule BA that is normally reported in one of the other invested asset schedules, make full disclosure in the Name or Description column of the reason for recording such an asset in Schedule BA.

For accounting guidance related to foreign currency transactions and translations, refer to SSAP No. 23—Foreign Currency Transactions and Translations.

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

<u>Group or Category</u>	<u>Line Number</u>
<u>Debt Securities That Do Not Qualify as Bonds</u>	
<u>Debt Securities That Do Not Reflect a Creditor Relationship in Substance</u>	
<u>NAIC Designation Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0199999
Affiliated	0299999
<u>NAIC Designation Not Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0399999
Affiliated	0499999
<u>Debt Securities That Lack Substantive Credit Enhancement</u>	
<u>NAIC Designation Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0599999
Affiliated	0699999
<u>NAIC Designation Not Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0799999
Affiliated	0899999
<u>Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows</u>	
<u>NAIC Designation Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0999999
Affiliated	1099999
<u>NAIC Designation Not Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	1199999
Affiliated	1299999
<u>Oil and Gas Production</u>	
Unaffiliated	0199999
Affiliated	0299999
<u>Transportation Equipment</u>	
Unaffiliated	0399999
Affiliated	0499999
<u>Mineral Rights</u>	

Unaffiliated.....	0599999
Affiliated.....	0699999

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....	0799999
Affiliated.....	0899999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....	0999999
Affiliated.....	1099999

Mortgage Loans

Unaffiliated.....	1199999
Affiliated.....	1299999

Other Fixed Income Instruments

Unaffiliated.....	1399999
Affiliated.....	1499999

Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:

~~Fixed Income Instruments~~ Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....	1599999	1399999
Affiliated.....	1699999	1499999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated.....	1799999	1599999
Affiliated.....	1899999	1699999

Preferred Stocks

Unaffiliated.....	1799999
Affiliated.....	1899999

Common Stocks

Unaffiliated.....	1999999
Affiliated.....	2099999

Real Estate

Unaffiliated.....	2199999
Affiliated.....	2299999

Mortgage Loans

Unaffiliated.....	2399999
Affiliated.....	2499999

Other

Unaffiliated.....	2599999
Affiliated.....	2699999

Surplus ~~Debentures, etc.~~ Notes

Unaffiliated.....	2799999
Affiliated.....	2899999

Capital Notes

Unaffiliated.....	2999999
Affiliated.....	3099999

Collateral Loans

Unaffiliated.....	2999999	3199999
Affiliated.....	3099999	3299999

Non-collateral Loans		
Unaffiliated.....		<u>31999993399999</u>
Affiliated		<u>32999993499999</u>
Capital Notes		
Unaffiliated.....		<u>3399999</u>
Affiliated		<u>3499999</u>
Guaranteed Federal Low Income Housing Tax Credit		
Unaffiliated.....		3599999
Affiliated		3699999
Non-Guaranteed Federal Low Income Housing Tax Credit		
Unaffiliated.....		3799999
Affiliated		3899999
Guaranteed State Low Income Housing Tax Credit		
Unaffiliated.....		3999999
Affiliated		4099999
Non-Guaranteed State Low Income Housing Tax Credit		
Unaffiliated.....		4199999
Affiliated		4299999
All Other Low Income Housing Tax Credit		
Unaffiliated.....		4399999
Affiliated		4499999
Working Capital Finance Investment		
Unaffiliated.....		4599999
Residual Tranches or Interests with Underlying Assets Having Characteristics of:		
<u>Fixed Income Instruments</u> Bonds		
Unaffiliated		4699999
Affiliated.....		4799999
Common Stock		
Unaffiliated		4899999
Affiliated.....		4999999
Preferred Stock		
Unaffiliated		5099999
Affiliated.....		5199999
Real Estate		
Unaffiliated		5299999
Affiliated.....		5399999
Mortgage Loans		
Unaffiliated		5499999
Affiliated.....		5599999
Other		
Unaffiliated		5699999
Affiliated.....		5799999
Any Other Class of Assets		
Unaffiliated.....		5899999
Affiliated		5999999
Subtotals		
Unaffiliated.....		<u>60999996899999</u>
Affiliated		<u>61999996999999</u>
TOTALS.....		<u>62999997099999</u>

The following listing is intended to give examples of investments to be included in each category; however, the list should not be considered all-inclusive, and it should not be implied that any invested asset currently being reported in Schedules A, B or D is to be reclassified to Schedule BA:

Oil and Gas Production

Include: ~~Offshore oil and gas leases.~~

Transportation Equipment

Include: ~~Aircraft owned under leveraged lease agreements.
Motor Vehicle Trust Certificates.~~

Mineral Rights

Include: ~~Investments in extractive materials.
Timber Deeds.~~

Debt Securities That Do Not Qualify as Bonds

Include: ~~Debt securities captured in SSAP No. 21 – Other Admitted Assets. This is specific to securities, as that term is defined in SSAP No. 26 – Bonds, whereby there is a fixed schedule for one or more future payments (referred to as debt securities), but for which the security does not qualify for bond reporting under SSAP No. 26 as an issuer credit obligation or an asset-backed security.~~

~~Investments that have been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* shall be reported on Lines 0199999, 0299999, 0599999, 0699999, 0999999, and 1099999.~~

~~Investments that have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines 0399999, 0499999, 0799999, 0899999, 1199999 and 1299999.~~

Exclude: ~~Any investment that does not qualify as a security. This term is defined in SSAP No. 26R.~~

~~Any investment that is not captured as a debt security that does not qualify as a bond pursuant to SSAP No. 21R—Other Admitted Assets.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument~~

Include: ~~Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC*~~

~~Investment Analysis Office for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.~~

Interests in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics:

Include: Items in scope of SSAP No. 48 – Joint Ventures, Partnerships or Limited Liability Companies, which includes non-registered private funds. Investments shall be reported based on their underlying characteristics as described below. Investments shall be assigned fully to a subcategory. There should not be any bifurcation of the SSAP No. 48 investment among the subcategories.

Structured Security payment rights in scope of SSAP No. 21 that have an SVO-Assigned designation. Structured security payments rights that do not have an SVO-Assigned designation shall be reported as an Any Other Class of Asset.

Exclude: Any investment that is not captured in scope of SSAP No. 48.

Fixed Income Instruments Bonds

Include: Investments in scope of SSAP No. 48 with underlying collateral that has contractual principal and/or interest payments, excluding mortgage loans.

Structured Settlement payment rights in scope of SSAP no. 21R that have an SVO-Assigned designation.

~~Leveraged Buy out Fund, Joint ventures, partnerships or limited liability companies (Including Non Registered Private Funds) investments that are engaged in bond strategies.~~

A fund investing in the “Z” strip of Collateralized Mortgage Obligations.

~~Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments~~ Investments on the NAIC List of Schedule BA Non-Registered Private Funds with Underlying Assets Having Characteristics of Bonds or Preferred Stock and structured settlement payment rights in scope of SSAP No. 21R that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Report these investments on Lines ~~1599999-1399999~~ and ~~1699999-1499999~~.

Any investments deemed by the reporting entity to possess the underlying characteristics of ~~fixed income instruments~~ bonds that ~~has have~~ not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines ~~1799999-1599999~~ and ~~1899999-1699999~~.

Preferred Stocks

Include: ~~Preferred Stock Interests~~ Investments in scope of SSAP No. 48 with underlying characteristics of securities that represents ownership of a corporation and gives the holder a claim prior to the claims of common stockholders on earnings and also generally on assets in the event of liquidation.

Common Stocks

Include: Investments in scope of SSAP No. 48 with underlying characteristics of Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Investments in scope of SSAP No. 48 with underlying collateral that reflects Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Mortgage Loans

Include: Items in scope of SSAP No. 48 that reflect Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Items in scope of SSAP No. 48 that do not fit within the specific categories.

Limited partnership interests in oil and gas production.

Forest product partnerships.

Other Investments within the Joint Venture, and Partnership or Limited Liability Companies interests category that do not qualify for inclusion in the “Fixed Income Instruments,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long Term Assets).

Surplus Debentures, etc. Notes

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness that is reported in the surplus of the issuer.

Capital Notes

Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.

Collateral Loans

Include: Refer to *SSAP No. 21R—Other Admitted Assets* for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Non-collateral Loans

Include: For purposes of this section, Non-collateral loans are considered the unpaid portion of loans previously made to another organization or individual in which the reporting entity has a right to receive money for the loan, but for which the reporting entity has not obtained collateral to secure the loan.

Non-collateral loans shall not include investments captured in scope of SSAP No. 26 – Bonds, SSAP No. 37 – Mortgage Loans, SSAP No. 43 – Asset-Backed Securities, or SSAP No. 49 – Policy Loans. ~~those instruments that meet the definition of a bond, per SSAP No. 26R – Bonds, a mortgage loan per SSAP No. 37 – Mortgage Loans, loan backed or structured asset backed securities per SSAP No. 43R – Loan Backed and Structured Securities, or a policy or contract loan per SSAP No. 49 – Policy Loans.~~

In the description column, provide the name of the actual borrower. For affiliated entities, state if the borrower is a parent, subsidiary, affiliate, officer or director. Refer to SSAP No. 20—*Nonadmitted Assets* and SSAP No. 25—*Affiliates and Other Related Parties* for accounting guidance.

Capital Notes

~~Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.~~

Low Income Housing Tax Credit

- Include: All Low Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company including those investments that have the following risk mitigation factors:
- A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.
 - B. Non-guaranteed Low Income Housing Tax Credit Investments.
 - I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.
 - II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.
 - III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the “All Other” category

Working Capital Finance Investment

Include: Investments in an interest in a Confirmed Supplier Receivables (CSR) under a Working Capital Finance Program (WCFP) that is designated by the SVO as meeting the criteria specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for an NAIC “1” or “2.”

Working Capital Finance Program (WCFP)

Open account program under which an Investor may purchase interests, or evidence thereof, in commercial non-insurance receivables.

A WFCP is created for the benefit of a commercial investment grade obligor and its suppliers of goods or services and facilitated by a financial intermediary.

Confirmed Supplier Receivables (CSR)

A first priority perfected security interest claim or right to payment of a monetary obligation from the Obligor arising from the sale of goods or services from the Supplier to the Obligor the payment of which the Obligor has confirmed by representing and warranting that it will not protest, delay, or deny, nor offer nor assert any defenses against, payment to the supplier or any party taking claim or right to payment from the supplier.

See SSAP No. 105R—Working Capital Finance Investments for accounting guidance.

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There ~~shouldn't~~ should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of SSAP No. 21R – Other Admitted Assets. The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock 4) an investment in common stock, or 5) any other investment structure, captures from securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R—Loan Backed and Structured Asset Backed Securities, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.

~~Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48.—Joint Ventures, Partnerships and Limited Liability Companies that represent residual interests, or that predominantly hold residual interests.~~

~~This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.~~

Fixed Income Instruments~~Bonds~~

Include: Investments with underlying collateral which, if held individually, would be reported ~~on Schedule D—Part 1—Long Term Bonds~~ as issuer credit obligations on Schedule D – Part 1 – Section 1, or as asset-backed securities on Schedule D – Part 1 – Section 2. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories. [Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, aircraft leases or train car leases.](#)

Any Other Class of Assets

Include: Investments that do not fit into one of the other categories. An example of items that may be included are reverse mortgages.

All structured settlement income streams acquired as investments where the reporting entity acquires the legal right to receive payments. (Valuation and admittance provisions are detailed in *SSAP No. 21R—Other Admitted Assets*.)

[This category shall also include oil and gas leases, aircraft owned under leveraged lease arrangements, investments in extractive materials and timber deeds that are not owned within a partnership, LLC or joint venture structure.](#)

SCHEDULE BA – PART 1**OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR**

Refer to SSAP No. 23—*Foreign Currency Transactions and Translations* for accounting guidance.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999 and 1599999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: www.cusip.com/cusip/index.htm.

~~For those investments not included on Lines 0799999 and 1599999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.

Column 2 – Name or Description

Show name of the asset, such as the name of a limited partnership. If not applicable, show description of the asset.

Column 3 – Restricted Asset Code

~~Enter “^” in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.~~

If long-term invested assets are not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the **symbols identified in the Investment Schedules General Instructions** in this column.

Separate Account Filing Only:

~~If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the “^” should appear first, immediately followed by the appropriate code (identified in the Investment Schedules General Instructions).~~



Detail Eliminated To Conserve Space



Column 7 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines ~~0799999~~0199999, ~~0899999~~0299999, ~~1599999~~0599999, ~~1699999~~0699999, 0999999, 1099999, 1399999, 1499999, and 4599999. For all other lines the column may be completed if the investment has an NAIC Designation received from the SVO or from an NAIC CRP.

For investments noted above, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. ~~The list of valid SVO Administrative Symbols is shown below.~~

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (www.naic.org/svo.htm).

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- NAIC Designation — Column 7A
- NAIC Designation Modifier — Column 7B
- SVO Administrative Symbol — Column 7C

On the printed page the sub-columns should be displayed with a “.” between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., “1.A YE”).

NAIC Designation Modifier:

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.



**** Columns 21 through 27 will be electronic only. ****

Column 21 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

Column ~~21~~22 – Fair Value Hierarchy Level and Method Used to Obtain Fair Value Code

~~Report the fair value level that represents the inputs used to determine fair value. Whenever possible, the reported fair value shall reflect level 1, followed by level 2, and then level 3. In all situations fair value shall be determined in accordance with SSAP No. 100R—Fair Value. Whenever possible, fair value should represent the price at which the security could be sold, based on market information. Fair value should only be determined analytically when the market based value cannot be obtained.~~

The following is a listing of valid fair value level indicators to show the fair value hierarchy level.

“1” for Level 1

“2” for Level 2

“3” for Level 3

The following is a listing of the valid method indicators to show the method used by the reporting entity to determine the Rate Used to Obtain Fair Value.

“a” for securities where the rate is determined by a pricing service.

“b” for securities where the rate is determined by a stock exchange.

“c” for securities where the rate is determined by a broker or custodian. The reporting entity should obtain and maintain the pricing policy for any broker or custodian used as a pricing source. In addition, the broker must either be approved by the reporting entity as a counterparty for buying and selling securities or be an underwriter of the security being valued. (Reporting entities shall utilize source “c” to capture any other method used by the reporting entity to obtain observable inputs resulting in a hierarchy Level 1 or Level 2. Documentation of this source shall then be included in Column 22.)

“d” for securities where the rate is determined by the reporting entity or a third party contracted by the reporting entity. The reporting entity is required to maintain a record of the pricing methodology used.

“e” for securities where the rate is determined by the unit price published in the NAIC *Valuation of Securities*.

Enter a combination of hierarchy and method indicator. The fair value hierarchy level indicator would be listed first and the method used to determine fair value indicator would be listed next. For example, use “1b” to report Level 1 for the fair value hierarchy level and stock exchange for the method used to determine fair value.

The guidance in *SSAP No. 100R—Fair Value* allows the use of net asset value per share (NAV) instead of fair value for certain investments. If NAV is used instead of fair value leave blank.

Column ~~2223~~ – Source Used to Obtain Fair Value

For Method Code “a,” identify the specific pricing service used.

For Method Code “b,” identify the specific stock exchange used.

The listing of most **stock exchange codes can be found in the Investment Schedules General Instructions.**

For Method Code “c,” identify the specific broker or custodian used.

For Method Code “d,” leave blank.

For Method Code “e,” leave blank.

If net asset value (NAV) is used instead of fair value, the reporting entity should use “NAV” to indicate net asset value used instead of fair value.

Column ~~23~~ – ~~Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 24 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated..... 2199999~~

~~Affiliated..... 2299999~~

~~Mortgage Loans~~

~~Unaffiliated..... 2399999~~

~~Affiliated..... 2499999~~

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country’s equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 25 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company/Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated..... 2199999~~

~~Affiliated..... 2299999~~

~~Mortgage Loans~~

~~Unaffiliated..... 2399999~~

~~Affiliated..... 2499999~~

For property type, use one of the following codes to indicate the primary use of the property:

- OF Office
- RT Retail
- MU Apartment/Multifamily
- IN Industrial
- HC Medical/Health Care
- MX Mixed Use
- LO Lodging
- OT Other

Column 26 – Maturity Date

~~The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates. Use only for securities included in the following subtotal lines.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~State the date the mortgage loan matures.~~

Column 27 — Investments Involving Related Parties

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

- ~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~
- ~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~
- ~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~
- ~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~
- ~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~
- ~~6. The investment does not involve a related party.~~

NAIC Designation Category Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount in reported in Column 12.

SCHEDULE BA – PART 2**OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND ADDITIONS MADE DURING THE YEAR**

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999 and 1599999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: www.cusip.com/cusip/index.htm.

~~For those investments not included on Lines 0799999 and 1599999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.



Detail Eliminated To Conserve Space



**** Columns 12 through 16 will be electronic only. ****

Column 12 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

~~Column 12 — Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 13 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated.....1199999~~

~~Affiliated.....1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated.....2199999~~

~~Affiliated.....2299999~~

~~Mortgage Loans~~

~~Unaffiliated.....2399999~~

~~Affiliated.....2499999~~

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country’s equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 14 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated.....1199999~~

~~Affiliated.....1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated.....2199999~~

~~Affiliated.....2299999~~

~~Mortgage Loans~~

~~Unaffiliated.....2399999~~

~~Affiliated.....2499999~~

For property type, use one of the following codes to indicate the primary use of the property:

- OF Office
- RT Retail
- MU Apartment/Multifamily
- IN Industrial
- HC Medical/Health Care
- MX Mixed Use
- LO Lodging
- OT Other

Column 15 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

Use only for securities included in the following subtotal lines.

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Mortgage Loans

<u>Unaffiliated</u>	<u>1199999</u>
<u>Affiliated</u>	<u>1299999</u>

State the date the mortgage loan matures.

Column 16 — Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. ~~The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~
6. ~~The investment does not involve a related party.~~

SCHEDULE BA – PART 3**OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR**

This schedule should reflect not only disposals of an entire “other invested asset” but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999 and 1599999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker’s confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor’s CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor’s CUSIP Bureau: www.cusip.com/cusip/index.htm.

~~For those investments not included on Lines 0799999 and 1599999, a CUSIP should be provided if one has been assigned.~~

~~If no CUSIP number exists, the CUSIP field should be zero-filled.~~

Detail Eliminated To Conserve Space

**** Columns 21 through 25 will be electronic only. ****

Column 21 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

Column 21 — Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Column 22 — Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated..... 2199999~~

~~Affiliated..... 2299999~~

~~Mortgage Loans~~

~~Unaffiliated..... 2399999~~

~~Affiliated..... 2499999~~

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country’s equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example of two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 23 — Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated..... 2199999~~

~~Affiliated..... 2299999~~

~~Mortgage Loans~~

~~Unaffiliated..... 2399999~~

~~Affiliated..... 2499999~~

For property type, use one of the following codes to indicate the primary use of the property:

- OF Office
- RT Retail
- MU Apartment/Multifamily
- IN Industrial
- HC Medical/Health Care
- MX Mixed Use
- LO Lodging
- OT Other

Column 24 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

Use only for securities included in the following subtotal lines.

Non-Registered Private Funds with Underlying Assets Having Characteristics of:

Mortgage Loans

Unaffiliated.....	1199999
Affiliated.....	1299999

State the date the mortgage loan matures.

Column 25 — Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. ~~The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~
6. ~~The investment does not involve a related party.~~

ASSET VALUATION RESERVE
EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

⌵
⌴
⌵

Detail Eliminated To Conserve Space

Lines 22

through 28

– Other Invested Assets with Underlying Characteristics of Bonds

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines ~~0799999 and 0899999 and the portion of Lines 1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to bonds~~0199999, 0299999, 0599999, 0699999, 0999999, 1099999, 1399999, and 1499999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions, except those exempt obligations (as listed in the AVR instructions for Line 2) which should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9 and report the products by designation in Columns 6, 8 and 10, respectively.

Lines 30

through 35

– Other Invested Assets with Underlying Characteristics of Preferred Stocks

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to preferred stocks (~~the portion of Lines 1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to preferred stocks~~1799999 and 1899999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and certain surplus debentures (included in Lines 2799999 and 2899999) and capital notes (included in Lines 3399999 and 3499999) in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into classes P1 through P6 or RP1 through RP6 as directed by the NAIC Securities Valuation Office instructions. For surplus debentures and capital notes, use the Credit Rating Provider (CRP) rating to categorize these assets as if the SVO had assigned an NAIC designation of 1 through 6. ~~ONLY those surplus debentures and capital notes with a CRP rating equivalent to an NAIC 1 or NAIC 2 designation may be included in this section (in Lines 30 and 31).~~ Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

~~Include: Surplus debentures and capital notes that possess a CRP rating equivalent to an NAIC 1 or NAIC 2 designation.~~

~~Exclude: All surplus debentures and capital notes that do NOT possess an CRP rating equivalent to an NAIC 1 or NAIC 2 designation. These surplus debentures are to be reported in Line 83 (Other Invested Assets – Schedule BA) of this schedule.~~

Lines 38
through 63

– Other Invested Assets with Underlying Characteristics of Mortgage Loans

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to mortgage loans (Lines ~~1199999, 1299999, 2399999~~ and 2499999), excluding any mortgage-backed/asset-backed securities included in Lines 22 through 28 above, in Columns 1 and 4. Categorize the mortgage loans as indicated in Lines 38 through 55.

For Lines 38 through 63, the classification methodology for mortgages is outlined in the Life Risk-Based Capital instructions. Multiply the amount in Column 4 for each category by the reserve factors in Columns 5, 7 and 9, Lines 38 through 63. Report the products by category in Columns 6, 8 and 10, respectively. For 2015 reporting, unaffiliated, overdue and in process of foreclosure mortgages that are insured or guaranteed should be included in Lines 47, 49, 52 or 54.

Detail Eliminated To Conserve Space

Lines 94

through 100

– Other Invested Assets with Underlying Characteristics of Surplus Notes and Capital Notes

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to surplus notes and capital notes in Columns 1 and 4. Use the Credit Rating Provider (CRP) rating to categorize these assets as if the SVO had assigned an NAIC designation of 1 through 6. If no CRP rating, then report based on the reporting entity's assumption of credit risk. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 94-101 & 10295 – Working Capital Finance Investments

Report the book/adjusted carrying value of all working capital finance investments owned (Schedule BA, Part 1, Line 4599999) in Columns 1 and 4. Categorize the working capital finance investments into NAIC designations 1 or 2 as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 96103 – Other Invested Assets – Schedule BA

Report the book/adjusted carrying value of all other Schedule BA investments owned that cannot be classified into one of the above categories (~~Lines 0199999, 0299999, 0399999, 0499999, 0599999, 0699999, 0999999, 1099999, 1799999, 1899999, 2599999, 2699999, 2799999, 2899999, 3399999, 3499999, 5899999 and 5999999~~) in Column 1 and any encumbrances on these assets in Column 3. Schedule DL, Part 1 investments reported on Line 9409999999 would be included in this total if not classified in one of the above categories. Collateral loans (Lines ~~2999999-3199999~~ and ~~3099999-3299999~~) have been intentionally excluded from this total. ~~For surplus debentures and capital notes, the amount to report in Column 1 is to be calculated based upon the accounting prescribed in SSAP No. 41—Surplus Notes. Report the sum of Columns 1 and 3 in Column 4. Column 4 may not be less than zero. Note that ALL surplus debentures and capital notes should be included here in Line 96, EXCEPT those with a CRP rating equivalent to an NAIC 1 or NAIC 2 designation (which are reported in Lines 30 and 31 of this schedule).~~ Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

~~Exclude: All surplus debentures and capital notes that possess a CRP rating equivalent to an NAIC 1 or NAIC 2 designation. These surplus debentures are to be reported in Line 30 and 31 (Other Invested Assets with Underlying Characteristics of Preferred Stocks) of this schedule.~~

| Line 97101 – Other Short-Term Invested Assets – Schedule DA

Report the book/adjusted carrying value of all other Schedule DA (Lines 7029999999 and 7509999999) and Schedule DL, Part 1 (Line 9509999999) assets owned that cannot be classified into one of the above categories in Column 1 and any encumbrances on these assets in Column 3. Report the sum of Columns 1 and 3 in Column 4. Multiply the amount on Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

| Line 98105 – Total Other Invested Assets – Schedules BA & DA

The Columns 6, 8 and 10 amounts must be combined with Columns 6, 8 and 10, Line 21 amounts and reported on the Asset Valuation Reserve Page, Column 5, Lines 7, 10 and 9, respectively.

NOTE: Other invested asset reserves will be calculated based on the nature of the underlying investments related to the Schedule BA and Schedule DA assets. Assets should be categorized as if the company owned the underlying investment. For example:

- Mortgage participation certificates and similar holdings should be classified as fixed income assets.
- Gas and oil production and mineral rights have potential variability of return and should be categorized as equity investments.
- Partnership investments should be classified as fixed or equity investments or as equity real estate, depending on the purpose of the partnership. The maximum AVR factor would be that appropriate for the asset classification.
- A “look through” approach should be taken for any Schedule BA and Schedule DA assets not specifically listed, so as to reflect in the AVR calculation the essential nature of the investments.

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE BA – PARTS 2 AND 3

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND DISPOSED OF

Report the other long-term assets acquired during the current quarter. Investments acquired and sold during the same quarter should be reported in both Part 2 and Part 3. Include only those classes of invested assets not clearly or normally includable in any other invested asset schedule, or that have been specifically identified for reporting on Schedule BA: Other Invested Assets. Investments shall be reported in the designated reporting category and reporting line that represents the investment. Investments that do not fit within any specific reporting line shall be captured as an “Any other Class of Asset”. Such assets should include any assets previously written off for book purposes, but that still have a market or investment value. Give a detailed description of each investment and the underlying security. If an asset is to be recorded in Schedule BA that is normally reported in one of the other invested asset schedules, make full disclosure in a footnote of the reason for recording such an asset in Schedule BA.

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations*.

If a reporting entity has any detail lines reported for any of the following required groups, categories or subcategories, it shall report the subtotal amount of the corresponding group, category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

<u>Group or Category</u>	<u>Line Number</u>
<u>Debt Securities That Do Not Qualify as Bonds</u>	
<u>Debt Securities That Do Not Reflect a Creditor Relationship in Substance</u>	
<u>NAIC Designation Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0199999
Affiliated	0299999
<u>NAIC Designation Not Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0399999
Affiliated	0499999
<u>Debt Securities That Lack Substantive Credit Enhancement</u>	
<u>NAIC Designation Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0599999
Affiliated	0699999
<u>NAIC Designation Not Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0799999
Affiliated	0899999
<u>Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows</u>	
<u>NAIC Designation Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	0999999
Affiliated	1099999
<u>NAIC Designation Not Assigned by the Securities Valuation Office (SVO)</u>	
Unaffiliated	1199999
Affiliated	1299999
<u>Oil and Gas Production</u>	
Unaffiliated	0199999
Affiliated	0299999
<u>Transportation Equipment</u>	
Unaffiliated	0399999
Affiliated	0499999
<u>Mineral Rights</u>	
Unaffiliated	0599999

Affiliated	0699999
Non-Registered Private Funds with Underlying Assets Having Characteristics of:	
Bonds	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0799999
Affiliated	0899999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0999999
Affiliated	1099999
Mortgage Loans	
Unaffiliated	1199999
Affiliated	1299999
Other Fixed Income Instruments	
Unaffiliated	1399999
Affiliated	1499999
Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including non-Registered Private Funds)	
Interests with Underlying Assets Having the Characteristics of:	
Fixed Income Instruments Bonds	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	15999991399999
Affiliated	16999991499999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	17999991599999
Affiliated	18999991699999
Preferred Stocks	
Unaffiliated	1799999
Affiliated	1899999
Common Stocks	
Unaffiliated	1999999
Affiliated	2099999
Real Estate	
Unaffiliated	2199999
Affiliated	2299999
Mortgage Loans	
Unaffiliated	2399999
Affiliated	2499999
Other	
Unaffiliated	2599999
Affiliated	2699999
Surplus Debentures, etc.Notes	
Unaffiliated	2799999
Affiliated	2899999
Capital Notes	
Unaffiliated	2999999
Affiliated	3099999
Collateral Loans	
Unaffiliated	29999993199999
Affiliated	30999993299999
Non-collateral Loans	
Unaffiliated	31999993399999

Affiliated	32999993499999
Capital Notes	
Unaffiliated.....	3399999
Affiliated	3499999
Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated.....	3599999
Affiliated	3699999
Non-Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated.....	3799999
Affiliated	3899999
Guaranteed State Low Income Housing Tax Credit	
Unaffiliated.....	3999999
Affiliated	4099999
Non-Guaranteed State Low Income Housing Tax Credit	
Unaffiliated.....	4199999
Affiliated	4299999
All Other Low Income Housing Tax Credit	
Unaffiliated.....	4399999
Affiliated	4499999
Working Capital Finance Investment	
Unaffiliated.....	4599999
Residual Tranches or Interests with Underlying Assets Having Characteristics of:	
<u>Fixed Income Instruments</u> <u>Bonds</u>	
Unaffiliated	4699999
Affiliated.....	4799999
Common Stock	
Unaffiliated	4899999
Affiliated.....	4999999
Preferred Stock	
Unaffiliated	5099999
Affiliated.....	5199999
Real Estate	
Unaffiliated	5299999
Affiliated.....	5399999
Mortgage Loans	
Unaffiliated	5499999
Affiliated.....	5599999
Other	
Unaffiliated	5699999
Affiliated.....	5799999
Any Other Class of Assets	
Unaffiliated.....	5899999
Affiliated	5999999
Subtotals	
Unaffiliated.....	60999996899999
Affiliated	61999996999999
TOTALS	62999997099999

The following listing is intended to give examples of investments to be included in each category; however, the list should not be considered all-inclusive, and it should not be implied that any invested asset currently being reported in Schedules A, B or D is to be reclassified to Schedule BA.

Oil and Gas Production

Include: ~~Offshore oil and gas leases.~~

Transportation Equipment

Include: ~~Aircraft owned under leveraged lease agreements.
Motor Vehicle Trust Certificates.~~

Mineral Rights

Include: ~~Investments in extractive materials.

Timber Deeds.~~

Debt Securities That Do Not Qualify as Bonds

Include: ~~Debt securities captured in SSAP No. 21 – Other Admitted Assets. This is specific to securities, as that term is defined in SSAP No. 26 – Bonds, whereby there is a fixed schedule for one or more future payments (referred to as debt securities), but for which the security does not qualify for bond reporting under SSAP No. 26 as an issuer credit obligation or an asset-backed security.~~

~~Investments that have been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* shall be reported on Lines 0199999, 0299999, 0599999, 0699999, 0999999, and 1099999.~~

~~Investments that have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines 0399999, 0499999, 0799999, 0899999, 1199999 and 1299999.~~

Exclude: ~~Any investment that does not qualify as a security. This term is defined in SSAP No. 26R.~~

~~Any investment that is not captured as a debt security that does not qualify as a bond pursuant to SSAP No. 21R—Other Admitted Assets.~~

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: ~~Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.~~

Interests in Joint Ventures, Partnerships or Limited Liability Company-Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics:

Include: Items in scope of SSAP No. 48 – Joint Ventures, Partnerships or Limited Liability Companies, which includes non-registered private funds. Investments shall be reported based on their underlying characteristics as described below. Investments shall be assigned fully to a subcategory. There should not be any bifurcation of the SSAP No. 48 investment among the subcategories.

Structured Security payment rights in scope of SSAP No. 21 that have an SVO-Assigned designation. Structured security payments rights that do not have an SVO-Assigned designation shall be reported as an Any Other Class of Asset.

Exclude: Any investment that is not captured in scope of SSAP No. 48.

Fixed Income InstrumentsBonds

Include: Investments in scope of SSAP No. 48 with underlying collateral that has contractual principal and/or interest payments, excluding mortgage loans.

Structured Settlement payment rights in scope of SSAP No. 21R that have an SVO-Assigned designation.

~~Joint ventures, partnerships or limited liability companies (including non-registered private funds) investments that are engaged in bond strategies.Leveraged Buy-out Fund.~~

A fund investing in the “Z” strip of Collateralized Mortgage Obligations.

~~Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments~~Investments on the NAIC List of Schedule BA Non-Registered Private Funds with Underlying Assets Having Characteristics of Bonds or Preferred Stock and structured settlement payment rights in scope of SSAP No. 21R that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Report these investments on Lines ~~1599999-1399999~~ and ~~1699999-1499999~~.

~~Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instrumentsbonds that has-have~~ not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines ~~1799999-1599999~~ and ~~1899999-1699999~~.

Preferred Stocks

Include: ~~Preferred Stock Interests~~Investments in scope of SSAP No. 48 with underlying characteristics of securities that represents ownership of a corporation and gives the holder a claim prior to the claims of common stockholders on earnings and also generally on assets in the event of liquidation.

Common Stocks

Include: Investments in scope of SSAP No. 48 with underlying characteristics of Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Investments in scope of SSAP No. 48 with underlying collateral that reflects Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Mortgage Loans

Include: Items in scope of SSAP No. 48 that reflect Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under “Other” subcategory.

Other

Include: Items in scope of SSAP No. 48 that do not fit within the specific categories.

Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the “Fixed Income Instruments Bonds,” “Common Stocks,” “Real Estate” or “Mortgage Loans” subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long Term Assets).~~

Surplus ~~Debentures, etc.~~ Notes

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness that is reported on the surplus.

Capital Notes

Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.

Collateral Loans

Include: Refer to *SSAP No. 21R—Other Admitted Assets*, for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Non-collateral Loans

Include: ~~For purposes of this section, n~~Non-collateral loans are considered the unpaid portion of loans previously made to another organization or individual in which the reporting entity has a right to receive money for the loan, but for which the reporting entity has not obtained collateral to secure the loan.

Non-collateral loans shall not include investments captured in scope of SSAP No. 26 – Bonds, SSAP No. 37 – Mortgage Loans, SSAP No. 43R – Asset-Backed Securities, or SSAP No. 49 – Policy Loans, ~~those instruments that meet the definition of a bond, per SSAP No. 26R – Bonds, a mortgage loan per SSAP No. 37 – Mortgage Loans, loan-backed or structured asset-backed securities per SSAP No. 43R – Loan Backed and Structured Securities, or a policy or contract loan per SSAP No. 49 – Policy Loans.~~

In the description column, provide the name of the actual borrower. For affiliated entities, state if the borrower is a parent, subsidiary, affiliate, officer or director. Refer to SSAP No. 20—*Nonadmitted Assets* and SSAP No. 25—*Affiliates and Other Related Parties*, for accounting guidance.

Capital Notes

~~Include: _____ The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.~~

Low Income Housing Tax Credit

Include: All Low Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company, including those investments that have the following risk mitigation factors:

- A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.
- B. Non-guaranteed Low Income Housing Tax Credit Investments.
 - I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.
 - II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.
 - III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the “All Other” category

Working Capital Finance Investment

Include: Investments in an interest in a Confirmed Supplier Receivables (CSR) under a Working Capital Finance Program (WCFP) that is designated by the SVO as meeting the criteria specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for an NAIC “1” or “2.”

Working Capital Finance Program (WCFP)

Open account program under which an Investor may purchase interests, or evidence thereof, in commercial non-insurance receivables. A WCFP is created for the benefit of a commercial investment grade obligor and its suppliers of goods or services and facilitated by a financial intermediary.

Confirmed Supplier Receivables (CSR)

A first priority perfected security interest claim or right to payment of a monetary obligation from the Obligor arising from the sale of goods or services from the Supplier to the Obligor, the payment of which the Obligor has confirmed by representing and warranting that it will not protest, delay, or deny, nor offer nor assert any defenses against payment to the supplier or any party taking claim or right to payment from the supplier.

See SSAP No. 105R—*Working Capital Finance Investments*, for accounting guidance

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests ~~captured in scope of SSAP No. 21R – Other Admitted Assets. The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock, 4) an investment in common stock, or 5) any other investment structure, captures securitization tranches and beneficial interests as well as other structures captured in scope of SSAP No. 43R – Loan Backed and Structured Asset Backed Securities, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.~~

~~Investments in joint ventures, partnerships and limited liability companies captured in scope of SSAP No. 48. – Joint Ventures, Partnerships and Limited Liability Companies that represent residual interests, or that predominantly hold residual interests.~~

~~This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.~~

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported ~~on Schedule D – Part 1 – Long Term Bonds~~ as issuer credit obligations on Schedule D – Part 1 – Section 1, or as asset-backed securities on Schedule D – Part 1 – Section 2. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on Schedule D – Part 2 – Section 2 – Common Stocks

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on Schedule D – Part 2 – Section 1 – Preferred Stocks

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on Schedule A – Real Estate Owned

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on Schedule B – Mortgage Loans

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, aircraft leases or train car leases.

Any Other Class of Assets

Include: Investments that do not fit into one of the other categories. An example of items that may be included are reverse mortgages.

All structured settlement income streams acquired as investments where the reporting entity acquires the legal right to receive payments. (Valuation and admittance provisions are detailed in SSAP No. 21R—Other Admitted Assets.)

This category shall also include oil and gas leases, aircraft owned under leveraged lease arrangements, investments in extractive materials and timber deeds that are not owned within a partnership, LLC or joint venture structure.

SCHEDULE BA – PART 2**OTHER LONG-TERM INVESTED ASSETS ACQUIRED
AND ADDITIONS MADE DURING THE CURRENT QUARTER**

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999, 0899999, 1599999 and 1699999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: www.cusip.com/cusip/index.htm.

~~For those investments not included on Lines 0799999, 0899999, 1599999 and 1699999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.


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Detail Eliminated To Conserve Space
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Column 6 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines ~~07999990199999, 08999990299999, 15999990599999, 16999990699999, 0999999, 1099999, 1399999, 1499999, and 4599999~~. For all other lines, the column may be completed if the investment has an NAIC Designation received from the SVO or from an NAIC CRP.

For the investments noted above, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. ~~The list of valid SVO Administrative Symbols is shown below.~~

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (www.naic.org/svo.htm).

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- ~~NAIC Designation~~ ~~Column 6A~~
- ~~NAIC Designation Modifier~~ ~~Column 6B~~
- ~~SVO Administrative Symbol~~ ~~Column 6C~~

On the printed page the sub-columns should be displayed with a "." between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., "1.A YE").


=====
Detail Eliminated To Conserve Space
=====


**** Columns 14 through 18 will be electronic only. ****

Column 14 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

Column 14 – Legal Entity Identifier (LEI)

Provide the 20 character Legal Entity Identifier (LEI) for issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Column 15 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated..... 2199999

Affiliated..... 2299999

Mortgage Loans

Unaffiliated.....	2399999
Affiliated.....	2499999

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country’s equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example of two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD)

Column 16 – Property Type

Use only for securities included in the following subtotal lines.

Non Registered Private Funds with Underlying Assets Having Characteristics of:

Mortgage Loans

Unaffiliated.....	1199999
Affiliated.....	1299999

Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated.....	2199999
Affiliated.....	2299999

Mortgage Loans

Unaffiliated.....	2399999
Affiliated.....	2499999

For property type, use one of the following codes to indicate the primary use of the property:

- OF Office
- RT Retail
- MU Apartment/Multifamily
- IN Industrial
- HC Medical/Health Care
- MX Mixed Use
- LO Lodging
- OT Other

Column 17 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates. Use only for securities included in the following subtotal lines.

~~Non Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

Unaffiliated.....	1199999
Affiliated.....	1299999

~~State the date the mortgage loan matures.~~

~~Column 18 Investments Involving Related Parties~~

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

- ~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~
- ~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~
- ~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~
- ~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~
- ~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~
- ~~6. The investment does not involve a related party.~~

SCHEDULE BA – PART 3**OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID
DURING THE CURRENT QUARTER**

This schedule should reflect not only disposals of an entire “other invested asset” but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999, 0899999, 1599999 and 1699999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker’s confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor’s CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor’s CUSIP Bureau: www.cusip.com/cusip/index.htm.

~~For those investments not included on Lines 0799999, 0899999, 1599999 and 1699999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.



Detail Eliminated To Conserve Space



**** Columns 21 through 25 will be electronic only. ****

Column 21 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

Column 21 ~~6. The investment does not involve a related party.
Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 22 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated.....1199999~~

~~Affiliated.....1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated.....2199999~~

~~Affiliated.....2299999~~

~~Mortgage Loans~~

~~Unaffiliated.....2399999~~

~~Affiliated.....2499999~~

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country’s equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example of two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD)

Column 23 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated.....1199999~~

~~Affiliated.....1299999~~

~~Interests in Joint Ventures, Partnerships or Limited Liability Company Companies (Including Non-Registered Private Funds) Interests with Underlying Assets Having the Characteristics of:~~

~~Real Estate~~

~~Unaffiliated.....2199999~~

~~Affiliated.....2299999~~

Mortgage Loans

Unaffiliated.....	2399999
Affiliated.....	2499999

For property type, use one of the following codes to indicate the primary use of the property:

- OF Office
- RT Retail
- MU Apartment/Multifamily
- IN Industrial
- HC Medical/Health Care
- MX Mixed Use
- LO Lodging
- OT Other

Column 24 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

Use only for securities included in the following subtotal lines.

Non Registered Private Funds with Underlying Assets Having Characteristics of:

Mortgage Loans

Unaffiliated.....	1199999
Affiliated.....	1299999

State the date the mortgage loan matures.

Column 25 — Investments Involving Related Parties

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

- ~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~
- ~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~
- ~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~

4. ~~Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~
5. ~~The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~
6. ~~The investment does not involve a related party.~~

**ASSET VALUATION RESERVE
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT**

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
COMMON STOCK												
1		Unaffiliated Public		XXX	XXX		0.0000		0.1580 (a)		0.1580 (a)	
2		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
3		Federal Home Loan Bank		XXX	XXX		0.0000		0.0061		0.0097	
4		Affiliated Life with AVR.....		XXX	XXX		0.0000		0.0000		0.0000	
Affiliated Investment Subsidiary:												
5		Fixed Income Exempt Obligations					XXX		XXX		XXX	
6		Fixed Income Highest Quality.....					XXX		XXX		XXX	
7		Fixed Income High Quality					XXX		XXX		XXX	
8		Fixed Income Medium Quality.....					XXX		XXX		XXX	
9		Fixed Income Low Quality.....					XXX		XXX		XXX	
10		Fixed Income Lower Quality.....					XXX		XXX		XXX	
11		Fixed Income In or Near Default.....					XXX		XXX		XXX	
12		Unaffiliated Common Stock Public					0.0000		0.1580 (a)		0.1580 (a)	
13		Unaffiliated Common Stock Private					0.0000		0.1945		0.1945	
14		Real Estate					(b)		(b)		(b)	
15		Affiliated-Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
16		Affiliated - All Other.....		XXX	XXX		0.0000		0.1945		0.1945	
17		Total Common Stock (Sum of Lines 1 through 16)					XXX		XXX		XXX	
REAL ESTATE												
18		Home Office Property (General Account only).....					0.0000		0.0912		0.0912	
19		Investment Properties					0.0000		0.0912		0.0912	
20		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
21		Total Real Estate (Sum of Lines 18 through 20)					XXX		XXX		XXX	
OTHER INVESTED ASSETS INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF BONDS												
22		Exempt Obligations		XXX	XXX		0.0000		0.0000		0.0000	
23	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
24	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
25	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
26	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
27	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
28	6	In or Near Default.....		XXX	XXX		0.0000		0.2370		0.2370	
29		Total with Bond Characteristics (Sum of Lines 22 through 28)		XXX	XXX		XXX		XXX		XXX	

**ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT**

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols.4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols.4x9)
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF PREFERRED STOCKS												
30	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
31	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
32	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
33	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
34	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
35	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
36		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
37		Total with Preferred Stock Characteristics (Sum of Lines 30 through 36)		XXX	XXX		XXX		XXX		XXX	
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS												
In Good Standing Affiliated:												
38		Mortgages – CM1 – Highest Quality			XXX		0.0011		0.0057		0.0074	
39		Mortgages – CM2 – High Quality			XXX		0.0040		0.0114		0.0149	
40		Mortgages – CM3 – Medium Quality			XXX		0.0069		0.0200		0.0257	
41		Mortgages – CM4 – Low Medium Quality			XXX		0.0120		0.0343		0.0428	
42		Mortgages – CM5 – Low Quality			XXX		0.0183		0.0486		0.0628	
43		Residential Mortgages – Insured or Guaranteed			XXX		0.0003		0.0007		0.0011	
44		Residential Mortgages – All Other		XXX	XXX		0.0015		0.0034		0.0046	
45		Commercial Mortgages – Insured or Guaranteed			XXX		0.0003		0.0007		0.0011	
Overdue, Not in Process Affiliated:												
46		Farm Mortgages			XXX		0.0480		0.0868		0.1371	
47		Residential Mortgages – Insured or Guaranteed			XXX		0.0006		0.0014		0.0023	
48		Residential Mortgages – All Other			XXX		0.0029		0.0066		0.0103	
49		Commercial Mortgages – Insured or Guaranteed			XXX		0.0006		0.0014		0.0023	
50		Commercial Mortgages – All Other			XXX		0.0480		0.0868		0.1371	
In Process of Foreclosure Affiliated:												
51		Farm Mortgages			XXX		0.0000		0.1942		0.1942	
52		Residential Mortgages – Insured or Guaranteed			XXX		0.0000		0.0046		0.0046	
53		Residential Mortgages – All Other			XXX		0.0000		0.0149		0.0149	
54		Commercial Mortgages – Insured or Guaranteed			XXX		0.0000		0.0046		0.0046	
55		Commercial Mortgages – All Other			XXX		0.0000		0.1942		0.1942	
56		Total Affiliated (Sum of Lines 38 through 55)			XXX		XXX		XXX		XXX	
57		Unaffiliated – In Good Standing With Covenants			XXX		(c)		(c)		(c)	
58		Unaffiliated – In Good Standing Defeased With Government Securities			XXX		0.0011		0.0057		0.0074	
59		Unaffiliated – In Good Standing Primarily Senior			XXX		0.0040		0.0114		0.0149	
60		Unaffiliated – In Good Standing All Other			XXX		0.0069		0.0200		0.0257	
61		Unaffiliated – Overdue, Not in Process			XXX		0.0480		0.0868		0.1371	
62		Unaffiliated – In Process of Foreclosure			XXX		0.0000		0.1942		0.1942	
63		Total Unaffiliated (Sum of Lines 57 through 62)			XXX		XXX		XXX		XXX	
64		Total with Mortgage Loan Characteristics (Lines 56 + 63)			XXX		XXX		XXX		XXX	

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK												
65		Unaffiliated Public		XXX	XXX		0.0000		0.1580(a)		0.1580(a)	
66		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
67		Affiliated Life with AVR.....		XXX	XXX		0.0000		0.0000		0.0000	
68		Affiliated Certain Other (See SVO Purposes & Procedures Manual).....		XXX	XXX		0.0000		0.1580		0.1580	
69		Affiliated Other - All Other		XXX	XXX		0.0000		0.1945		0.1945	
70		Total with Common Stock Characteristics (Sum of Lines 65 through 69)		XXX	XXX		XXX		XXX		XXX	
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE												
71		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
72		Investment Properties					0.0000		0.0912		0.0912	
73		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
74		Total with Real Estate Characteristics (Sum of Lines 71 through 73)					XXX		XXX		XXX	
LOW INCOME HOUSING TAX CREDIT INVESTMENTS												
75		Guaranteed Federal Low-Income Housing Tax Credit					0.0003		0.0006		0.0010	
76		Non-guaranteed Federal Low-Income Housing Tax Credit					0.0063		0.0120		0.0190	
77		Guaranteed State Low Income Housing Tax Credit					0.0003		0.0006		0.0010	
78		Non-guaranteed State Low Income Housing Tax Credit					0.0063		0.0120		0.0190	
79		All Other Low-Income Housing Tax Credit					0.0273		0.0600		0.0975	
80		Total LIHTC (Sum of Lines 75 through 79)					XXX		XXX		XXX	
RESIDUAL TRANCHES OR INTERESTS												
81		Fixed Income Instruments/Bonds - Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
82		Fixed Income Instruments/Bonds - Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
83		Common Stock - Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
84		Common Stock - Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
85		Preferred Stock - Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
86		Preferred Stock - Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
87		Real Estate - Unaffiliated					0.0000		0.1580		0.1580	
88		Real Estate - Affiliated					0.0000		0.1580		0.1580	
89		Mortgage Loans - Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
90		Mortgage Loans - Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
91		Other - Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
92		Other - Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
93		Total Residual Tranches or Interests (Sum of Lines 81 through 92)					XXX		XXX		XXX	
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF SURPLUS NOTES & CAPITAL NOTES												
94	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
95	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
96	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
97	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
98	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
99	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
100		Total with Bond Characteristics (Sum of Lines 94 through 100)		XXX	XXX		XXX		XXX		XXX	
ALL OTHER INVESTMENTS												
10194		NAIC 1 Working Capital Finance Investments		XXX			0.0000		0.0042		0.0042	
10295		NAIC 2 Working Capital Finance Investments		XXX			0.0000		0.0137		0.0137	
10396		Other Invested Assets - Schedule BA		XXX			0.0000		0.1580		0.1580	
10497		Other Short-Term Invested Assets - Schedule DA		XXX			0.0000		0.1580		0.1580	
10598		Total All Other (Sum of Lines 94, 95, 96 and 97)		XXX			XXX		XXX		XXX	
10699		Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93, 100 and 98105)					XXX		XXX		XXX	

(a) Times the company's weighted average portfolio beta (Minimum .1215, Maximum .2431).
 (b) Determined using same factors and breakdowns used for directly owned real estate.
 (c) This will be the factor associated with the risk category determined in the company generated worksheet.

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Collateral Loan Reporting

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: This agenda item has been developed to propose an expansion of reporting for collateral loans on Schedule BA to enable regulators the ability to quickly identify the type of collateral in support of admittance of collateral loans in scope of *SSAP No. 21R—Other Admitted Assets*. This agenda item has been drafted in response to comments that the current reporting detail on Schedule BA does not provide sufficient clarity on the type of collateral used in support of admittance of collateral loans. Furthermore, with the adoption of agenda item 2022-11, the statutory accounting guidance has been clarified that the collateral must reflect a qualifying investment, meaning that it would qualify for admittance if held directly by the insurer. This amendment further clarified that collateral that represents an investment in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiary, Controlled or Affiliated Entities* is required to be audited consistent with the admittance requirements of those SSAPs.

As detailed within, this agenda item proposes new disclosure requirements in SSAP No. 21R for collateral loans. The new disclosure requirement is proposed to be satisfied by an expansion of the reporting on Schedule BA, so that the collateral loans are separated by the type of collateral investment that secures the loan. Additionally, a new aggregated data-captured note is proposed to identify the admitted and nonadmitted collateral loans by the type of collateral that secures the loan.

Existing Authoritative Literature:

- **SSAP No. 21R—Other Admitted Assets - (Tracking shows the edits adopted on Oct. 23, 2023.)**

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of an qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

a. **Loan Impairment—**Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*;

b. **Nonadmitted Asset—**In accordance with *SSAP No. 20—Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be

made available to the applicable domiciliary regulator and independent audit firm upon request.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, SSAP No. 26R—Bonds includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of Appendix A-001—Investments of Reporting Entities which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and/or SSAP No. 97.

Effective Date and Transition

22. ___ 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. The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018. The clarification regarding audits of qualifying collateral pledged for collateral loans in the footnote 2 to paragraph 4, requires applicable audits to be obtained for the 2023 reporting period in the subsequent year. In periods after year-end 2023, the audits of equity collateral pledged for collateral loans are required to be obtained for the reporting year in which it was pledged and annually thereafter. The annual audit lag shall be consistent from period to period.

- **A/S Blank and Instructions** (*This reflects what is proposed to be adopted in 2023-12BWG.*)

Collateral Loans

Unaffiliated.....	3199999
Affiliated.....	3299999

Collateral Loans

Include: Refer to SSAP No. 21R—Other Admitted Assets for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

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

- Agenda Item 2022-11: Collateral for Loans clarified guidance on the criteria for collateral in order for a collateral loan to qualify as an admitted asset.
- Blanks Agenda Item 2023-12BWG incorporates revisions as part of the bond project to capture debt securities that do not qualify as bonds on Schedule BA. The revisions within this blanks item incorporate minor revisions to the instructions for collateral loans.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

None

Convergence with International Financial Reporting Standards (IFRS): N/A

Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose this agenda item with proposed revisions to incorporate a new disclosure to SSAP No. 21R, for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. NAIC staff recommends that the Working Group direct a corresponding blanks proposal to allow for concurrent exposure.

Proposed Revisions to SSAP No. 21R: *(Only new edits are tracked. Prior adopted revisions are shown clean.)*

4. Collateral loans are unconditional obligations¹ for the payment of money secured by the pledge of a qualifying investment² and meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement. The outstanding principal balance on the loan and any related accrued interest shall be recorded as an admitted asset subject to the following limitations:

- a. Loan Impairment—Determination as to the impairment of a collateral loan shall be based on current information and events. When it is considered probable that any portion of amounts due under the contractual terms of the loan will not be collected the loan is considered impaired. The impairment shall be measured based on the fair value of the collateral less estimated costs to obtain and sell the collateral. The difference between the net value of the collateral and the recorded asset shall be written off in accordance with SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets*;
- b. Nonadmitted Asset—In accordance with SSAP No. 20—*Nonadmitted Assets*, collateral loans secured by assets that do not qualify as investments which would otherwise be admitted shall be nonadmitted. Further, any amount of the loan outstanding which is in excess of the permitted relationship of fair value of the pledged investment to the collateral loan shall be treated as a nonadmitted asset. To support the admissibility of collateral loans, reporting entities shall maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral, which shall be made available to the applicable domiciliary regulator and independent audit firm upon request.

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans and the collateral loans admitted and nonadmitted by qualifying investment type.

Footnote 1: For purposes of determining a collateral loan in scope of this statement, a collateral loan does not include investments captured in scope of other statements. For example, SSAP No. 26R—*Bonds* includes securities (as defined in that statement) representing a creditor relationship whereby there is a fixed schedule for one or more future payments. Investments captured in SSAP No. 26R that are also secured with collateral shall continue to be captured within scope of SSAP No. 26R.

Footnote 2: A qualifying investment defined as those assets listed in Section 3 of *Appendix A-001—Investments of Reporting Entities* which would, if held by the insurer, qualify for admittance. For example, if the collateral would not qualify for admittance under SSAP No. 4 due to encumbrances or other third-party interests, then it does not meet the definition of "qualifying" and the collateral loan, or any portion thereof which is not adequately collateralized, is not permitted to be admitted. In the cases where the collateral is an equity/unit investment in a joint venture, partnership, limited liability company, and or SCA is

pledged as collateral in a collateral loan, audited financial statements on a consistent annual basis are always required in accordance with SSAP No. 48 and or SSAP No. 97.

Proposed Schedule BA Reporting Changes:

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2R)

Unaffiliated.....
Affiliated.....

Bonds (SSAP No. 26R)

Unaffiliated.....
Affiliated.....

Asset-Backed Securities (SSAP No. 43R)

Unaffiliated.....
Affiliated.....

Preferred Stocks (SSAP No. 32R)

Unaffiliated.....
Affiliated.....

Common Stocks (SSAP No. 30R)

Unaffiliated.....
Affiliated.....

Mortgage Loans (SSAP No. 37R)

Unaffiliated.....
Affiliated.....

Real Estate (SSAP No. 40R)

Unaffiliated.....
Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48R)

Unaffiliated.....
Affiliated.....

Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)

Unaffiliated.....
Affiliated.....

Other Qualifying Investment Category

Unaffiliated.....
Affiliated.....

Collateral Does Not Qualify as an Investment

Unaffiliated.....
Affiliated.....

Collateral Loans

Include: Refer to SSAP No. 21R—Other Admitted Assets for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Classify the collateral loan in accordance with the type of collateral held, such that if the loan was to default and the collateral was to be claimed by the reporting entity, where it would be captured (investment type by SSAP) as a directly-held investment. If more than one form of collateral secures the loan, classification should occur based on the primary collateral source. The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets.

Proposed Data-Captured Disclosure:

Aggregate Collateral Loans by Qualifying Investment Collateral:

<u>Collateral Type</u>	<u>Aggregate Collateral Loan</u>	<u>Admitted</u>	<u>Nonadmitted</u>
<u>Cash, Cash Equivalents & ST Investments</u>			
<u>Bonds</u>			
<u>Asset-Backed Securities</u>			
<u>Preferred Stocks</u>			
<u>Common Stocks</u>			
<u>Real Estate</u>			
<u>Mortgage Loans</u>			
<u>Joint Ventures, Partnerships, LLC</u>			
<u>Subsidiary, Affiliated and Controlled Entities</u>			
<u>Other Qualifying Investments</u>			
<u>Collateral Does not Qualify as an Investment</u>			
<u>Total</u>			

Pursuant to SSAP No. 21R, nonadmittance of a collateral loan is required when the fair value of the collateral is not sufficient to cover the collateral loan or if the collateral securing the loan is not a qualifying investment. This includes situations in which collateral in form of joint ventures, partnerships, LLCs or SCAs is not supported by an audit as required by SSAP No. 48 or SSAP No. 97.

The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities

[lending and any investments that would qualify as a write-in for invested assets. All collateral loans secured by collateral that does not qualify as an investment areis required to be nonadmitted under SSAP No. 21R.](#)

Staff Review Completed by: Julie Gann - NAIC Staff, September 2023

Status:

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed revisions to incorporate a new disclosure to SSAP No. 21R for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. Comments are requested on whether any of the proposed reporting lines should be combined.

On February 20, 2023, the Statutory Accounting Principles (E) Working Group took the following two actions:

- 1) The Working Group **adopted** the exposed revisions to SSAP No. 21R incorporating a collateral loan disclosure for year-end 2024. With this adoption, the Working Group sponsored a blanks proposal to data-capture the disclosure. Adopted revisions to SSAP No. 21R are shown below:

[5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.](#)

- 2) The Working Group exposed proposed reporting lines to Schedule BA for collateral loans with a comment deadline of April 19, 2024. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

February 20, 2024, Exposed Schedule BA Reporting Changes:

(Tracking shows changes from the prior exposure.)

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

~~Cash, Cash Equivalent & Short-Term Investments (SSAP No. 2R)~~

~~Unaffiliated.....~~

~~Affiliated.....~~

~~Bonds and Asset-Backed Securities (SSAP No. 26R & SSAP No. 43R)~~

~~Unaffiliated.....~~

~~Affiliated.....~~

~~Asset-Backed Securities (SSAP No. 43R)~~

~~Unaffiliated.....~~

~~Affiliated.....~~

~~Preferred Stocks (SSAP No. 32R)~~

~~Unaffiliated.....~~

~~Affiliated.....~~

Common Stocks (SSAP No. 30R)

Unaffiliated.....
Affiliated.....

Mortgage Loans (SSAP No. 37R)

Unaffiliated.....
Affiliated.....

Real Estate (SSAP No. 40R)

Unaffiliated.....
Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48)

Fixed Income Investments (Unaffiliated)
Fixed Income Investments (Affiliated)

Common Stocks (Unaffiliated)
Common Stocks (Affiliated)

Real Estate (Unaffiliated)
Real Estate (Affiliated)

Mortgage Loans (Unaffiliated)
Mortgage Loans (Affiliated)

Other (Unaffiliated)
Other (Affiliated)
Unaffiliated.....
Affiliated.....

Subsidiary, Controlled or Affiliated Investment (SSAP No. 97)

Unaffiliated.....
Affiliated.....

Other ~~Qualifying~~ Investment Category

Cash, Cash Equivalent and Short-Term Investments (Unaffiliated)
Cash, Cash Equivalent and Short-Term Investments (Affiliated)

Other Long-Term Invested Assets (Unaffiliated)
Other Long-Term Invested Assets (Affiliated)
Unaffiliated.....
Affiliated.....

Collateral Does Not Qualify as an Investment

Unaffiliated.....
Affiliated.....

Non-Collateral Loans

Related Party/Affiliated Loans
All Other Non-Collateral Loans
Unaffiliated.....

~~Affiliated~~.....

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/05-15-24/03 - 23-28 - Collateral Loan Reporting_0.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/05-15-24/03-23-28-CollateralLoanReporting_0.docx)

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Update SSAP No. 107 Disclosures

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

This agenda item recommends updates to disclosure requirements in *Statement of Statutory Accounting Principles No. 107—Risk-Sharing Provisions of the Affordable Care Act* (SSAP No. 107) to remove disclosures related to transitional reinsurance and for the risk corridors programs which have expired.

In December 2014, the NAIC Statutory Accounting Principles Working Group (SAPWG) issued SSAP No. 107 to provide accounting and disclosure guidance for the three risk-sharing provision programs of the Affordable Care Act (the “3Rs programs”). SSAP No. 107 covers the three risk sharing programs that were initially part of the Affordable Care Act, a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program. Since that time, the 3Rs programs have changed significantly. Most notably, the temporary transitional reinsurance and risk corridors programs terminated at the end of 2016.

SSAP No. 107 introduced significant financial statement disclosure requirements for the 3Rs programs. The disclosures are required by SSAP No. 107, paragraphs 60-62. Exhibit B of SSAP No. 107 illustrates the roll-forward disclosure required by paragraph 61. These disclosure requirements are currently satisfied through detailed data tables included in Footnote 24E of the quarterly and annual financial statements.

Despite the passage of time and the termination of two of the 3Rs programs, the disclosure requirements outlined in SSAP 107 and the disclosure instructions for footnote 24E have not been updated or modified since inception. As a result, companies originally subject to the 3Rs programs are still required by SSAP No. 107 to include several tables in Footnote 24E, even though the majority of the information disclosed is either zero or blank because two of the programs were terminated several years ago. This agenda item proposal removal of the disclosures for the expired programs and also removal of the related roll forward illustration in Exhibit B of SSAP No. 107 for the expired programs.

Existing Authoritative Literature:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements by program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. through 60.c. Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

- a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)
 - ii. Risk adjustment user fees payable for ACA Risk Adjustment
 - iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)
 - iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
 - v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- b. ACA Transitional Reinsurance Program
- i. Amounts recoverable for claims paid due to ACA Reinsurance
 - ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)
 - iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance
 - iv. Liabilities for contributions payable due to ACA Reinsurance - not reported as ceded premium
 - v. Ceded reinsurance premiums payable due to ACA Reinsurance
 - vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance
 - vii. Ceded reinsurance premiums due to ACA Reinsurance
 - viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments
 - ix. ACA Reinsurance Contributions – not reported as ceded premium
- c. ACA Temporary Risk Corridors Program
- i. Accrued retrospective premium due from ACA Risk Corridors
 - ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors
 - iii. Effect of ACA Risk Corridors on net premium income (paid/received)
 - iv. Effect of ACA Risk Corridors on change in reserves for rate credits

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (notwithstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

Exhibit B of SSAP No. 107 illustrates the roll forward required by the SSAP No. 107. paragraph 61 of the disclosures.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

Convergence with International Financial Reporting Standards (IFRS):Not Applicable

Sponsor Recommendation

We are respectfully requesting SAPWG to re-evaluate and amend the disclosure requirements of SSAP 107 and request BWG to update the quarterly and annual financial statement instructions for Footnote 24E to eliminate certain tables, or portions of tables, that are no longer applicable. Specifically, we are requesting elimination of the portions of each table related to the transitional reinsurance and risk corridors programs that are no longer valid.

Sherry Gillespie, Senior Director - Regulatory Finance
UnitedHealthcare
2884 School Ln, Green Bay, WI 54313
February 1, 2024

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 107—*Risk-Sharing Provisions of the Affordable Care Act* as illustrated below. The revisions will remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. NAIC staff recommends that the Working Group direct a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

NAIC staff is aware that some states have federal waivers to operate reinsurance programs, but not all of the federal reinsurance waivers operate the same as the original transition program. To the extent the Working Group decides that new disclosures are needed for these reinsurance waiver programs, a future disclosure can be developed separately.

Staff Review Completed by: Robin Marcotte - NAIC Staff

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* which would remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. The Working Group also directed NAIC staff to prepare a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

Proposed Revisions:

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by for the permanent risk adjustment~~ program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.c.~~ Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

a. ACA Permanent Risk Adjustment Program

- i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)—
- ii. Risk adjustment user fees payable for ACA Risk Adjustment—
- iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)—
- iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
- v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)

~~b. ACA Transitional Reinsurance Program~~

- ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
- ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)~~
- ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance—~~
- ~~iv. Liabilities for contributions payable due to ACA Reinsurance — not reported as ceded premium~~
- ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
- ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance—~~
- ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
- ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~

- ~~ix. ACA Reinsurance Contributions not reported as ceded premium~~
- ~~c. ACA Temporary Risk Corridors Program~~
 - ~~i. Accrued retrospective premium due from ACA Risk Corridors~~
 - ~~ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
 - ~~iii. Effect of ACA Risk Corridors on net premium income (paid/received)~~
 - ~~iv. Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions for the risk adjustment program specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk ~~corridors~~ adjustment balances by program benefit year:

- a. Estimated amount to be filed or final amounts filed with federal agency
- b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)
- c. Amounts received from federal agency
- d. Asset balance gross of nonadmission
- e. Nonadmitted amounts
- f. Net admitted assets

EXHIBIT B – ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION

Receivables are reflected gross of any nonadmission for this illustration.

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances	Ref	Cumulative Balance from Prior Years (Col 1 – 3 + 7)	Cumulative Balance from Prior Years (Col 2 – 4 + 8)
	1	2	3	4	5	6	7	8	9	10	11
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)		Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable	4,000,000		3,000,000		1,000,000		-800,000		A	200,000	0
2. Premium adjustments (payable)		8,000,000		9,000,000		-1,000,000		1,000,000	B		0
3. Subtotal ACA Permanent Risk Adjustment Program	4,000,000	8,000,000	3,000,000	9,000,000	1,000,000	-1,000,000	-800,000	1,000,000		200,000	0
b. Transitional ACA Reinsurance Program											
1. Amounts recoverable for claims paid	22,000,000		15,000,000		7,000,000		-7,000,000		C	0	
2. Amounts recoverable for claims unpaid (contra liability)	8,000,000		9,000,000		-1,000,000		990,000		D	-10,000	
3. Amounts receivable relating to uninsured plans	3,000,000		2,800,000		200,000		-100,000		E	100,000	
4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium		90,000		75,000		15,000		-14,000	F		1,000
5. Ceded reinsurance premiums payable		100		200		-100		100	G		0
6. Liability for amounts held under uninsured plans		125,000		15,000		110,000		90,000	H		200,000
7. Subtotal ACA Transitional Reinsurance Program	33,000,000	215,100	26,800,000	90,200	6,200,000	124,900	-6,110,000	76,100		90,000	201,000
e. Temporary ACA Risk Corridors Program											
1. Accrued retrospective premium	12,000,000		14,000,000		-2,000,000		1,750,000		I	-250,000	
2. Reserve for rate credits or policy experience rating refunds		150,000		250,000		-100,000		100,000	J		0
3. Subtotal ACA Risk Corridors Program	12,000,000	150,000	14,000,000	250,000	-2,000,000	-100,000	1,750,000	100,000		-250,000	0
d. Total for ACA Risk-Sharing Provisions	49,000,000	8,365,100	43,800,000	9,340,200	5,200,000	-975,100	-5,160,000	1,176,100		40,000	201,000

Explanation of adjustments:

- A. Adjusted due to federal audit.
- B. Adjusted because of revised participant count.
- C. Adjusted due to poor experience of other participants in the reinsurance pool.
- D. Revised risk score information in the state of substantially impacted risk scores.

For May 15, 2024 Discussion:

The Working Group will consider whether to incorporate additional revisions to what was exposed at the spring meeting (shaded below) to additionally delete paragraph 62.

SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act Disclosures

60. The financial statements shall disclose on an annual and quarterly basis beginning in the first quarter of 2014, the assets, liabilities and revenue elements ~~by for the permanent risk adjustment~~ program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods which are impacted by the programs including the listing in paragraphs 60.a. ~~through 60.e~~. Reporting entities shall also indicate if they wrote any accident and health insurance premium, which is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc. Asset balances shall reflect admitted asset balances. The disclosure shall include the following:

- a. ACA Permanent Risk Adjustment Program
 - i. Premium adjustments receivable due to ACA Risk Adjustment (including high-cost risk pool payments)—
 - ii. Risk adjustment user fees payable for ACA Risk Adjustment—
 - iii. Premium adjustments payable due to ACA Risk Adjustment (including high-cost risk pool ceded premium)—
 - iv. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
 - v. Reported in expenses as ACA risk adjustment user fees (incurred/paid)
- ~~b. ACA Transitional Reinsurance Program~~
 - ~~i. Amounts recoverable for claims paid due to ACA Reinsurance~~
 - ~~ii. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra-liability)~~
 - ~~iii. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance—~~
 - ~~iv. Liabilities for contributions payable due to ACA Reinsurance — not reported as ceded premium~~
 - ~~v. Ceded reinsurance premiums payable due to ACA Reinsurance~~
 - ~~vi. Liability for amounts held under uninsured plans contributions for ACA Reinsurance—~~
 - ~~vii. Ceded reinsurance premiums due to ACA Reinsurance~~
 - ~~viii. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~
 - ~~ix. ACA Reinsurance Contributions — not reported as ceded premium~~
- ~~c. ACA Temporary Risk Corridors Program~~
 - ~~i. Accrued retrospective premium due from ACA Risk Corridors~~

- ~~ii. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
- ~~iii. Effect of ACA Risk Corridors on net premium income (paid/received)~~
- ~~iv. Effect of ACA Risk Corridors on change in reserves for rate credits~~

61. In addition, beginning in annual 2014 and both quarterly and annual thereafter, a roll forward of prior year ACA risk-sharing provisions for the risk adjustment program specified asset and liability balances shall be disclosed in the annual statutory Notes to Financial Statements, as illustrated in Exhibit B. Note for the roll forward illustration, assets shall be reflected gross of any nonadmission. The reasons for adjustments to prior year balances (i.e. federal audits, revised participant counts, information which impacted risk score projections, etc.) shall also be disclosed. ~~For year-end 2014, all columns and rows are expected to be zero since 2014 is the first year that a receivable or liability will be recorded. For reporting periods on or after March 31, 2016, the risk corridors roll forward is amended to require disclosure of the risk corridors asset and liability balances and subsequent adjustments by program benefit year.~~ The beginning receivable or payable in the roll forward will reflect the prior year-end balance for the specified benefit.

~~62. For reporting periods ending on or after March 31, 2016, for both quarterly and annual reporting, the following information is required for risk corridors balances by program benefit year:~~

- ~~a. Estimated amount to be filed or final amounts filed with federal agency~~
- ~~b. Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)~~
- ~~c. Amounts received from federal agency~~
- ~~d. Asset balance gross of nonadmission~~
- ~~e. Nonadmitted amounts~~
- ~~f. Net admitted assets~~

EXHIBIT B – ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION

Receivables are reflected gross of any nonadmission for this illustration.

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances	Ref	Cumulative Balance from Prior Years (Col 1 – 3 + 7)	Cumulative Balance from Prior Years (Col 2 – 4 + 8)
	1	2	3	4	5	6	7	8	9	10	11
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)		Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable	4,000,000		3,000,000		1,000,000		-800,000		A	200,000	0
2. Premium adjustments (payable)		8,000,000		9,000,000		-1,000,000		1,000,000	B		0
3. Subtotal ACA Permanent Risk Adjustment Program	4,000,000	8,000,000	3,000,000	9,000,000	1,000,000	-1,000,000	-800,000	1,000,000		200,000	0
b. Transitional ACA Reinsurance Program											
1. Amounts recoverable for claims paid	22,000,000		15,000,000		7,000,000		-7,000,000		C	0	
2. Amounts recoverable for claims unpaid (contra liability)	8,000,000		9,000,000		-1,000,000		990,000		D	-10,000	
3. Amounts receivable relating to uninsured plans	3,000,000		2,800,000		200,000		-100,000		E	100,000	
4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium		90,000		75,000		15,000		-14,000	F		1,000
5. Ceded reinsurance premiums payable		100		200		-100		100	G		0
6. Liability for amounts held under uninsured plans		125,000		15,000		110,000		90,000	H		200,000
7. Subtotal ACA Transitional Reinsurance Program	33,000,000	215,100	26,800,000	90,200	6,200,000	124,900	-6,110,000	76,100		90,000	201,000
e. Temporary ACA Risk Corridors Program											
1. Accrued retrospective premium	12,000,000		14,000,000		-2,000,000		1,750,000		I	-250,000	
2. Reserve for rate credits or policy experience rating refunds		150,000		250,000		-100,000		100,000	J		0
3. Subtotal ACA Risk Corridors Program	12,000,000	150,000	14,000,000	250,000	-2,000,000	-100,000	1,750,000	100,000		-250,000	0
d. Total for ACA Risk-Sharing Provisions	49,000,000	8,365,100	43,800,000	9,340,200	5,200,000	-975,100	-5,160,000	1,176,100		40,000	201,000

Explanation of adjustments:

- A. Adjusted due to federal audit.
- B. Adjusted because of revised participant count.
- C. Adjusted due to poor experience of other participants in the reinsurance pool.
- D. Revised risk score information in the state of substantially impacted risk scores.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/05-15-24/04-24-13-UpdateSSAPNo107Disclosures.docx>

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April 19, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due April 19th

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting in Phoenix with comments due April 19th.

Ref #2023-16: Schedule BA Reporting

The Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG. After some discussion, the Working Group exposed this agenda item and directed a modified SAPWG-sponsored blanks proposal (2023-12BWG) to recommend for exposure during the February 21, 2024, Banks (E) Working Group conference call. (This agenda item does not propose any SSAP revisions.)

The following key modifications are reflected in the modified Schedule BA blanks proposal and for documentation within this agenda item:

- 1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an “Any Other Class of Asset.”
- 2) The Schedule BA reporting category for investments in “Joint Ventures, Partnerships and Limited Liability Companies” has been clarified to identify that investments captured within

this reporting category shall be in scope of SSAP No. 48. With this clarification, the revisions proposed by industry to clarify the “underlying characteristics of bonds” subcategory to include “collateral that has contractual principal and/or interest payments, excluding mortgage loans,” as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the SSAP No. 48 restriction has been included to reference structured settlement payment rights in scope of SSAP No. 21R—*Other Admitted Assets* that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the “non-registered private fund” reporting category as those items shall be reported in the “joint ventures, partnerships and limited liabilities companies” reporting category if in scope of SSAP No. 48.

- 3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning Jan. 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

Since this item was exposed along with a modified SAPWG-sponsored Blanks Working Group proposal (2023-12BWG), interested parties have focused on providing specific comments on the BWG item, which are primarily editorial in nature. Our comments will be provided by separate comment letter (April 23) to the Blanks Working Group.

Ref #2023-28: Collateral Loan Reporting

The Working Group took the following two actions:

- 1) The Working Group adopted the exposed revisions to SSAP No. 21R incorporating a collateral loan disclosure for year-end 2024. With this adoption, the Working Group sponsored a blanks proposal to data-capture the disclosure. Adopted revisions to SSAP No. 21R are shown below:

5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.

- 2) The Working Group also exposed proposed reporting lines to Schedule BA for collateral loans with a comment deadline of April 19, 2024. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

Interested parties have the following comments on Ref #2023-28 as a Blanks Working Group exposure draft is developed for changes to the Collateral Loan category on Schedule BA:

- Remove the reference to SSAPs on the face of Schedule BA and, for the Collateral Loan sub-categories that have an SSAP reference, incorporate instructions similar to those in the Residual Tranche category. For example, the Cash, Cash Equivalents & Short-Term Investments sub-category would have instructions as follows:
 - Include: Investments with underlying collateral which, if held individually, would be reported on Schedule E – Part 1 – Cash; Schedule E – Part 2 – Cash Equivalents; Schedule DA – Short-Term Investments.
- Rename the sub-category “*Bonds and Asset-Backed Securities*” to “*Bonds (Issuer Credit Obligations and Asset-Backed Securities)*” as it better reflects reporting terminology.
- Under the “*Joint Ventures, Partnerships or Limited Liability Company Companies*” sub-category, refer to “*Fixed Income Investments*” as “*Bonds*”, which is consistent throughout Schedule BA; the Fixed Income Investments category has been interpreted to include Preferred Stocks and Mortgage Loans.
- Add a “*Preferred Stocks*” category under the “*Joint Ventures, Partnerships or Limited Liability Company Companies*” sub-category for consistency with the main “*Joint Ventures, Partnerships or Limited Liability Company Companies*” category.
- The following underlined wording appears to have been erroneously deleted in the exposure:
 - Interests in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) with Underlying Assets Having the Characteristics of:
- We also suggest a temporary change to the Life RBC risk factor for Collateral Loans with Mortgage Loans as collateral that secures the loan. We will submit proposed changes to the Life RBC WG and the Blanks WG to support these temporary changes until the Life RBC WG addresses the referral from SAP Working Group to adopt permanent changes to the Life RBC for Collateral Loans in the new Schedule BA reporting structure.
- We have no concerns about adding AVR for Collateral Loans since they currently have an RBC factor; this would better align the AVR to RBC for Collateral Loans. Interested parties look forward to working with NAIC Staff and State Insurance Regulators on developing the various AVR factors (e.g., Basic Contribution, etc.) and the related Life RBC factors based on the referral to the Life RBC Working Group.

Ref #2024-13: SSAP No. 107 Disclosures

The Working Group exposed revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* which would remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. The Working Group also directed NAIC staff to prepare a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

Interested parties generally support the exposed changes to remove the ACA SSAP No. 107 disclosures related to the transitional reinsurance and risk corridors programs.

However, we note that rather than deleting the outdated disclosures specific to the Risk Corridors program in Note 24E/F(4) and 24E/F(5), the titles in the tables in the disclosure were simply modified to replace "Risk Corridors" with "Risk Adjustment." The disclosures required by Note 24E/F(4) and 24E/F(5) were specifically developed for the ACA Risk Corridors program for years 2014 through 2016. The data elements in these two tables are not applicable to the Risk Adjustment program and/or would be duplicative with the Risk Adjustment information already disclosed in FN 24E/F(2) and 24E/F(3). Similarly, paragraph 62 of SSAP 107 was also modified to replace "Risk Corridor" with "Risk adjustment". However, the disclosure requirements specified in paragraph 62 are specific to the Risk Corridor program. We respectfully request these two Risk Corridors paragraphs be deleted from the Annual Instructions as requested in the Form A submission and paragraph 62 be deleted from SSAP 107.

* * * *

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell

Rose Albrizio

cc: Interested parties
NAIC staff

Statutory Issue Paper No. 1XX

Principles-Based Bond Definition

STATUS

Exposure Draft – May 15, 2024

Original SSAP: SSAP No. 26 and SSAP No. 43

Current Authoritative Guidance: SSAP No. 26 and SSAP No. 43

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper ~~introduces details the~~ new statutory accounting concept revisions to ~~SSAP No. 26R—Bonds~~ (SSAP No. 26R), ~~and SSAP No. 43R—Loan-backed and Structured Securities~~ (SSAP No. 43R) ~~and SSAP No. 21—Other Admitted Assets~~ (SSAP No. 21) pursuant to the Statutory Accounting Principles (E) Working Group’s (Working Group) Investment Classification Project as well as in response to expanding investment structures that have been reported on Schedule D-1: Long-Term Bonds. ~~The revisions and discussions detailed within The Investment Classification Project~~ reflects a comprehensive review, referred to as the “Principles-Based Bond Project,” to establish principal concepts for determining whether a debt security qualifies for reporting as a bond. ~~address a variety of issues pertaining to definitions, measurement and overall scope of the investment SSAPs.~~ Although SSAP No. 26R was previously revised pursuant to the Investment Classification Project in 2017, it was identified that some entities were classifying securities issued from special purpose vehicles (SPVs) in scope of SSAP No. 26 instead of SSAP No. 43R. As the focus of this Principles-Based Bond Project ~~current project~~ is on the substance of investments, regardless of whether they include an SPV for issuance, this project includes all debt securities and encompasses both SSAP No. 26R and SSAP No. 43R.

SUMMARY CONCLUSION

2. Investments eligible for reporting as bonds on Schedule D-1¹ shall comply with the principles-based definition of a bond or be specifically noted in scope of SSAP No. 26 or SSAP No. 43. Revisions to reflect the principles-based bond definition will behave been incorporated to SSAP No. 26, with SSAP No. 43 revised for accounting and reporting guidance for investments that qualify as asset-backed securities under the SSAP No. 26 bond definition. ~~SSAP No. 21—Other Admitted Assets~~ has been revised to detail accounting and reporting guidance for debt securities that do not qualify as bonds under SSAP No. 26 and to provide guidance for the accounting and reporting of residual interests. Lastly, various revisions to other SSAPs have been incorporated to update guidance and/or references to the bond guidance. The final adopted SSAPs and other revisions are shown in the exhibits to this issue paper.

DISCUSSION

3. The discussion of this issue originally began in August 2019 with agenda item 2019-21: SSAP No. 43 – Equity Investments. This agenda item was drafted to consider clarification to SSAP No. 43 particularly with regards to collateralized fund obligations and similar structures that reflect underlying equity interests.

¹ Pursuant to reporting changes adopted in response to the principles-based bond definition, issuer credit obligations (ICO) in scope of ~~SSAP No. 26—Bonds~~ will be reported on Schedule D-1-1: Bonds and asset-backed security (ABS) investments that qualify as bonds under SSAP No. 26 but follow ~~SSAP No. 43—Asset-Backed Securities~~ for accounting and reporting will be reported on Schedule D-1-2: Asset-Backed Securities. Throughout this issue paper, these bond investments (both ICO and ABS) are collectively referred to as bonds reported on Schedule D-1.

In response to the discussion of comment letters in January 2020, this project was expanded to include a comprehensive review of SSAP No. 43 under the Working Group's Investment Classification Project, with NAIC staff directed to prepare a discussion document for subsequent review.

4. A preliminary discussion document was exposed for comment on March 18, 2020. Although there were no proposed recommendations in that exposed document, it captured the following:

- a. History of the definition / scope development of SSAP No. 43. (This history has been retained in Exhibit ____ of this issue paper.)
- b. Definitions of asset backed securities (ABS) from the Code of Federal Regulations (CFR), the Securities Exchange Act of 1934 and NAIC Model 280, Investments of Insurers Model Act (Defined Limits Version).
- c. Potential options for the accounting and reporting of ABS based on whether they were considered traditional securitizations in accordance with the Code of Federal Regulations (CFR) (17 CFR 229.1101(c)) definition of an ABS or non-traditional securitizations that did not comply with the CFR definition.

5. In response to this initial exposure, a detailed comment letter dated July 31, 2020, was received from interested parties. Although a variety of elements were noted, two key issues were the primary focus:

- a. Separation between SSAP No. 26 and SSAP No. 43: Pursuant to the comments ~~received~~, it was identified that many insurers had different interpretations of the adopted 2010 revisions that separated investments between SSAP No. 26 and SSAP No. 43 due to the presence of a "trust" or an "SPV" structure. As such, investment designs that had been identified as concerning due to the underlying investments in the SPV (e.g., equity-driven investments) believed by some to be limited to SSAP No. 43 were, under some interpretations, eligible to be captured in scope of SSAP No. 26.
- b. Defining an asset backed security: The comments received focused heavily on whether the 17 CFR definition captured securities within the 1933 or 1934 Securities Act. The proposed use of the 17 CFR definition, which is the ABS definition used by the SEC as a nationally recognized statistical ratings organization (NRSRO) registered for asset-backed securities, was intended to allow consistency in ABS items permitted for NRSRO designations. Furthermore, it was only the first "broad brush" in determining whether an investment would be initially captured in scope of SSAP No. 43. Regardless, based on the comments received, which noted variations between the 1933 and 1934 Securities Act, differences of assessments based on whether an entity is the issuer or acquirer, the legal scrutiny that may be required in determining whether an investment complies with the definition, as well as a recommendation for independent principles for determining an investment as an asset backed security, it was identified that further discussion should occur before utilizing the CFR definition of an asset-backed security.

6. After considering the interested parties' July 31, 2020, comments, the Working Group directed that a small group of industry work with Iowa representatives and NAIC staff to ~~first~~ define what should be considered a bond for reporting on Schedule D-1. It was identified that some investment designs, which have been previously captured on Schedule D-1 or are proposed for inclusion on that schedule, may be well-performing assets, but are not bonds and should not be captured on Schedule D-1. It was also noted that regulators are not anticipating these sorts of investment structures when reviewing D-1 and assessing investment risk. These small group discussions began December 1, 2020, and continued until the bond proposal was initially exposed for public comment on May 20, 2021.

7. After considering the comment letters from the May 2021 exposure, on August 26, 2021, the Working Group affirmed the direction of the principle-based bond concepts and directed NAIC staff to utilize those concepts in proposing statutory accounting revisions. With this explicit direction, it was noted that all elements of the principles-based bond proposal, and the reflection of those concepts in statutory accounting guidance, is subject to continued discussion and deliberation. Revised guidance for Schedule D-1 investment classification will not be considered authoritative statutory guidance until the specific effective date detailed in ~~the~~ adopted authoritative SSAP. With the direction to proceed with the development of statutory guidance to reflect the principle-based concepts, the Working Group directed that NAIC staff continue to work with the small group of regulators and industry to discuss concepts, review proposed language and consider innovating investment designs. (During this meeting, the small group was repurposed and referred to as the “study” group with additional regulators participating.)

8. From September 2021 through January 2022, the study group of regulators and industry met to continue discussions on the bond proposal definition. Key elements discussed during this timeframe included 1) the requirement for a credit enhancement that puts the holder of an ABS in a different economic position from holding the underlying collateral directly, 2) the contractual stapling restriction, and 3) guidance for when a debt instrument is issued from an SPV that owns a portfolio of equity interests. Revisions from these discussions, as well as other aspects to clarify the definition and an initial issue paper were presented to the Statutory Accounting Principles (E) Working Group on March 2, 2022, and exposed. Subsequently, the full Working Group discussed and exposed revisions to the draft guidance until adoption.

9. This issue paper intends to provide information on discussions that occurred when considering the principles-based bond definition and the ~~needed~~ statutory accounting revisions to specify the types of investments that shall be reported on Schedule D-1: Long-Term Bonds. [A summary of the exposure periods and adoption actions are detailed below:](#)

- a. On March 2, 2022, this issue paper, along with the principles-based bond definition, was exposed, with comments due May 6, 2022. The Working Group heard comments on July 18, 2022, and directed limited edits to be reflected while also deciding not to incorporate revisions for a number of industry-proposed comments.
- b. On August 10, 2022, this issue paper, along with the principles-based bond definition, and proposed revisions to SSAP No. 26 and SSAP No. 43 was exposed, with comments due October 7, 2022. Comments were received from Interested Parties, Fermat Capital and the industry Lease-Backed Securities Working Group. After considering comments, the Working Group incorporated certain revisions.
- c. On November 16, 2022, after considering comments from the August 2022 exposure, the Working Group exposed revisions to SSAP No. 26 and SSAP No. 43. The Working Group also exposed revisions to other SSAPs that will be impacted with the bond project revisions. These edits included revisions to detail the short-term and cash equivalent restriction for ABS in SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments as well as guidance for debt securities that do not qualify as bonds in SSAP No. 21. This guidance was exposed until February 10, 2023.
- d. On March 22, 2023, during the 2023 Spring National Meeting, the Working Group considered comments received and exposed updated guidance, with a comment period ending June 9, 2023, to reflect most of the interested party comments.
- e. On August 13, 2023, during the 2023 Summer National Meeting, the Working Group adopted the exposed revisions to SSAP No. 26, SSAP No. 43 and the document detailing revisions to other SSAPs with an effective date of January 1, 2025. With this action, it was noted that no comments had been received on these exposed items. Also on August 13,

- 2023, the Working Group considered comments on the exposed SSAP No. 21 on the guidance for non-bond debt securities that do not qualify as bonds and on residual interests and exposed a revised SSAP No. 21 until September 29, 2023.
- f. On December 1, 2023, during the 2023 Fall National Meeting, the Working Group considered comments received on SSAP No. 21, predominantly focused on the accounting and measurement of residual interests and exposed an updated SSAP No. 21 until January 22, 2024.
- g. On February 20, 2024, the Working Group received a revised SSAP No. 21 that was updated to reflect interested parties' comments during the interim. The Working Group exposed the revised SSAP No. 21 for a shortened comment period ending March 7, 2024, to allow for possible adoption consideration during the 2024 Spring National Meeting.
- h. On March 16, 2024, during the 2024 Spring National Meeting, the Working Group adopted new statutory accounting guidance within SSAP No. 21 for "Debt Securities That Do Not Qualify as Bonds" and for "Residual Tranches or Interests/Loss Positions." The new sections are effective January 1, 2025, but reporting entities may elect to adopt the residual guidance for year-end 2024. With this action, all planned statutory accounting guidance for the principles-based bond definition was adopted.

Discussion of Principles-Based Bond Concepts

9.10. Pursuant to the "small group" discussions comprised of industry, Iowa regulators representatives and NAIC staff, the broad principle-based bond concepts discussed on August 26, 2021, reflected the following key concepts:

- a. Definition of a bond requires a security structure, representing a creditor relationship, that is considered an Issuer Credit Obligation (ICO) or an Asset Backed Security (ABS).
- b. The assessment of whether a security represents a creditor relationship requires consideration of the substance, rather than the legal form of the document, as well as consideration of other investments owned in the investee and other contractual arrangements. A security that possesses equity-like characteristics or that represents an ownership interest in the issuer in substance does not represent a creditor relationship.
- c. An ABS is a bond issued by an entity created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owned by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity.
- d. There are two defining characteristics that must be present for a security to meet the definition of an asset-backed security ABS: 1) The holder of a debt instrument issued by an ABS issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly, and 2) When the assets owned by the ABS are non-financial assets, the assets are expected to generate a meaningful level of cash flows towards repayment of the bond other than through the sale or refinancing of the non-financial assets.

10.11. Various discussions and components were addressed in the establishment of these broad concepts and throughout the development of the principles-based bond definition. Specific elements and discussion points are detailed within this issue paper.

Security Structure Representing a Creditor Relationship

~~11.12.~~ Similar to long-standing guidance in defining a bond, the principles-based bond concepts only permits security structures to be considered eligible for Schedule D-1 reporting. Although the concepts continue reference to the adopted security definition from U.S. GAAP, the guidance is expanded to require that the evaluation of the structure under the security definition considers the substance of the instrument rather than solely its legal form.

~~12.13.~~ The consideration of whether a structure reflects a “security” is a key factor in determining the appropriate SSAP for accounting and reporting. A structure with one or more future payments that qualifies as a security has historically been captured as a bond, with measurement and risk-based capital (RBC) charges based on the NAIC designation. Under the prior SSAP guidance, bond securities did not require additional provisions for admittance and would likely only be subject to nonadmittance based on state investment limits. This treatment is distinctly different than a “non-security” structure considered to be a loan under SSAP No. 20—*Nonadmitted Assets* or SSAP No. 21. For these structures, the ability to admit the loan under the SSAP provisions is contingent on the nature of the loan and qualifying collateral or related party assessments. (State investment limits may have additional loan to value requirements that impact admittance.) Loans (other than mortgage loans) are captured on Schedule BA: Other Long-Term Invested Assets and are likely limited by state investment limits along with other invested assets reported on Schedule BA. Although the RBC charge for admitted collateral loans is lower than other Schedule BA investments, the RBC charge is still higher than Schedule D-1 investments with most NAIC designations.

~~13.14.~~ Over time, since the codification of statutory accounting principles, various industry comments have been received questioning the difference between loans and securities (e.g., bonds), particularly with the different reporting outcomes. This discussion was also revisited as part of the principles-based bond proposal, and it was concluded that structures must meet the security definition to be captured as a bond on Schedule D-1. Although industry requested “loans with recourse” to be added to the bond scope paragraph as well as an explicit reference to “loans” as a type of investment captured in the bond definition, these proposals were not supported for inclusion. This discussion highlighted that the security definition is not a high threshold to meet, and direct loans should not be reflected as bonds if they do not qualify as securities. With this discussion it was noted that an investment could meet the definition of a bond regardless of the legal form (paper) it was written on and/or how it was described (such as a bond, note, obligation, etc.). Although an instrument could be described as a “loan,” if it meets the security definition requirements and other principle concepts, it shall be captured as a bond. The same concept would be true for instruments named as a “bond” but that do not meet the security or other principle -based bond requirements, as they would not be permitted for reporting as a bond on Schedule D-1 -reporting.

~~14.15.~~ The statutory accounting guidance in SSAP No. 26 and SSAP No. 37—*Mortgage Loans* adopts the U.S. GAAP definition of a security as it is used in FASB Codification Topic 320 and 860:

- a. Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:
 - i. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
 - ii. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
 - iii. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

~~15.16.~~ The “security/non-security” discussion highlighted that the naming convention of an investment (as a “note,” “bond,” “obligation,” “loan,” or other such term) does not determine the correct underlying SSAP or reporting location. Non-security structures (other than mortgage loans) shall be captured as collateral or non-collateral loans pursuant to SSAP No. 20 or SSAP No. 21 as applicable. To prevent incorrect assumptions that all loans could be captured as issuer credit obligations, the group agreed not to include explicit reference to loan structures within the principles-based bond concepts and instead refer to the substance of the investment structure. Additionally, the following existing guidance was noted as support for this conclusion and to further highlight that the naming convention does not override the structural design of an investment when it comes to reporting or the application of statutory accounting principles.

- a. Existing guidance in SSAP No. 21 states that if an instrument meets the definition of a bond, but has supporting collateral, then the investment is not classified as a collateral loan. This concept was affirmed as part of the principles-based bond discussion, noting that ~~such arrangements~~investments that qualify for bond reporting on Schedule D-1 shall not be classified as collateral loans regardless of whether there is collateral backing the investment.
- b. Guidance in *SSAP No. 25—Affiliates and Other Related Parties* applies to all transactions, regardless of the SSAP that governs the underlying accounting and reporting. As such, the provisions in SSAP No. 25 that require assessment of “loans or advances (including debt, public or private)” ~~is-are~~ intended to apply to all forms of lending from a reporting entity to a related party. As such, this guidance applies regardless of the naming convention of the agreement (e.g., loan, bond, note, obligation, etc.). ~~Structures-Investments~~ reported as bonds on Schedule D-1 that reflect related party transactions shall only be admitted if the requirements in SSAP No. 25 are met. In addition to having a specific due date and written agreements, these requirements include specific assessments based on whether the arrangement is with a parent or principal owner or to other related parties.

~~16.17.~~ After determining whether a structure represents a security, the next component for the principle-based bond definition is assessing whether the security represents a creditor relationship. Although the reference to a “creditor relationship” may seem very similar to prior guidance in SSAP No. 26, that prior guidance did not explicitly detail the intended meaning of a “creditor relationship” but simply identified that such structures have a fixed schedule for one or more future payments. This prior guidance resulted with interpretations that structures qualified as “bonds” strictly on legal form. With the focus of the principles-based definition, it is explicit that the assessment of a whether a security represents a creditor relationship requires consideration of the substance, rather than just the legal form, along with consideration of other investments owned in the investee and other contractual arrangements.

~~17.18.~~ Original regulator concerns with the ~~current~~historical guidance and reporting were in part due to the identification of investments with underlying equity interests that were structured to resemble bond instruments. ~~This d~~Discussions that occurred as part of the principles-based bond project identified that there is a significant incentive for insurers to characterize equity exposures, which would traditionally be captured on Schedule BA, as bonds due to the favorable capital treatment. Transferring or acquiring them as debt issued by an SPV (such as through a collateralized fund obligation (CFO) ~~type~~ structure) is a mechanism to reclassify these equity instruments and characterize them as bonds. These discussions noted that ~~the~~ lack of ~~current~~historical safeguards in existing SSAPs also provides significant opportunity for these reclassifications.

~~18.19.~~ Equity investments differ from other types of financial assets in that they generally do not have contractual pre-determined principal or interest payments. Distributions are typically at the discretion of whichever decision maker has control of the entity. However, certain types of entities have greater likelihood and predictability of cash flows than others. For example, private equity and debt funds are often

designed to have finite lives that begin with a capital raising and investment phase, and once the portfolio is built and seasoned, investments are monetized, returns are realized, and distributed to investors. Therefore, while there can be variability in timing and amounts of cash flows, distributions can be expected with some level of predictability compared to other types of equity investments (e.g., publicly traded companies). Private debt funds are more predictable still given that the underlying investments of the fund have contractual cash flows. If a large, diversified pool ~~of such types~~ of seasoned funds are securitized, ~~(often referred to as in the form of~~ a CFO), there can be a level of predictable cash flows that is suited to support a bond, when coupled with the overcollateralization, liquidity facilities, and other protections that are built into the structure.

~~19-20.~~ A ~~R~~regulator concerns ~~arises~~ when features that facilitate the production of predictable cash flows are not present. In such ~~a ease~~ situations, when there are not predictable cash flows equipped to service the debt, repayment may rely on sale or refinancing of the underlying equity investments at maturity in order to satisfy the debt. In that case, equity valuation risk may be the primary risk for the non-payment of the SPV-issued debt. If repayment predominantly relies on a point-in-time equity valuation (such as at maturity), then the substance of the risk is not consistent with what is expected of a bond reported on Schedule D-1.

~~20-21.~~ Although the full disallowance of equity-backed debt would prevent these regulator concerns, there is a position that there are CFO securitizations (or other investments) of well-diversified, seasoned funds for which there is compelling evidence that there will be sufficient cash distributions to amortize the debt and structure protections that minimize the residual equity exposure. The approach to allow such CFO securitizations/investments to be reported as bonds only works when there are appropriate safeguarding principles established, which require a relatively high standard of proof.

~~21-22.~~ An investment for which the primary non-payment risk ~~for non-payment~~ is equity devaluation is not consistent with the substance-intent for what is expected to be reported as a bond on Schedule D-1 under the principles-based definition. Allowing ~~these items~~ such investments to be reported as bonds on Schedule D-1 could result with the regulatory arbitrage that regulators are concerned about without any real mitigants. This could ultimately result in a situation where industry has taken on significantly more equity risk that they have historically, all while characterizing the investment as a bond exposure. As such, it was noted as critical that appropriate safeguards be incorporated into the principles-based bond definition to address this concern. ~~which~~ This is why the ~~small group supported~~ guidance reflects a rebuttable presumption that equity-backed ABS do not qualify to be reported as bonds on Schedule D-1 unless a documented analysis supporting the predictability of cash flows is completed that demonstrates bond-like cashflows that supports different treatment from ~~to overcome~~ that ~~presumption~~.

~~22-23.~~ The principles-based bond definition is clear that a security that possesses equity-like characteristics or that represents an ownership interest in the issuer in substance does not represent a creditor relationship. Examples of equity investments, equity holdings and equity-like interests include any security ultimately reflecting an ownership or membership interest in an entity (such as common stock, preferred stock, private equity holdings, investments in joint ventures, partnerships, and LLCs) as well as any structure that reflects the performance of an entity (such as dividends or capital gains). Furthermore, examples of equity instruments also include any debt instrument where the risk/reward profile is substantially similar to an equity interest.

~~23-24.~~ With the prohibition of equity-like structures or items that represent ownership interests, there is a rebuttable presumption that debt instruments collateralized by equity interests do not qualify as bonds because they do not reflect a creditor relationship in substance. Notwithstanding this rebuttable presumption, it is possible for such a debt instrument to represent a creditor relationship if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer.

24-25. With the establishment of the principles-based bond definition, this rebuttable presumption was specifically discussed, and it was concluded that the determination of whether debt instruments collateralized by equity interests qualify as bonds inherently requires significant judgment and analysis. Unlike debt instruments collateralized with contractual cash flows, or debt instruments collateralized by cash-generating non-financial assets, debt instruments collateralized by equity interests may be dependent on cash flow distributions that are not contractually required to be made, predetermined, and/or may not be controlled by the issuer of the debt. In some instances, sale or refinancing of the underlying equity interests may be the only means of generating cash flows to service the debt instruments. If this is the situation, then it is expected that compensating factors from other characteristics of the structure will be present that supports ~~to qualifying classifying the investment as a bond~~. For example, if the source of cash flows is driven from the sale or refinancing, then an appropriate, compensating level of overcollateralization would be required to overcome the presumption that the structure does not qualify as a bond.

25-26. For debt instruments that are collateralized by equity interests, various factors should be considered in determining whether debt collateralized by equity interests qualify as bonds. Additionally, to overcome the presumption that the structure does not qualify as a bond, it is presumed that reporting entities will have sufficient documentation supporting this conclusion. Factors to consider include, but are not limited to, the following:

- a. Number and diversification of the underlying equity interests
- b. Characteristics of the equity interests
- c. Liquidity facilities
- d. Overcollateralization
- e. Waiting period for the distributions / paydowns to begin
- f. Capitalization of interest
- g. Covenants (e.g., loan-to-value trigger provisions)
- h. Reliance on ongoing sponsor commitments
- i. Source(s) of expected cash flows to service the debt (i.e., dividend distributions from the underlying collateral vs. sale of the underlying collateral)

26-27. The assessment of equity-backed securities should be looked at, not only in form, but in substance. For example, a common arrangement exists where debt is issued from a feeder fund, and the feeder fund has an equity interest in another fund which predominantly holds debt instruments. The fund passes those fixed-income cash flows through the structure to the ultimate feeder fund debt holder(s), in a way that produces substantially the same risk profile to the debt holders as a collateralized loan obligation (CLO). Accordingly, such an arrangement may have its substance aligned with a debt investment rather than a single equity investment, despite the direct holding being a fund investment. This conclusion would be supported if the terms of the structure ensure that the underlying fixed-income cash flows are passed through. Factors that add additional uncertainty as to the timing and/or amount of the pass-through of the cash flows from the underlying debt instruments may call into question a conclusion that a feeder fund structure is a debt-backed structure in substance. For example, discretion of an underlying fund manager to withhold distribution of the underlying cash flows passed through from underlying debt instruments may create uncertainties as to the timing and/or amount of cash flows in such a manner that is more characteristic of an equity investment. Likewise, a feeder fund structure that is not expected to provide for regular cash interest payments would also call into question the substance as a debt-backed investment. Note, f Features that are customary to CLOs and other asset-backed securities would not ordinarily call the investment's substance into question on its own. For example, a waterfall structure dictating the pass-through and order of payments or retaining sufficient funds for covering contractual underlying fund level payments (e.g.,

investment management fees, legal costs, and other customary fund level expenses) are common to CLOs and other ABS, as are customary payment in kind (PIK) features designed to address temporary liquidity issues where the PIK then gets prioritized in the waterfall structure. These customary features do not constitute manager discretion that would call into question a conclusion that a feeder fund structure is a debt-backed structure in substance.

27-28. Conversely, if the feeder fund debt ultimately relies on equity interests for repayment (the final fund holds equity interests that generate the pass-through cash flows), the held debt instrument from the feeder fund would have to meet the requirements of paragraph 26 while looking at the substance of equity interests supporting the debt. Regardless of the underlying collateral, feeder fund arrangements would have to meet the other relevant parts of the standard (e.g., have a substantive credit enhancement, etc.) to qualify for bond reporting. Investments that resemble feeder fund structures will require entity review to determine the underlying source of cash flows and identify the uncertainties or vulnerabilities that could impact the cash flows that will be passed through to the reporting entity holder. Ultimately, the conclusion that a structure represents a feeder fund shall not automatically qualify the structure for bond classification but shall not automatically preclude bond classification. Substance over form should be the determining factor in these and similar situations.

Determination of Issuer Credit Obligation or Asset Backed Security (ABS)

28-29. Security structures that qualify as creditor relationships are divided between ICO~~issuer credit obligations~~ and ABS. The initial distinction between ~~an issuer credit obligation~~ICO and an ABS is a key factor with the principle-based bond concepts. Given their differing characteristics, investments that qualify as ~~issuer credit obligations~~ICO are not required to complete assessments for qualifying credit enhancements or meaningful cash flow generation. As such, it is critical to ensure that structures which should be considered ABS or that reflect non-qualifying Schedule D-1 structures, are not classified as ~~issuer obligations~~ICO to avoid those detailed assessments.

29-30. Determining whether an investment reflects an ~~issuer credit obligation~~ICO or an ABS focuses on the issuer and the primary source of repayment of the instrument. An ~~issuer credit obligation~~ICO represents a bond structure where the repayment is supported primarily² by the general creditworthiness of an operating entity or entities. The support for this structure consists of direct or indirect recourse to an operating entity or entities. An “operating entity” can be any sort of business entity, not-for-profit organization, or other provider of goods or services, but cannot be a natural person or an Asset Backed Security (ABS) Issuer. An ABS is a bond issued by an entity (an ABS Issuer) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owed by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity.

30-31. The prior assessments to divide structures between SSAP No. 26 and SSAP No. 43 seemed to focus primarily on legal form (issued by trust/SPV that held pledged assets) or on the basis of prepayment risk within the structure (meaning, that the expected timing of cash flows may vary, impacting the effective

² To clarify the phrase “supported primarily by the general creditworthiness of an operating entity,” this means that the full repayment is expected to come from cash flows generated by the operating entity, not from collateral, although secondary recourse to collateral may be present. If it is expected that a majority of repayment will come from operating entity cash flows, but it is expected that some cash flows will come from collateral, this investment does not qualify as an issuer credit obligation and shall be assessed as an asset-backed security. The expectation must be that full repayment will be generated from operating entity cash flows. For asset-backed securities, the expectation is that the source of cash flows will come from collateral, even though there may be secondary recourse to an operating entity.

interest rate). Under the principle-based bond definition, neither of these components shall be used as a determinant in concluding whether a structure represents an ~~issuer credit obligation~~ICO or an ABS.

- a. The prior guidance which focused on the use of an SPV relied more on legal form than the substance of the transaction. Although it is common that many ABS Issuers are in the form of a trust or SPV, the presence or lack of a trust or SPV is not a definitive criterion in determining that a security meets the definition of bond intended as a Schedule D-1 investment, or that it is limited to a classification as an ABS. A key component of the principles-based bond definition is that it will not be possible for insurers to classify recognize a non-qualifying investment as a bond simply by moving it to a debt-issuing SPV ~~to that~~ resembles a creditor relationship with a future payment obligation. Furthermore, the guidance does not preclude the use of SPVs in ~~ICO structures~~issuer credit obligations. Such structures are commonly utilized in project finance arrangements to separate business operations that support specific debt instruments, or to facilitate efficient marketing of an ~~issuer credit obligations~~specific ICO design (e.g., funding agreement backed notes). Although packaging investments together in an SPV, with an SPV-issued note may currently result with better RBC charges due to the current ability to report such items as bonds, ~~such~~ structures that simply reflect a pass-through of cash flows or performance from the underlying collateral and provide no economic difference than if holding the underlying collateral items directly ~~should~~shall not be characterized as bonds under the principles-based bond definition.
- b. With regards to the prior interpretation that SSAP classification was based on the presence of prepayment risk, which was not an interpretation based on any explicit guidance to that effect, under the principles-based bond definition, the presence or absence of prepayment risk will continue to play no role in SSAP classification. Classification is based on whether the investment has the substance of an ~~issuer obligation~~ICO or ~~asset backed security~~ABS. This distinction aligns ~~the~~ accounting and measurement with the characteristics of the bond structure. As ~~asset backed securities~~ABS rely on the cash flows of underlying collateral, the measurement method described in SSAP No. 43, which requires a quarterly review of underlying cash flow assumptions, is appropriate regardless of whether variations in timing of cash flows impact the effective yield. This methodology captures variations in both timing and amount of the underlying cash flows.

31-32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an ~~issuer credit obligation~~ICO, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to “traditional bond” structures previously included in SSAP No. 26, examples of issuer credit obligations include:

- a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. ~~(Examples can include e.g., credit tenant loans (CTLs), equipment trust certificates (ETCs), other lease backed securities, Funding Agreement Backed Notes (FABNs), etc.)~~. For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.
- b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.
- c. Bonds issued by funds representing operating entities. Determining whether a fund represents an operating entity can generally be made by evaluating the substance of the entity and its primary purpose. A fund representing an operating entity has the primary

purpose of raising equity capital and generating returns to its equity investors. Ancillary debt may be issued to fund operations or produce levered returns to equity holders. These debt issuances occur in accordance with the fund's primary equity-investor objective. Debt securities issued by closed-end funds and business development corps registered under the 1940 Act are permitted automatic qualification as issuer credit obligations as those funds are subject to strict limits or reporting components on the leverage (debt issuance) within the fund. In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. More distinctively, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. For these structures, there is little or no discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. The hardwiring of debtholder protections allows for the issuance of higher amounts of debt securities to be issued than what would be possible for a fund representing an operating entity. These features support the entity's primary purpose of raising debt capital. Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to "similar entities" is not intended to capture items issued from collateralized fund obligations (CFOs) or other such structures. In contrast, an ABS Issuer has a primary purpose of raising debt capital and its structural terms and features serve to support this purpose. More distinctively, the contractual terms of the structure generally define how each cash flow generated by the collateral is to be applied. For these structures, there is little or no discretion afforded to the manager/servicer of the vehicle and any discretion that is allowed is narrowly defined in the contractual agreements. The hardwiring of debtholder protections allows for the issuance of higher amounts of debt securities to be issued than what would be possible for a fund representing an operating entity. These features support the entity's primary purpose of raising debt capital. This safe harbor for SEC-registered funds should not be viewed to extend to funds that are not SEC-registered by analogy, through comparison of leverage levels for example. All other funds should be classified in accordance with the determination of the issuer's primary purpose. (For example, although some registered funds allow a large percentage of debt, non-registered funds with comparable amounts of issued debt may reflect debt securities from feeder funds or equity-backed ABS, and those debt securities are required to be assessed as ABS. As such, the percentage of debt permitted for a registered fund should not be utilized as a proxy in determining whether debt issued from a fund is permitted to be captured within this guidance.) Although some may consider CFOs or feeder funds to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligationICO. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securitiesABS for inclusion as a bond reported on Schedule D-1. Paragraphs 27-28 also detail the assessment expected in classifying feeder funds, and the requirement to determine the source of the underlying cash flows in determining classification and if the structure qualifies for reporting as a bond on Schedule D-1.

- d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or "operation" (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both issuer credit operationsICO, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the

financing of an operating component of a project sponsor or municipality. Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

- i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as ~~issuer-credit-obligations~~ICO under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting as a bond on Schedule D-1, or is classified as an ~~issuer-credit-obligation~~ICO or ABS. Instruments (even if identified as “project finance”) that do not qualify as ~~issuer-credit-obligations~~ICO as they are not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.

- e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an ~~issuer-credit-obligation~~ICO intends to highlight a specific exception to the determination as a creditor relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as ~~issuer-credit-obligations~~ICO, Under ~~under~~ the bond definition ~~encompassing both issuer-credit-obligations and asset-backed securities~~, in order for a debt instrument to represent a creditor relationship for both ~~ICO and ABS~~, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable³. For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grows with inflation, these securities shall be captured as ~~issuer-credit-obligations~~ICO on Schedule D-1-1.

32-33. This ~~principles-based bond~~ Schedule D-1 project is not expected to reconsider certain investments previously considered by the Working Group and explicitly permitted for bond reporting on Schedule D-1 ~~reporting~~. As such, unless subsequently addressed ~~within this project~~, the following investment types are expected to continue to qualify as Schedule D-1 investments, ~~and be~~ classified as ~~issuer-credit-obligations~~ICO. (By including these investments as ~~issuer-credit-obligations~~ICO, these investments are not subject to the assessments of sufficient tey credit enhancement or meaningful cash flow generation required for ABS securities.)

³ The principles-based bond definition ~~requiring requirement for~~ pre-determined principal and interest payments with contractual payments that do not vary based on the performance of an underlying collateral value or other non-debt variable does not intend to encompass nominal interest rate adjustments. Nominal interest rate adjustments are those that are too small to be taken into consideration when assessing the investment’s substance as a bond. Nominal adjustments are not typically influential factors in an investors’ evaluation of investment return and are often included to incentivize certain behavior of the issuer. An example would include sustainability-linked bonds where failure to achieve performance metrics could cause interest rate adjustments. In general, interest rate adjustments that adjust the total return from interest by more than 10% (e.g., >0.4% for a 4% yielding bond), would not be considered nominal. Further, any such adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.

- a. Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition.
- b. Bank loans ~~that~~ are obligations of operating entities, issued directly by a reporting entity or acquired through a participation, syndication or assignment.
- c. Debt instruments in a certified capital company (CAPCO).
- d. SVO-Identified Bond ETFs.

~~33.~~34. The investment structures explicitly permitted for Schedule D-1 reporting no longer includes a generic reference to “hybrid securities.” Under prior guidance in SSAP No. 26, hybrid securities, defined in the [annual statement instructions](#) as securities with characteristics of both debt and equity securities, were included and captured on a specific Schedule D-1 reporting line. Examples in the [annual statement instructions](#) included Trust Preferred Securities and Yankee Tier 1 bonds, however, both types of securities are no longer overly prevalent, although some insurers may continue to have them in their portfolios. Pursuant to the intent of the principle-based bond ~~definition proposal~~, a broad exception for securities that have characteristics of both debt and equity is not viable. Rather, to ensure that securities are classified and reported based on the substance of the investments, securities with characteristics of both debt and equity shall be assessed for inclusion [as a bond for reporting](#) on Schedule D-1 in accordance with the principal-based bond definition. If the securities qualify as ~~issuer credit obligations~~ [ICO](#) or ABS, then they can be reported on Schedule D-1.

- a. Trust Preferred Securities – With these securities, there is a trust funded by debt where shares of the trust are then sold to investors in the form of preferred stock. The shares held are referred to as “trust preferred” securities. These securities have characteristics of both stock and debt. While the trust is funded with debt, the shares are considered to be preferred stocks and pay dividends like preferred stock. However, since the trust holds the bank’s debt as the funding vehicle, the payments received by investors are considered interest payments. These securities are considered equities under U.S. GAAP but are taxed as debt obligations by the IRS. With the Dodd-Frank reforms, the incentives for banks to issue trust-preferred securities decreased, resulting ~~with in~~ a significant reduction in the issuance of these securities. If these securities continue to be held by insurers, they should be assessed for reporting [as a bond](#) on Schedule D-1 under the principal-based bond ~~proposal definition~~. If these securities do not qualify [as a bond for reporting on](#) Schedule D-1, presumably, these securities would be reported as preferred stock on Schedule D-2-1.
- b. Yankee Bond – A Yankee bond is one issued by a foreign bank or company but that is traded in the U.S and priced in U.S. dollars. Yankee bonds are normally issued in tranches, with a large debt structure financing arrangement, with each tranche having different levels of risk, interest rates and maturities. The non-U.S. issuers have to register Yankee bonds with the SEC before offering the bond for sale. If these securities are held by insurers, they should be assessed for reporting [as a bond](#) on Schedule D-1 under the principal-based bond ~~proposal definition~~.
- c. Other Hybrid Securities – From information received, it was noted that some reporting entities have previously reported securities on Schedule D-1 as hybrids due to a code in Bloomberg that identified the security as having characteristics of both debt and equity.

Such securities shall be reviewed in accordance with the principles-based bond definition and reported as a bond on Schedule D-1 only if they qualify.

34.35. For securities that represent principal-protected securities and structured notes that have been previously captured within SSAP No. 26 or SSAP No. 43, the principles-based bond definition will no longer permit these security structures to be reported as bonds on Schedule D-1. Fundamentally, these structures have the potential for variable principal or interest / returns, or both, due to appreciation or depreciation (i.e., performance) of an underlying collateral value or other non-debt variable. This structural characteristic precludes these investments from being captured as ~~issuer credit obligations~~ICO or ABS as the investment does not represent a creditor relationship in substance. It should be clear that the principles-based bond definition is intended to require a structural assessment inclusive of all investment components, therefore it is not permissible to segregate components within a structure, such as bond collateral supporting principal and interest payments to determine bond reporting on Schedule D-1 ~~reporting~~ when the structure also includes other collateral with the potential to generate additional interest or returns. Such structures must be viewed holistically within the principles-based bond definition, with all potential returns considered in determining whether the structure qualifies as a creditor relationship.

- a. A principal-protected security is defined in *the Purposes and Procedures Manual of the NAIC Investment Analysis Office*, but generally includes a high-quality traditional bond (such as a U.S. Treasury) that is used to safeguard principal repayment at the structure's maturity, ~~has~~ along with performance components where payments originate from, or are determined by, non-fixed--income securities. These returns, often based on underlying equity factors, ~~prevents~~ these structures from qualifying as a creditor relationship. In addition to the traditional design of principal-protected notes, other designs have been identified that may provide "interest" payments in the form of tax-credits based on underlying equity exposures. (So, a high-quality bond ~~still~~ safeguards principal returns, but the structure ~~acquires~~ includes equity elements that provide tax credits to the note holder as a form of interest.) Although the classification of a creditor-relationship may not be as clear in this example, such designs would further be disqualified from reporting as a bond on Schedule D-1 ~~reporting~~ as they would not qualify as ~~issuer credit obligations~~ICO due to the different forms of collateral within the structure (considering both the bond and equity items) and such structures would not qualify as ABS as there is generally no credit enhancement. These investments shall follow the guidance for non-bond debt securities in *SSAP No. 21—Other Admitted Assets*.
- b. A structured note is a security that otherwise meets the definition of a bond, but for which the contractual amount of the instrument to be paid at maturity (or the original investment) is at risk for other than failure of the borrower to pay the principal amount due. These instruments, although in the form of a debt instrument, incorporate the risk of an underlying variable in the terms of the agreement, and the issuer obligation to return the full principal is contingent on the performance of the underlying variable. These investments are addressed in *SSAP No. 86—Derivatives*. Mortgage-referenced securities issued by a government sponsored enterprise are explicit inclusions in scope of SSAP No. 43. Foreign-denominated bonds subject to variation as a result of foreign current fluctuations are not structured notes.

35.36. The guidance in the principles-based bond ~~proposal~~ definition requires "assessment at origination" in determining whether a security ~~complies~~ qualifies for reporting as a bond ~~for on~~ Schedule D-1 ~~reporting~~. This provision intends to reflect the reporting entity's understanding of the intent and

ultimate structure of the security's focus at origination, not simply what a structure holds on the day of origination. It is not permissible to conclude that a principal-protected security is an ~~issuer-credit obligation~~ ICO at origination (when the structure includes only a US Treasury and cash) and disregard the intended use of the cash in the structure to subsequently acquire other investments to generate additional returns. The determination of whether an investment qualifies as a creditor-relationship, and then as an ~~issuer-creditor obligation~~ ICO or ABS (as applicable), requires an assessment by the reporting entity of the full structure as it is ultimately intended by the ~~reporting entity~~ issuer at the time of acquisition.

36.37. Consistent with prior guidance in SSAP No. 26, mortgage loans and other real estate lending activities, which are not securities, made in the ordinary course of business are excluded from bond classification on Schedule D-1. Those investments shall follow the ~~applicable application~~ statutory accounting guidance in SSAP No. 37 and *SSAP No. 39—Reverse Mortgages*.

Asset Backed Securities and Required Components

37.38. An ~~Asset Backed Security~~ (ABS) is a bond issued by an entity (an ABS Issuer) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owed by the ABS ~~Issuer~~, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity. In most instances, the ABS ~~Issuer~~ is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. As previously noted, ABS Issuers are often in the form of a trust or special purpose vehicle, though the presence or lack of a trust or special purpose vehicle is not a definitive criterion for determining that a security meets the definition of an asset backed security.

38.39. To qualify for bond reporting on Schedule D-1 as an ABS, there are two defining characteristics that must be present. If the structure is a not an ~~issuer-credit obligation~~ ICO or identified for specific inclusion on Schedule D-1, and does not meet these ABS requirements, the instrument is not permitted to be reported as a bond. Assessment on these aspects is investment specific, with determination at origination by the reporting entity based on the overall intent and ultimate expected holdings of the structure:

- a. **Substantive Credit Enhancement:** The holder of the debt obligation issued by the ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly.
- b. **Cash Generating Collateral Assets:** The assets owed by the ABS ~~Issuer~~ are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful source of cash flows for repayment of the bond through use, licensing leasing, servicing or management fees, or other similar cash flow generation other than through the sale or refinancing of the assets.

39.40. **Substantive Credit Enhancement:** The component for substantive credit enhancement is required for all ABS structures. There are no practical expedients or thresholds that can be applied in determining whether a structure reflects substantive credit enhancement. Although certain structures may only require a limited analysis (such as agency-backed ~~mortgage-backed securities~~—MBS), and insurers may benefit from prior analysis when acquiring similar subsequent structures, an automatic assessment is not permitted for this requirement.

40.41. To qualify as an ABS, the holder of the debt obligation is required to be in a different economic position than if the holder owned the ABS issuer's assets directly. For purposes of this assessment, the

holder of the instrument is considered to be in a different economic position if the instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization. This element is required for all ABS designs, regardless of the collateral that is backing the ABS.

41-42. The requirement for substantive credit enhancement is intended to address investment designs crafted to appear as a debt / bond structure for reporting and RBC purposes, but for which the holder does not have a “more than nominal” change to the risk or reward profile than if they held the underlying investment directly. This guidance prevents using a specifically designed legal form (such as transferring assets to an SPV and acquiring an SPV-issued note), but which lacks any economic substance, to obtain favorable measurement and RBC impact or to avoid nonadmittance that would occur if the assets were directly held by the reporting entity.

42-43. The intent of the “substantive” threshold requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as a bond under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an ~~Issuer Credit Obligation~~ ICO as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to ~~asset-backed securities~~ ABS. If substantive credit enhancement did not exist, the substance of the investment would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position.

43-44. The original exposure (May 2021) detailed this ABS requirement as a “sufficient” credit enhancement and detailed the provision as the level of credit enhancement a market participant (i.e., reasonable investor) would conclude is expected to absorb losses (or decreases in cash flows) to the same degree as other debt instruments of similar quality, under a range of stress scenarios (i.e., scenarios are similar to stress scenarios performed for other debt instruments of the same quality). This original proposal noted that losses are those a market participant would estimate with consideration of historical losses (including loss recoveries) on similar collateral, current market conditions, reasonable and supportable forecasts, and prepayment assumptions associated with the collateral. Excluded from the estimate of expected losses are historical gains on similar collateral and expected market appreciation on the collateral. After further discussion of this concept, it was identified that the term sufficient and its proposed definition implied ~~s~~ a quantitative assessment of credit quality ~~is~~ was required. As a result, the proposed concept could be interpreted to mean that a reperformance of the credit underwriting process would be needed to support accounting classification, which is not the intent and could be seen to violate the policy that credit ratings do not determine accounting classification, as well as introduce an administrative reporting burden that is both duplicative and lacking any added value. Further, a misinterpretation could occur that would permit satisfaction of this component if a credit rating or NAIC designation was obtained. The intent of the concept is not to address credit quality. Rather, the intent is to require that there must be economic substance to support the transformation of the underlying collateral risk, to bond risk. As a result of these discussions, revisions were incorporated to revise the terminology and related definition to reflect a “substantive credit enhancement.” In addition to eliminating a perception that reporting entities could use credit ratings to support this distinction, this guidance incorporates principle concepts to ensure that the provision cannot be satisfied with structural elements that are merely nominal or lack economic substance.

44-45. Substantive credit enhancement can come in various forms, including but not limited to, subordination/overcollateralization, guarantees, or other forms of recourse. In whatever form the credit enhancement comes in, it must be of a level of significance that the holder of the debt instrument is in a substantively different position than owning the underlying collateral directly. ~~Evaluation~~ Assessment of whether a credit enhancement has substance may involve an evaluation of the level of overcollateralization

(~~loan-to-value or~~LTV) or the capacity of whatever form of subordination, guarantee or recourse to absorb collateral losses. ~~As noted, †~~The guidance intends to be specific that an NAIC designation, obtained from either the NAIC Securities Valuation Office (SVO) or from a Credit Rating Provider (CRP) does not provide standalone evidence to support a conclusion that the structure includes a substantive credit enhancement. Although the presence of independent market validation may provide evidence supporting the substance of a credit enhancement, that provision shall not be interpreted to indicate that the presence of an NRSRO rating is automatic validation that the substantive threshold has been met.

45-46. The following elements were specifically discussed with regards to the requirement for a substantive credit enhancement:

- a. Agency-Backed Pass-Through Structures (e.g., RMBS/CMBS): These structures, when they have an agency guarantee, are expected to meet the substantive credit enhancement requirement with little analysis. Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgages directly because the credit risk has been redistributed and assumed by the agencies.
- b. Non-Agency Backed Pass-Through Structures: Unlike the above agency-backed example, a pass-through MBS without a credit enhancement, if one were to exist, would not put the holder in a different economic position as owning the mortgage loans directly as they would participate proportionally in the first dollar of losses on the underlying loans. Pursuant to the intent of the overall [principles-based bond](#) / Schedule D-1 project and required substantive credit enhancement, the guidance does not permit use of an SPV to recharacterize an asset to qualify for [reporting as a bond on](#) Schedule D-1 ~~reporting~~ if the holder is in the same economic position as holding the underlying investments directly. This would apply to any type of underlying asset. In contrast, if ~~the holder of the~~ debt instrument ~~held-represents~~ a senior interest in the pool of loans, through existence of a subordinated tranche for example, the holder may conclude that it is in a different economic position [from holding the loans directly](#), provided the subordination is determined to be substantive.
- c. Loan-To-Value (LTV) Assessments: An assessment of LTV at origination may provide evidence of substantive credit enhancement through overcollateralization. The review should be a holistic assessment, evaluating the expected LTV over the life of the transaction, in conjunction with the liquidity and market value volatility of the underlying collateral, particularly in points in time when the underlying equipment is expected to be off-lease or at the time of maturity if refinancing or sale is required. It is appropriate to consider any expected economic depreciation, but it is not appropriate to factor in any expected economic appreciation. Although an expected decline in the LTV ratio may support the presence of a credit enhancement, a declining LTV is not required, and an increasing LTV is not prohibited, as long as the structure continues to provide a substantive credit enhancement. An expected high LTV at maturity, relative to the market value volatility of the underlying collateral, is considered to lack substantive overcollateralization and would require other forms of credit enhancement in order to meet the substantive credit enhancement criteria.
- d. The first loss position may be issued as part of [an ABS structure](#)~~the securitization~~ in the form of debt or equity interest, or it may be retained by the sponsor and not be issued as part of the [securitization structure](#). The holder of the loss position, ~~or-regardless of if~~ [whether](#) it is issued as a tranche or retained by the issuer, does not impact the determination of whether the loss position provides substantive credit enhancement. Rather, the assessment focuses on whether the holder of the debt instrument is in a substantively

different position than owning the underlying collateral directly. This assessment includes consideration on the first loss position (or more senior positions, if the first loss position is not sufficient) regardless of the holder of the loss positions. If the first loss position (or a more senior position(s), if the first loss position(s) lacks ~~contractual payments along with a~~ substantive credit enhancement) is issued as part of the ~~securitization structure~~ and does not have ~~contractual principal and interest payments along with~~ substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond as it is a residual interest. All residual interests shall follow the accounting and reporting guidance in SSAP No 21. and shall be reported on Schedule BA: Other Long Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in SSAP No. 21R—Other Admitted Assets.)

46.47. Meaningful Level of Cash Flows to Service Debt: The element for meaningful cash flow generation is only a requirement for ABS that are backed by non-financial assets. ABS designs backed by financial assets, when there is no future performance obligation outside of default risk that could impact the ability to generate cash flows to service the debt, are not required to be assessed under the meaningful cash flow requirement.

47.48. To qualify as an ABS, there must be a meaningful level of cash flows generated from non-financial assets backing an ABS to service the debt, other than through the sale or refinancing of the assets. The evaluation is specific to each transaction and should consider the market volatility and remarketing potential of the underlying collateral, the variability of the cash flows produced, as well as the diversification of the source of cash flows within the structure. The main intent of this guidance is to ensure that non-financial assets supporting structures reported as bonds on Schedule D-1 encompass a level of “cash generation” that is conducive to servicing traditional bond-like cash flows.

48.49. Consistent with the substance theme of the principles-based bond proposal, this guidance intends to prohibit situations in which the legal form of an investment is utilized to receive favorable accounting and reporting treatment, while the primary non-payment risk is the point-in-time valuation of an underlying asset. The prior guidance in SSAP No. 43 that focused on placing collateral assets in trust, with the SPV issuing a debt instrument, enabled situations in which non-cash generating structures could be reported as bonds on Schedule D-1. As a simple example, this guidance prevents artwork from being captured as the collateral backing a debt instrument issued by an SPV, with the reporting entity then reporting the SPV-issued note as a bond investment that reflects the expected future value that will be received upon the ultimate sale of the artwork.

49.50. The guidance requires meaningful cash generation to satisfy the debt instrument throughout the duration of the debt term. The timing of the cash generation, at points prior to maturity of the investment, is a key element as it intends to specifically exclude transactions in which the underlying assets must be sold or refinanced at maturity to produce cash to meet the meaningful requirement. However, this restriction is not intended to automatically exclude all structures that may incorporate collateral asset sales or refinancing throughout the debt duration as part of the expected cash generation. An example could be the securitization of short-term rental car receivables. Such a design could encompass both the rental car lease payments as well as periodic sales of the rental cars as the means to generate meaningful cash flows to service the debt. This design, with planned periodic sales of the non-financial collateral assets over the debt term, is distinctly different than a structure in which cash flows are not meaningfully generated over the course of the debt term and would rely predominantly on the sale or refinancing of the underlying collateral at maturity to satisfy the debt obligation. This restriction also does not exclude all structures that have any amount of sales or refinancing at the end of the debt term. Such investments can qualify for reporting as a bond on Schedule D-1 reporting if they meet the meaningful cash generation criteria throughout the term of the instrument other than through the sale/refinancing at maturity.

50-51. The assessment of meaningful cash flows may require detailed evaluations as it is not permissible to conclude that the presence of any cash flows generated within the structure will result with the investment reaching the “meaningful” threshold. It is also not expected to commonly see ~~asset-backed securities~~ ABS structures that include both financial and non-financial collateral. Such designs shall be reviewed to determine that the structure is in line with the principle intent of the bond definition and has not been developed to circumvent separate assessment or reporting of non-financial asset components. As a simplistic example, including mortgage-backed securities and artwork in a single structure, and identifying that the cash flows of the MBS satisfies the meaningful threshold, with the artwork representing a minimal residual element, ~~with a conclusion so~~ that the full structure qualifies for reporting as a bond on Schedule D-1 ~~reporting~~ is not reflective of the intent of the principles-based standard. If there are instances in which financial asset and non-financial asset collateral are combined in a single ~~asset-backed~~ ABS structure, consideration should occur on the intent of commingling these collateral elements pursuant to the intent of the principles-based bond definition and in assessing the meaningful cash flow requirements. Structures identified that have been developed to circumvent the provisions of the principle-based bond definition are not permitted to be reported as a bond on Schedule D-1 and shall be captured as a non-bond debt security in scope of SSAP No. 21 ~~reported on Schedule BA at the lower of amortized cost or fair value.~~

51-52. The assessment of meaningful cash flows is specific to each transaction, determined at origination, and should consider various factors collectively in determining if the meaningful threshold is met. For this assessment, it is noted that an increase in price volatility or variability of cash flows requires a greater percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral. On the flip side, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral is permitted to decrease. The following factors should be considered with the assessment of meaningful cash flows:

- a. Price volatility in the principal market in the underlying collateral.
- b. Liquidity in the principal market for the underlying collateral.
- c. Diversification characteristics of the underlying collateral (i.e., types of collateral, geographic locations, sources of cash flows within the structure, etc.)
- d. Overcollateralization of the underlying collateral relative to the debt obligation.
- e. Variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

52-53. The assessment of meaningful cash flows does permit a practical expedient under the principles-based bond definition. A reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful cash-flow generating criteria. ~~(A structure with contractual cash flows that does not satisfy all of the interest stipulated in the structure does not qualify under the practical expedient.)~~ In applying this practical expedient, only contractual cash flows of the non-financial asset may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on the sale or refinancing to service any interest, an amount greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances do not qualify under the practical expedient and would require a complete analysis of the noted factors in determining whether the meaningful cash-generating criteria has been met.

Additional Elements for Asset Backed Securities

53-54. When establishing the ABS definition and required components, various aspects were discussed to improve clarity on the application of the guidance.

54-55. Determination of “Assets” Backing Securities: Although the definition of an asset detailed in *SSAP No. 4—Assets and Nonadmitted Assets*, is applied throughout ~~the~~ statutory accounting principles, the question was raised as to where the asset definition would be applied in determining a qualifying ABS. For example, an entity that expects to have subsequent receivables from future operations does not have recognized “assets” from those expectations as the requirements of the asset definition have not been met. However, if that entity were to sell the rights to future cash flows from expected operations, the selling entity would receive cash (a qualifying asset), and the acquiring entity would also have a recognized asset from the acquired right to future cash flows.

55-56. For purposes of qualifying as an “asset” permitted in an ABS structure, the definition of an asset must be met by the ABS Issuer. In some situations, particularly when the asset represents a right to future cash flows, the asset may not be in a form that could be liquidated to provide payment towards the debt obligations. (For example, if the asset represents acquired rights to future royalties, those royalty rights would have to materialize to have liquid assets available toward the debt obligations.) The ability to liquidate the backing collateral asset at a single point in time does not impact the structural determination of whether the issued security meets the definition of an ABS provided that the assets are expected to produce meaningful cash flows to service the debt terms. Additionally, the inability to liquidate the assets backing the instrument may impact the assessment of what constitutes substantive credit enhancement. Failure of cash flows to materialize may impact recoverability and require impairment of an ABS.

56-57. There is no requirement for a collateral asset backing an ABS structure to qualify as an admitted asset under statutory accounting. Assessing whether the underlying asset qualifies for admittance is not necessary as non-financial assets backing ABS must meet the meaningful cash-generating criteria. If the structure fails to meet the meaningful cash-generating requirement, the instrument does not qualify for reporting as a bond on Schedule D-1. ~~Note that s~~Statutory accounting has not historically restricted bonds backed by inadmissible assets from being admissible ~~either~~, nor has it included any kind of evaluation of the cash flow producing ability of underlying assets. The proposed-principles-based bond definition adds a requirement to evaluate the cash flow producing ability of the underlying collateral, but continues to recognize that assets that may not be admissible if held individually on an insurer’s balance sheet, may be well suited to support bond-like cash flows when securitized in large numbers with appropriate structuring (e.g. prioritization of cash flows).

57-58. Determining Whether the Structure Reflects “Financial” or “Non-Financial” Assets: The definition of a “financial asset” has previously been adopted from U.S. GAAP and is reflected in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right 1) to receive cash or another financial instrument from a second entity or 2) to exchange other financial instruments on potentially favorable terms with the second entity.

58-59. For purposes of excluding financial assets from the ABS meaningful cash generation criteria, the financial asset definition was clarified, for the avoidance of doubt, to not include assets for which the realization of benefits conveyed-by-from the rights to receive or exchange financial assets depends on the completion of a performance obligation such as with a lease, mortgage servicing right, royalty rights, etc. For purposes of applying the ABS guidance, when there is a performance obligation required before the cash flows are generated, the assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied. As another way to assess this clarification, if the assets backing the ABS are only subject to default risk (meaning the risk of nonpayment is solely based on failure of the underlying payer to satisfy its unconditional promise to pay), then the asset is a financial asset. If the asset is subject to any other risk in addition to default risk, then the assets represent non-financial assets. As simple illustrative examples:

Principles-Based Bond Definition

- a. A mortgage-backed security (MBS), where the underlying mortgages have been securitized into a structure, the mortgage receivables represent unconditional promises to pay, with no further performance obligation of the lender or any other party. This structure is considered to be backed by financial assets. Although this structure is excluded from the meaningful cash flow assessment, it must still comply with the substantive credit enhancement requirement.
- b. A structure that represents the securitization of rental car leases is contingent on the lessor performing its side of the transaction (providing the car for use) before the lessee is obligated to pay. Therefore, a lease is a non-financial asset due to the performance obligation that must be satisfied in order for payment to become unconditional. Additionally, as is the case with short-term car rentals, the lease (rental agreement) may not ~~themselves~~ be in place and the structure may represent a securitization of the rights to future rental payments, which adds an additional performance condition. This structure combines performance risk with default risk, resulting with the structure not qualifying for classification as being backed by financial assets. For this structure, the reporting entity would have to complete assessments that 1) the structure results with substantive credit enhancement and 2) the structure produces meaningful cash flows over the term of the instrument to satisfy the debt obligation other than through the sale or refinancing at maturity. If at origination, the contractual cash flows from the underlying collateral (leased rental cars) would be sufficient to satisfy are expected to generate all of the interest and at least 50% of the original principal, then the meaningful criteria would be met through the practical expedient.

59-60. Whole-Business Securitizations: In most ABS structures, the assets backing the cash flows are specified and limited to a distinct collateral pool. For example, dedicated cash flows from specific lease arrangements, or specific receivables from credit cards or mortgages. However, ABS structures can exist that represent an entire range of operating revenues or cash flows generated by the business. These structures are often referred to as “whole business” or “operating asset” securitizations.²² These structures, ~~(which could only include cash flows from certain operating segments, and not necessarily the entire business of a company’s operations.)~~ transfer the cash flows from the dedicated operations first to the investment holders, with the operating entity receiving their “operation proceeds” after the investment holders have been paid. This is different from a traditional bond structure where the operating entity first receives the proceeds from their operations, and has discretion ~~for on~~ how it uses those proceeds to continue operations and pay expenses and then ultimately pay the bond holders according to the debt terms. Further, debt holders in a whole-business securitization generally only have recourse to the cash flow streams pledged to support the debt, unlike a general credit obligation of the operating entity.

60-61. For the principles-based bond definition, structures that refer to whole-business securitizations, or that refer to operation proceeds as the collateral for the source of debt repayment still meet the definition as an ABS and do not reflect ~~issuer credit obligations~~ ICO. For these structures, the dedicated operational cash flows represent the defined collateral pool and should not be classified as ~~issuer credit obligations~~ ICO based on an interpretation that the proceeds represent the cash flows of an operating entity as they are not supported by the general creditworthiness of an operating entity, but rather only on referenced cash flow streams from the entity’s operations.

61-62. Residual Tranches / “Equity” Components of Schedule D-1 Qualifying Structures: The assessment of qualifying Schedule D-1 investments has to consider the overall investment structure but focuses primarily on the specific instrument held by the reporting entity. Structures, particularly ABS, may include residual tranches that ~~do not have contractual principal or interest payments, but rather~~ provide payment after ~~contractual pre-determined~~ principal and interest payments have been made to other tranches or interests based on remaining available funds. Although payments to residual note holders could occur throughout an investment’s duration, and not just at maturity, such instances still reflect the residual amount

permitted to be distributed after other holders have received ~~contractual~~ interest and principal payments. In all instances, despite whether other tranches of the investment structure qualify for reporting as a bond on Schedule D-1 reporting, residual tranches do not qualify for bond reporting on Schedule D-1.

62-63. Under prior guidance in SSAP No. 43, there was no exclusion that restricted residual tranches of qualifying securitizations from being captured in scope and being reported as bonds. From the outreach performed in developing the principles-based bond definition, it was identified that several insurers have ~~previously-historically~~ reported these residual tranches on Schedule BA: Other Long-Term Invested Assets. However, it was noted that some reporting entities have reported these ~~tranches-items as a~~ bond on Schedule D-1 as a component of the securitization or as a beneficial interest in scope of SSAP No. 43. Although residual tranches (first loss tranches) ~~are not rated~~ do not receive CRP ratings or NAIC SVO designations, when reported on Schedule D-1, an NAIC designation ~~would be~~ is required. From information obtained, entities reporting residual tranches on Schedule D-1 have either been reporting as self-assigned 6* or they applied the NAIC 5GI concept to self-designate these securities. Under the 5GI concept, the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) permits self-designation as an NAIC 5 if the documentation necessary for a full SVO credit analysis does not exist, the issuer is current on all principal and interest payments, and the reporting entity has an expectation that they will receive all contracted interest and principal. The use of the NAIC 5GI concept to self-designate residual tranches on Schedule D-1 is a misapplication of this guidance. It is faulty to conclude that an investment is current and will provide all contractual interest and principal payments when the investment ~~has no contractual interest or principal payments~~ provides payments based on remaining funds after obligations to other issued debt instruments from the structure are satisfied. Furthermore, the 5GI provision was intended to prevent an NAIC 6 designation simply because the documentation for a full credit analysis could not be provided or reviewed, such as situations involving foreign securities when the supporting documents ~~may be~~ are in a foreign language. The NAIC 5GI provision was not intended to permit self-assignment of an NAIC 5 designation to securities that would not qualify as a fixed-income instrument eligible for an NAIC designation under the P&P Manual.

63-64. With the identification that residual tranches are inconsistently reported, with some entities reporting as bonds on D-1 and others reporting on Schedule BA, the Working Group drafted and exposed agenda item 2021-15: SSAP No. 43 – Residual Tranches in September 2021 as an interim action prior to the conclusion of the bond ~~proposal~~ project. The guidance within ~~this-that~~ agenda item clarified~~s~~ that residual tranches shall be reported on Schedule BA at lower of amortized cost or fair value. The guidance also clarified~~s~~ that the reference to residual tranches intends to capture securitization tranches and beneficial interests, as well as other structures captured in scope of SSAP No. 43 that reflect loss layers where failing to remit without contractual interest or principal payments does not result in an act of default. Payments to holders of ~~residual interests~~ these items occur after contractual interest and principal payments have been made to holders of other tranches or interests and are based on the remaining available funds. Although payments can occur throughout an investment's duration, such instances still reflect the residual amount permitted to be distributed after other holders have received contracted interest and principal payments.

64-65. On November 10, 2021, the Statutory Accounting Principles (E) Working Group adopted ~~the~~ agenda item 2021-15, clarifying that residual tranches are required to be reporting on Schedule BA: Other Long-Term Assets beginning December 31, 2022, with early adoption permitted. The effective date of this action allow~~s~~ ed time for reporting entities to implement this change and to corresponds with a Blanks (E) Working Group proposal to incorporate separate reporting lines for residuals, based on underlying characteristics of the structure, on Schedule BA. With the adoption of this guidance, the Working Group noted that reporting entities may elect to reclassify residual tranches or interests to Schedule BA in advance of the effective date. As of the effective date, residual tranches or interests previously reported on Schedule BA shall be reclassified to the appropriate residual tranche Schedule BA reporting line based on the underlying characteristics of the investment structure.

66. Along with the action to specify the Schedule BA reporting for residuals, the [Statutory Accounting Principles \(E\)](#) Working Group and the Valuation of Securities (E) Task Force provided a joint memorandum to the Blanks (E) Working Group to specifically identify that application of the NAIC 5GI process [to residuals](#) is an inaccurate application. Residual tranches or interests reported on Schedule D-1 for year-end 2021 shall be reported with an NAIC 6. The ~~Working Group also provided the~~ Task Force [also received](#) a referral requesting clarification of the NAIC 5GI process so future misapplications could be mitigated. The Task Force considered specific changes to address residuals and adopted those revisions during the 2021 Fall National Meeting.

65-67. [Subsequent to the guidance adopted in agenda item 2021-15, additional revisions were adopted to SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies \(agenda item 2023-12\) and to SSAP No. 30—Unaffiliated Common Stock and SSAP No. 32R—Preferred Stock \(agenda item 2023-23\) to clarify that all residuals, regardless of legal form of the investment, shall be reported on the dedicated residual reporting lines on Schedule BA.](#)

66-68. The adoption of SSAP No. 21 in accordance with the principles-based bond project, incorporated guidance for non-bond debt securities and residual interests. The residual guidance includes the definition, common traits in identifying residuals as well as accounting and reporting guidance. Although adopted with a [January 1, 2025](#) effective date consistent with the bond project, reporting entities are permitted to [early-adopt the residual guidance in 2024.](#) ~~With the specific removal of residuals from being classified as a bond, guidance has been incorporated to SSAP No. 21R to specific and accounting and reporting guidance for residuals.~~ This [SSAP No. 21 residual](#) guidance has the following key aspects:

- a. Residuals are permitted to be admitted assets if debt securities from the same securitization qualify (or would qualify) as ~~bonds under SSAP No. 26R as an issuer credit obligation or asset backed security~~ [admitted assets](#). If a debt security held from the same ~~securitization structure~~ [is \(or would be\) nonadmitted](#), then any residual interests or first loss positions held ~~from the same structure~~ [do not qualify as admitted assets](#). [Residuals in the legal form of a SSAP No. 48 investment are not subject to the SSAP No. 48 audit requirements for admittance as they are captured in scope of SSAP No. 21 and not SSAP No. 48.](#)
- b. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values) if acquired along with debt tranches from the securitization. Subsequent to initial acquisition, residuals shall be reported at [either 1\) the lower of adjusted cost \(as defined in paragraph 67e\) or fair value under the Allowable Earned Yield method, with temporary reductions in fair value reported as unrealized losses, or 2\) at the calculated practical expedient method permitted in SSAP No. 21](#) ~~changes in fair value (or from adjusted cost to fair value) reported as other than temporary impairments.~~ [For the residual guidance, amortized cost is defined as the cost the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments \(OTTI\). The Allowable Earned Yield is established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. With this approach, interest income is recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. Amounts received in excess of the Allowable Earned Yield reduces amortized cost. The practical expedient calculates book/adjusted carrying value \(BACV\) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero.](#)
- c. [Residuals shall be assessed for OTTI on an ongoing basis, with required assessment anytime that fair value is less than the reported value. For residuals measured using the Allowable Earned Yield method, an OTTI is considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield is less than](#)

amortized cost. For residuals measured under the practical expedient, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV.

b.d. The residual guidance is adopted prospectively and includes transition guidance in applying the revised measurement method for securities previously captured in scope of another SSAP. This guidance mirrors concepts from the transition of the principles-based bond definition.

~~e. The adjusted cost basis shall be calculated such that all cash flows received attributed to the residual tranche shall be treated as a return of principal and a reduction to the adjusted cost. In other words, cash flows received as a holder of the residual tranche shall not be recognized as interest or investment income until the residual tranche has a BACV (adjusted cost basis) of zero. Once the residual has a zero BACV, cash flows received shall be recognized as interest income. The residual shall continue to be reporting on Schedule BA, with the zero BACV, with reporting of the received cash as interest income until the structure matures/terminates, is unwound or no longer meets the definition of a residual tranche. With this guidance, the BACV (adjusted cost basis) shall not be increased prospectively or retrospectively based on a reporting entity's estimates of future cash flows, and there shall be no amortization or accretion. Furthermore, adverse changes in estimated cash flows, resulting in an expectation that cash flows will not be received to cover the adjusted cost basis shall be recognized as an other than temporary impairment.~~

~~d. At the point the residual ceases to meet the definition of a residual tranche (i.e., when all senior debt has been repaid), and the investment structure is expected to continue for more than a year, the investment shall be reclassified and accounting for prospectively in the scope of whichever SSAP applies. Although dependent on the resulting structure, presumably structures that cease to reflect a residual will likely be considered a debt security that does not qualify as a bod or an equity tranche in scope of SSAP No. 48. Reporting entities are not required to reclassify an investment if the resulting structure is unwound within 12 months of the senior debt being repaid.~~

67-69. Stapling of investments: The original exposure of the principles-based bond definition (May 2021) included an initial example (~~originally referred to as Appendix I—Example I~~) detailing a situation where “equity interests” from a tranche (such as residuals) were required to be held by a reporting entity when holding debt tranches. ~~(That language identified situations where the reporting entity would be restricted from selling, assigning, or transferring the unsecured debt investment without also selling, assigning or transferring the equity interest to the same party. This restriction is often referred to as the “stapling” of investments.)~~ Pursuant to the guidance in the ~~original-initial~~ example, although the debt instrument would separately qualify as a creditor relationship for bond reporting, when considering the entirety of the holdings (both the residual/equity interests and debt tranches combined), the investment would be considered an equity instrument in substance. Although the debt instrument would appear to have a higher priority of payment, that priority would be supported by the residual/equity interest the reporting entity has to hold. ~~(Ultimately, the reporting entity would be subordinate to themselves as they would recognize a loss on the residual/equity tranche to safeguard payment under the debt tranche.)~~ Under that initial proposed example guidance, all holdings under such situations, including the debt tranches, would not qualify as creditor relationships and would not qualify for bond reporting.

68-70. After considering comments from the first exposure period, as well as discussing within the small group of industry and regulators, this example was eliminated from the principles-based bond definition. These discussions ultimately concluded that tranches that separately qualify as bonds should be reported as bonds even if other tranches from a structure that do not qualify as bonds are also held by the reporting entity. Elements noted as part of the decision to remove the stapling restriction include:

- a. A key element in the initial proposal to require all of the entire holdings as equity was to ensure that the risk of the holdings was properly captured. It was noted that recent developments to tranche investments that were previously reported as investments in LLCs or joint ventures could result in RBC arbitrage. This is because the risk of the investment would be concentrated in a specific tranche intended to absorb losses, and only that limited tranche would be reported on Schedule BA with higher RBC charges. This would allow the debt tranches (as they are subordinated by the equity tranche) to likely qualify as bonds with Schedule D-1 reporting and lower RBC charges. However, because risk has been concentrated into the smaller equity tranche as a result of leverage, and because Schedule BA RBC charges are fixed and insensitive to leverage, there is a lowering of risk-based capital in total despite no change in risk. The subsequent discussions highlighted that this is an RBC issue for the equity tranche and is not an accounting classification issue. As consideration on appropriate risk charges for residual tranches has been requested to the Financial Condition (E) Committee and is a discussion item for the RBC Investment Risk and Evaluation (E) Working Group, this issue is not within the focus of the Statutory Accounting Principles (E) Working Group. It was also noted that consideration of statutory accounting provisions (such as nonadmittance) to achieve a desired risk assessment would be an inappropriate use of the accounting guidance. It was also noted that the investments within scope of these discussions are likely permitted for admittance under state law, and incorporating statutory guidance different from state law ~~differing SAP guidance~~ would only result with identification of prescribed practices as domiciliary state laws and statutes are the ultimate authority for the application of SAP.
- b. It was also identified that the initial exposed example was specific to investments that were “stapled” under contractual terms. This guidance would have only been applicable to dynamics in which there was an explicit restriction in the sale, assignment, or transfer of the residual/equity tranche separately from a debt tranche. It was identified that without an active market for residual/equity tranches (which is common) the explicit restrictions would not be necessary to achieve a similar result. Structures would only need to be designed to require initial acquisition of residual/equity tranches when acquiring debt tranches (with removal of the explicit disposal restrictions) to avoid the proposed stapling guidance. Since the proposed guidance could be easily avoided, the guidance would not address the underlying concern.
- c. This discussion noted that it is quite common for acquisitions to require purchases of a vertical slice of a structure and for investments to be stapled for a short duration of time. These provisions are generally ~~made~~ for easier marketing and for easier compliance with conflict-of-interest provisions. The short-term aspect of some stapled investments raised concerns as to how bond-qualifying debt tranches would be reported if stapling provisions to a residual/equity tranche were subsequently eliminated. This was identified as likely requiring a schedule move (from BA to D-1) with potential other accounting and reporting impacts (such as with NAIC designations and measurement method). This discussion noted that an issuer’s stapling of investments may reflect a legitimate business purpose, and not intend for RBC arbitrage, and the elimination of such components after the stated timeframe could cause confusion or unnecessary noise in the financial statements from the reclassification of investments. This discussion further supported that the acquisition of different tranches, even if explicitly stapled, should not prevent separate debt (bond) and residual/equity recognition based on the characteristics of the specific tranche.

69-71. ABS as Short-Term or Cash Equivalents: With the required ~~focus~~ assessments and requirements ~~to be met for~~ for a security to qualify as asset-backed securities ~~ABS~~, as well as dedicated reporting based on the underlying collateral assets, ABS will no longer be permitted to be reported as short-

term or cash equivalents. All qualifying ABS will be required to be reported on Schedule D-1-2, even if acquired within one year or less from the maturity date, to allow for full assessment of ~~the extent of~~ ABS held by a reporting entity by ~~the~~ regulators. Investments captured in scope of SSAP No. 2R are intended to reflect situations in which limited risk remains, either from changes in credit-quality or interest rates, due to the short-duration until maturity. As ultimate cash flows from ~~asset-backed securities~~ ABS may have other risks beyond default risk or interest rate risk (such as performance factors, balloon payments, collateral quality), reporting as a cash equivalent or short-term investment is not permitted to prevent inappropriate assumptions of the investment's remaining potential risk.

Key Discussions / Aspects in Developing the Definition

~~70-72.~~ Refinancing Risk / Residual Risk Exposure: Discussion of refinancing risk (where there is outstanding debt owed at maturity that will need to be refinanced for the remaining principal to be received by the note holder) was a key element discussed in accordance with the meaningful cash flows requirement for non-financial ~~asset-backed securities~~ ABS. This discussion highlighted that traditional refinancing risk is accepted in the context of corporate debt but is viewed differently when assessing the cash flows of non-financial assets in an ABS structure. This differentiation was confirmed, with identification that there are concerns unique to non-financial ~~asset-backed securities~~ ABS.

~~71-73.~~ The requirement for a non-financial ~~asset-backed security~~ ABS to produce meaningful cash flows to service the debt other than through the sale or refinancing of the collateral assets ensures that structures captured as a bond on Schedule D-1 actually reflect bond-like cash flows. Structures that rely on the sale or refinancing at maturity to generate cash flows to repay debt obligations ultimately reflect a point-in-time reliance on the underlying collateral asset values that does not reflect the intent of Schedule D-1 reporting of bond-like cash flows. These structures are more reflective of the underlying collateral risk, ultimately contingent on the market at a future point in time and whether the underlying assets can be sold or refinanced in accordance with original expectations at the time of the structure origination.

~~72-74.~~ A key comment raised by industry with regards to the meaningful cash flow requirement, and the restriction against relying on the sale/refinancing at maturity to produce meaningful cash flows, is that consideration should be given to the level of overcollateralization that exists in a structure if the meaningful requirement will not be met without sale or refinancing. These industry comments take the position that as the level of overcollateralization to the debt obligation increases, then there is a greater likelihood that the debt issuer will be successful in refinancing or selling the assets and generate the means to repay the debt obligation. Although overcollateralization is a factor in securities for bond classification, allowing overcollateralization to override the requirement for meaningful cash flows other than the refinancing / sale at maturity is not permitted for the following reasons:

- a. The intent of the principles-based bond ~~proposal-definition~~ is to clarify what shall be reported as ~~long-term~~ bonds on Schedule D-1. Non-financial ~~asset-backed securities~~ ABS that do not generate meaningful cash flows and rely on the refinancing or sale of the underlying assets do not reflect bond-like cash flows and are not characteristic of bond investments. These structures ultimately reflect equity (point-in-time) valuation risks of the assets held as collateral.
- b. The industry position that overcollateralization safeguards the asset performance is an argument that supports the quality of the structure, but not the substance of the investment design. The principles-based bond ~~proposal-definition~~ does not factor in investment or credit quality within the determination of whether a structure qualifies for reporting as a bond on Schedule D-1. Permitting an assessment based on overcollateralization would introduce a concept that credit quality determines bond / Schedule D-1 reporting, and that is not an accurate conclusion in line with the principle concepts of bond classification.

73-75. Consistent with prior conclusions, reporting [an investment as a bond](#) on Schedule D-1 is not indicative of the quality of the investment, but rather reflects securities expected to generate bond-like cash flows. Securities reported [ed as bondsing](#) on Schedule D-1 may be of high-quality or low-quality, but the reporting is based on the substance of the structure, which ultimately requires bond-like cash flows for all investments. This includes a requirement that non-financial ~~asset-backed securities~~[ABS](#) must produce meaningful cash flows through the use of the underlying collateral assets other than through the sale or refinancing of the assets.

74-76. Additionally, through the small group discussions around the refinancing restriction ~~noted above~~, it was noted that even if a debt instrument meets all of the criteria to be reported as a bond on Schedule D-1, there will still be a potential for unintentional RBC arbitrage related to securitizations, because the residual tranches absorb all of the redistributed risk of the underlying collateral, but receives a fixed RBC charge that is not in any way risk-rated. While this could be the case in any type of securitization, it is particularly pronounced if the underlying collateral is equity investments. Equity investments generally receive a [base](#) 30% RBC charge for life companies. If equity investments are securitized, the bond tranches will get low bond charges (<2%), while the residual tranche will continue to receive a flat 30% [base](#) charge. This will have the effect of bringing the overall weighted-average capital charge on the underlying investments from 30% to approximately 10-15%, ~~as an example~~. This will occur even if the bond tranches have all of the substance associated with a bond. Following these discussions, it was identified that this regulatory concern may not be ~~able or~~ appropriate to address through the accounting standards but may warrant discussion ~~for under~~ the Capital Adequacy ~~(E)~~ Task Force. Subsequent discussions from the Financial Condition (E) Committee directed the new RBC working group (the RBC Investment Risk and Evaluation (E) Working Group) to evaluate this and any other investment-related RBC items. [Subsequent to these discussions, the RBC Investment Risk and Evaluation \(E\) Working Group assumed a project to assess RBC factors for residual interests. An interim approach was adopted to include a 30% base RBC factor with a 15% sensitivity test for year-end 2023, with a 45% base RBC factor and 0% sensitivity for year-end 2024. Continued discussion is expected under a long-term project.](#)

75-77. [Use of NAIC Designation / SVO Review in Determining Bond / Schedule D-1 Reporting](#): The accuracy of the financial statements, and compliance with statutory accounting provisions, is the responsibility of the reporting entity. Assessment and compliance with key concepts, such as the “meaningful [cash flow generation](#)” and “substantive credit enhancement” concepts for ABS are also the responsibility of the reporting entity, along with appropriate documentation of these assessments for regulator review when requested. ~~As such, e~~Consistent with the existing *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office*, a reporting entity cannot ~~obtain-utilize~~ an NAIC designation to conclude on the substance of an investment or the resulting reporting schedule. Pursuant to the policy statement, obtaining an NAIC designation does not change an investment’s applicable SSAP, annual or quarterly statement reporting schedule, or override ~~other~~ SSAP guidance required for an investment to be an admitted asset.

76-78. Questions have been received whether an NAIC designation in the AVS+ product or an assessment of an investment from a ~~an~~ [“Regulatory Treatment Analysis Service” \(RTAS\) submission from the SVO](#) can be utilized as support that an investment qualifies [as a bond](#) for Schedule D-1 reporting. These are inaccurate interpretations on the use of NAIC designations within those products. The assignment of an NAIC designation (either from the SVO or CRP) reflects the credit quality of an investment. An assessment of credit quality does not provide assurances that the investment qualifies for reporting [as a bond](#) on Schedule D-1 as an ~~issuer-credit-obligation~~[ICO](#) or an ABS. As part of this [principles-based bond](#) project, consideration is planned to expand the ability to report and use NAIC designations on Schedule BA ~~(or other schedules)~~ so that investments that do not qualify as bonds can have appropriate risk assessments that factor in the credit quality of the investment. This capability would ultimately depend on action by the Capital Adequacy (E) Task Force.

~~77-79.~~ Although the NAIC designation and RTAS processes cannot be used in determining Schedule D-1 compliance, it is envisioned that a small group of regulators and NAIC staff could be formed to review specific investment structures under the principle-based concepts to assist in assessments of complex new investment designs. ~~If formed,~~ it is anticipated that NAIC staff on the statutory accounting side and within the SVO would assist this small group.

~~78-80.~~ Interest Only / Principal Only Strips: Discussion occurred on whether specific guidance should direct the reporting of interest only (IO) and principal only (PO) strips. The resulting conclusion from this discussion was that the principle concepts from the bond definition should continue to be applied ~~for to~~ these investments. If the strips qualify within the definition as ~~issuer credit obligations~~ICO, they would be captured in scope of that guidance. If the strips qualified as ~~asset-backed securities~~ABS, they would be captured in scope of that guidance. It was noted that interest-only strips shall also be assessed in accordance with the residual guidance. If the interest-only strip reflects excess interest (e.g., remaining differential spread from interest collected from interest paid), these investments would be akin to a residual investment without contractual interest or principal payments and shall be captured in scope of that guidance. (Residuals are in scope of SSAP No. 21 and required to be reported on Schedule BA. Residuals are ~~and~~ not permitted to be reported on Schedule D-1.)

~~79-81.~~ The discussion of IO/PO strips with industry representatives identified that they are not overly prevalent investments with insurance reporting entities. It was also noted that IO/PO based on RMBS are relatively rare due to the prepayment risk, however those based on CMBS generally have contractual provisions that prohibit prepayments, thus ensuring that they act more akin to typical bonds. This discussion further highlighted that changes to the principal-based bond definition are not justified for IO/PO investments, and insurers should document their accounting policies for these investments to demonstrate compliance with the bond definition.

~~80-82.~~ The discussion of IO/PO strips focused on U.S. Treasury strips and mortgage-backed securities as likely investments, but it was noted that the application of the overall bond definition concepts should be applied to any future design of these investments. Specific elements noted for the two general designs:

- a. U.S. Treasury Strips: Treasury Strips are created when a bond's coupons are separated from the bond. The coupons separated from the bond are ~~also~~ sold individually (IO), becoming separate securities from the principal payments due at maturity (PO). U.S. Treasury Strips are backed by the U.S. government. U.S. Treasury strips (IO and /PO) ~~were noted to beare~~ considered U.S. government issues and would be captured with other securities backed by the U.S. government as ~~issuer obligations~~ICO. Specific identification of U.S. Treasury strips as a separate reporting line of ICO investments~~specific elements as issuer credit obligations~~, captured within the U.S. government category, was noted to be repetitive and not necessary.
- b. Mortgage-Backed Securities and Other Non-Treasury Strips: Other IO and PO strips are required to be assessed in accordance with the principle concepts of the bond definition. It is anticipated that non-U.S. strips (including mortgage-backed security strips) would not qualify as ~~issuer credit obligations~~ICO and shall be reviewed in accordance with the ~~asset-backed security~~ABS concepts to determine whether the strip qualifies for reporting as a bond on Schedule D-1. The separation of the principal and interest components into separate securities does not change the application of the principle concepts for determining whether a security qualifies as a bond. It was noted that IO strips could be high in the capital structure (supported by subordination) or could represent residual interests (reflecting the spread between proceeds collected and contractual interest). The specific details of the individual IO/PO security shall determine the appropriate accounting and reporting.

~~81-83.~~ The discussion of IO/PO strips identified that there is ~~likely~~ no current need to have separate reporting lines to identify these items within the investment schedules. However, it was identified that the ability to identify these investments with a code (or other feature) would allow for future aggregation and assessment. This was requested to be considered as part of the reporting revisions.

~~82-84.~~ Embedded Derivatives / Underlying Variables: Discussion occurred on the language that precludes bond reporting based on the appreciation or depreciation of an underlying ing collateral value or other variable. Although industry comments noted that the intent of the language was understood, it was identified that the language could be interpreted to mean that amounts in both the magnitude and timing of principal and interest payments must be known in advance, and it could also be interpreted to mean the amounts need to be contractual in nature but can still vary as long as the variability is not dependent on the appreciation or depreciation of an asset or variable. It was also noted that the reference to “other variable” could be interpreted to mean interest is not allowed to vary based on any variable or just the appreciation or depreciation of the variable. After discussing these comments, revisions were drafted to clarify that the exclusion is not intended to restrict variables that are commonly related to debt instruments, such as but not limited to, plain vanilla inflation or benchmark interest rate adjustments (such as with U.S. TIPS or SOFR-Linked coupons), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. ~~(Furthermore, As detailed in footnote 32, this exclusion is not intended to encompass nominal interest rate adjustments.)~~ This guidance has also been incorporated within the provisions for determining whether a debt instrument represents a creditor relationship and is applicable for debt instruments structured as issuer credit obligations ICO and asset backed securities ABS.

Accounting for Debt Securities That Do Not Qualify as Bonds

~~83-85.~~ Securities that reflect debt instruments have a fixed schedule for one or more future payments, but for which the security that does not qualify for bond reporting as an issuer credit obligation ICO or an asset backed security ABS shall follow specific guidance captured in SSAP No. 21 and be reported on Schedule BA. Investments in scope of this guidance are limited to items that would be in scope of SSAP No. 26, but that do not qualify for bond reporting as they reflect:

- a. Debt securities for which the investment does not reflect a creditor relationship in substance.
- b. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement.
- c. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.

~~84-86.~~ The debt securities captured in the SSAP No. 21 guidance ~~within SSAP No. 21R~~ meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements within SSAP No. 21. The provisions are specific that the guidance for non-bond debt securities in SSAP No. 21 shall not be inferred to other securities or investment structures.

~~85-87.~~ Debt securities in scope of ~~this standard~~ SSAP No. 21 that do not qualify as bonds under SSAP No. 26 and for which the primary source of repayment is derived through rights to underlying collateral, qualify as admitted assets if the underlying collateral primarily qualify as admitted invested assets. As detailed in the SSAP No. 21 guidance section pertaining to residual tranches, any residual tranches or first loss positions held from the same securitization that did not qualify as a bond under SSAP No. 26 also only qualify as admitted assets to the extent the underlying collateral primarily qualifies as admitted invested assets.

~~88.~~ Debt securities in scope of the SSAP No. 21 guidance shall be reported at acquisition at cost, including brokerage and other related fees on Schedule BA: ~~Other Long Term Invested Assets~~. Subsequent

measurement shall reflect the lower of amortized cost or fair value. Changes in measurement to reflect the lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses. [Debt securities in scope of SSAP No. 21 shall then 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 the interest maintenance reserve \(IMR\).](#)

[86-89. During the SSAP No. 21 discussion, industry inquired on the direction to utilize SSAP No. 43 for the components detailed in paragraph 88, and not separately assess securities to determine if they are more akin to ICO or ABS and using either SSAP No. 26 or SSAP No. 43 based on those assessments for the calculation of amortized cost, OTTI and allocating AVR/IMR. With this discussion, it was noted that investments that fail the creditor relationship test are identified before determining whether the security would be an ICO or ABS, and as the components of SSAP No. 43 are more relevant for debt securities that do not qualify as bonds, and to ensure consistency for all non-bond debt securities in scope of SSAP No. 21, the decision to utilize SSAP No. 43 for all debt securities that do not qualify as bonds was retained.](#)

Transition Guidance

[87-90. At the time of transition to apply the guidance adopted to reflect the principles-based bond definition](#), reporting entities shall make their best efforts to assess investments to determine whether they qualify within the bond definition for reporting on Schedule D-1. The bond definition requires assessments at the time of acquisition (as of the origination date), and it is recognized that reporting entities may not have the means to complete historical assessments for securities held at the time of transition. For these instances, if information is not readily available for reporting entities to assess a security as of the date at origination, reporting entities may utilize current or acquisition information in concluding that a security qualifies for reporting as a bond as either an [issuer obligation](#)~~ICO~~ or [asset-backed security](#)~~ABS~~.

[88-91. Investments that were reported as a bond on Schedule D-1: Long-Term Bonds as of December 31, 2024, that do not qualify under the principle-based bond ~~concepts definition~~](#) shall be reported as a disposal from that schedule, with a reacquisition on the appropriate reporting schedule as of January 1, 2025. These investments shall be accounted for in accordance with the resulting SSAP that addresses the specific investment structure. For securities that are reported at the lower of amortized cost or fair value under the ~~new applicable~~ guidance [in SSAP No. 21 for non-bond debt securities](#), this could result with an unrealized loss in the measurement of the investment at the time of the reclassification. Although the adoption of this guidance is considered a change in accounting principle under *SSAP No. 3—Accounting Changes and Corrections of Errors*, the following transition guidance shall be applied on January 1, 2025, to ensure consistency in reporting and to allow investment schedules to roll appropriately:

- a. Securities reclassified from Schedule D-1 as they no longer qualify under the bond definition shall be reported as a disposal from Schedule D-1 at amortized cost. Although no proceeds are received, amortized cost at the time of disposal shall be reported as consideration on Schedule D-4.
 - i. For securities held at amortized cost at the time of disposal, ~~book adjusted carrying value~~[BACV](#) and amortized cost shall agree, preventing gain or loss recognition at the time of reclassification.
 - ii. For securities held at fair value under the lower of amortized cost or fair value measurement method, previously reported unrealized losses shall be reversed on January 1, 2025, prior to disposal, resulting with a reported value that mirrors amortized cost at the time of disposal. This action prevents realized loss recognition at time of reclassification.

- b. Securities reclassified from Schedule D-1 shall be recognized on the subsequent schedule (e.g., Schedule BA) with an actual cost that agrees to the disposal value (amortized cost). Immediately subsequent to recognition on the resulting schedule, the securities shall be reported in accordance with the measurement method prescribed by the applicable SSAP:
- i. For securities previously reported at fair value on Schedule D-1 (under a lower of amortized cost or fair value measurement method), the reporting entity will recognize an unrealized loss to match the previously reported ~~book-adjusted carrying value~~BACV. Subsequently, the security will continue to reflect a lower of amortized cost or fair value measurement method.
 - ii. For securities previously reported at amortized cost on Schedule D-1, if the subsequent ~~applicable SSAP guidance statement~~ requires a lower of amortized cost or fair value measurement method, then the reporting entity shall recognize an unrealized loss to the extent fair value is less than amortized cost.
- c. After application of the transition guidance all securities shall reflect either the same reported value as of December 31, 2024 (amortized cost or fair value) or a lower reported value (if the security is subject to the lower of amortized cost or fair value measurement method). There should be no instances that result with a security having a greater reported value than what was presented on December 31, 2024. Subsequent to transition, securities reported at fair value may incur unrealized gains or losses due to fair value fluctuations, but should never have unrealized gains that result with a ~~book-adjusted carrying value~~BACV that exceeds amortized cost.

89-92. With this transition guidance, changes in measurement for securities reclassified under the bond definition will be reported as a change in unrealized capital gains (losses) in the first quarter 2025 financial statements (unless sold in the interim with a realized gain or loss) and not as a change in accounting principle. To enable regulators the ability to identify the impact of securities reclassified under the bond definition, the following disclosure for the 2025 first quarter financial statement is required:

- d. Aggregate ~~book-adjusted carrying value~~BACV for all securities reclassified off Schedule D-1.
- e. Aggregate ~~book-adjusted carrying value~~BACV after transition for all securities reclassified off Schedule D-1 that resulted with a change in measurement basis. (This shall be a subset of the aggregate BACV reclassified off Schedule D-1 and captures the securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.)
- f. Aggregate surplus impact for securities reclassified off Schedule D-1. This shall include the difference between ~~book-adjusted carrying value~~BACV as of December 31, 2024 and ~~book-adjusted carrying value~~BACV after transition for those securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.

90-93. ~~Asset-backed securities~~ABS that were previously reported as short-term (Schedule DA) or as a cash equivalent (Schedule E2) shall be reclassified to be reported on Schedule D-1-2 on January 1, 2025. Similar to the process detailed above, the securities shall be removed from Schedule DA and E2 at amortized cost, with reversal of any unrealized loss prior to the reclassification. The amortized cost shall be reported as “consideration received on disposals” on Schedule DA – Verification Between Years or

Schedule E-2 – Verification Between Years, as applicable based on the prior reporting location. The security shall be recognized as an ABS acquired on Schedule D-3 at amortized cost. Immediately after initial recognition, if the security was required to be held at fair value, under the lower of amortized cost or fair value measurement method, the reporting entity shall recognize an unrealized loss.

91-94. The transition guidance shall be applied prospectively beginning with the first year of adoption (January 1, 2025). For disclosures that provide comparative information, reporting entities shall not restate the prior year’s information in the 2025 disclosure.

Investment Examples – Securities That Do Not Represent Creditor Relationship Despite Legal Form

92-95. As detailed in the principles-based bond definition, an initial determinant ~~in the principles-based bond definition~~ is whether the investment is a security that represents a creditor relationship in substance. Examples included intend to identify scenarios that do not reflect an in-substance creditor relationship.

93-96. Example 1: Debt Instrument from SPV with Large Number of Diversified Equity Interests: A reporting entity invests in a debt instrument issued by a SPV that holds a large number of diversified equity interests with characteristics that support the production of predictable cash flows. The structure contains sufficient overcollateralization and liquidity provisions to ensure the production of adequate cash flows to service both principal and interest payments without significant reliance on refinancing or sale of the underlying equity investments. The debt instrument’s periodic principal or interest payments, or both, contractually vary based on the appreciation or depreciation of the equity interests held in the SPV.

94-97. Example 1 Rationale: Because the instrument’s principal or interest payments, or both, contractually vary with the appreciation or depreciation of the underlying equity interests, it contains an equity-like characteristic that is not representative of a creditor relationship. It would be inappropriate to conclude that a security with any variation in principal or interest payments, or both, due to underlying equity appreciation or depreciation, or an equity-based derivative, is a bond under ~~this standard~~ the principles-based bond definition as such security would contain equity-like characteristics.

95-98. Example 2: Debt Instrument from SPV with Few Equity Interests, Not an Issuer Credit Obligation: A reporting entity invests in a debt instrument issued from a SPV that owns a portfolio of equity interests, and the debt instrument does not meet the definition of an ~~issuer credit obligation~~ ICO.

96-99. Example 2 Rationale: Determining whether debt instruments collateralized by equity interests qualify as bonds under ~~this statement~~ the principles-based bond definition inherently requires significant judgment and analysis. Unlike debt instruments collateralized by assets with contractual cash flows, or debt instruments collateralized by cash-generating non-financial assets, debt instruments collateralized by equity interests may be dependent on cash flow distributions that are not contractually required to be made and/or may not be controlled by the issuer of the debt. In some instances, sale or refinancing of the underlying equity interests may be the only means of generating cash flows to service the debt instruments. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not qualify as a bond. Notwithstanding this rebuttable presumption, it is possible for such debt instruments to qualify as bonds, if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer. Factors to consider in making this determination include but are not limited to:

- a. Number and diversification of the underlying equity interests
- b. Characteristics of the underlying equity interests (vintage, asset-types, etc.)
- c. Liquidity facilities

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- d. Overcollateralization
- e. Waiting period for distributions/paydowns to begin
- f. Capitalization of interest
- g. Covenants (e.g., loan-to-value trigger provisions)
- h. Reliance on ongoing sponsor commitments
- i. Source(s) of expected cash flows to service the debt (i.e., dividend distributions from the underlying collateral vs. sale or refinancing of the underlying collateral)

~~97.100.~~ While reliance ~~of the debt instrument~~ on the sale of underlying equity interests or refinancing at maturity does not preclude the rebuttable presumption from being overcome, it does require that ~~the~~ other characteristics mitigate the inherent reliance on equity valuation risk to support the transformation of underlying equity risk to bond risk. As reliance on sale or refinancing increases, the more compelling the other factors needed to overcome the rebuttable presumption become.

~~98.101.~~ ~~Furthermore, this~~ The analysis of the underlying structure should be conducted and documented by a reporting entity at the time such an investment is acquired. The level of documentation and analysis required will vary based on the characteristics of the individual debt instrument, as well as the level of third-party and/or non-insurance company market validation to which the issuance has been subjected. For example, a debt instrument collateralized by fewer, less diversified equity interests would require more extensive and persuasive documented analysis than one collateralized by a large and diversified portfolio of equity interests. Likewise, a debt instrument that has been successfully marketed to unrelated and/or non-insurance company investors, ~~may~~ provide enhanced market validation of the structure compared to one held only by related party and/or insurance company investors where capital relief may be the primary motivation for the securitization.

Investment Examples – Analysis of ABS Under the Meaningful Cash Flows and Substantive Credit Enhancement Concepts

~~99.102.~~ All ~~asset-backed security~~ ABS structures are required to provide substantive credit enhancement to qualify for bond reporting on Schedule D-1 ~~reporting~~. Furthermore, ~~asset-backed security~~ ABS structures that are backed by non-financial assets must generate meaningful cash flows to service the debt without reliance on the sale or refinancing at the maturity of the investment. ~~Examples 4-7~~ The following provides examples of analysis under these criteria:

~~100.103.~~ Example 3 – Agency Mortgage-Backed Securities: A reporting entity invests in debt instruments issued from a SPV sponsored by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, “Agency or Agencies”). These debt instruments pass through principal and interest payments received from underlying mortgage loans held by the SPV to the debtholders proportionally, with principal and interest guaranteed by the Agencies. While there is prepayment and extension risk associated with the repayment of the underlying mortgage loans, the credit risk associated with the mortgage loans is assumed by the Agencies.

~~101.104.~~ Example 3 Rationale: Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgage loans directly because the credit risk has been redistributed and assumed by the Agencies. This is a substantive credit enhancement because a market participant (i.e., knowledgeable investor transacting at arm’s length) would conclude the Agency guarantee

is expected to absorb all losses ~~before-from~~ the debt instrument ~~being-evaluated~~. Therefore, the holder of the debt instrument is in a substantively different economic position than if the holder owned the ABS Issuer's unguaranteed assets directly. When guarantees do not cover 100% of principal and interest as the Agency guarantees do in this example, it is still appropriate to determine if the guarantee is substantive in accordance with the requirements of the principles-based bond definition to determine if the holder is in a substantively different economic position than if the holder held the ~~ABS Issuer's underlying~~ assets directly.

~~102-105.~~ Example 4 – Debt Instrument Issued by an SPV: A reporting entity invested in a debt instrument issued by a SPV. Payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and an assignment of the lease payments from an operating entity tenant. Additional security is provided by a mortgage on the leased property (the “underlying collateral”). The leased property is owned by the borrower under the note ~~and-~~ the SPV does not have any ownership interest in the underlying collateral, though it has legal recourse to it through the mortgage. The tenant makes contractually-fixed payments over the life of the lease to the borrower, who has assigned both the lease and the lease payments to the SPV as security for the debt. While the debt is outstanding, the lease, the lease payment, and the mortgage all serve as security for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the real property as well as submit an unsecured lease claim in the lessee's bankruptcy for any defaulted lease payments. The loan-to-value (LTV) (as a percentage of property value) at origination is 100%.

~~103-106.~~ The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at debt maturity, there is a balloon payment due, totaling 50% of the original outstanding debt principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying collateral to service the final debt balloon payment. The property has a high probability of appreciating in value over the term, however, ignoring any potential for appreciation, the 50% loan-to-value at maturity is the expected figure at the end of the debt term based solely on scheduled amortization payments. The real property is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time but has a predictable value range and ready market over a longer period of time, such that the property could be liquidated over a reasonable period of time, if necessary.

~~104-107.~~ Example 5 Rationale: The reporting entity determined that ~~as a debtholde~~~~debtholder, they~~ ~~are in a r-was in a~~ fundamentally different position than if the real estate was owned directly. The lease is a cash generating non-financial asset which is expected to generate a meaningful level of cash flows for the repayment of the bonds which covers all interest payments and 50% of the principal payments. The level of reliance on the collateral value for sale or refinancing is just over the cutoff for using the practical expedient (greater than <50%), so a full analysis is required. In reaching its determination, the reporting entity considered the predictable nature of the cash flows, which are contractually fixed for the life of the debt instrument, as well as the ability of the underlying collateral value to provide for the balloon payment through sale or refinancing in light of its characteristics. While the real property may have some market value volatility and periods of lower liquidity at points in time, the cash flows produced by the lease were concluded to reduce the loan balance to a level (50% loan-to-value) that would be able to be recovered by sale or refinancing at the maturity of the loan.

~~105-108.~~ The reporting entity also determined that the structure provides substantive credit enhancement in the form of overcollateralization to conclude that investors are in a different economic position than holding the real property directly, in accordance with the requirements of the principles-based bond definition. In reaching this conclusion, the reporting entity noted that although the debt instrument starts with a 100% loan-to-value (not including the value of the contractually required lease payments), contractual fixed payments from the lease provide additional security such that the reporting entity is in a different economic position than owning the property directly. Lease cash flows are sufficient to cover the payment of all interest and 50% of the outstanding principal over the term of the lease. In the context of the predictable nature of the cash flows and collateral value range over time, the reporting entity concluded that

a market participant (i.e., a knowledgeable investor transacting at arm's length) would consider this level of overcollateralization to put the investor in a substantially different economic position than owning the underlying property- directly.

~~106-109.~~ For the purposes of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to consider any expected economic appreciation. Note that a debt instrument with a ~~loan-to-value~~LTV that is expected to decrease over time is not necessarily deemed to have substantive overcollateralization.

~~107-110.~~ Example 6 – Debt Instrument Issued by an SPV With Lease Term Less than Debt Instrument: A reporting entity invested in a debt instrument with the same characteristics as described in Example 5, except that the existing lease at the time of origination has a contractual term that is shorter than that of the debt instrument. It is expected with a high degree of probability that the lease will be renewed, and a substantial leasing market exists to replace the lessee should they not renew. However, in the unlikely circumstance that the property cannot be re-leased, there would not be enough cash flows to service the scheduled principal and interest payments, and the property would have to be liquidated to pay off the debt upon default.

~~108-111.~~ Example 6 – Rationale: All details of this example, including the expected collateral cash flows, are consistent with those in Example 5, except that the cash flows in Example 5 are contractually fixed for the duration of the debt while the cash flows in this example are subject to re-leasing risk. Notwithstanding the involvement of re-leasing risk, the reporting entity concluded that the ability to re-lease the property was highly predictable and supported the conclusion that the underlying collateral was expected to produce meaningful cash flows to service the debt.

~~109-112.~~ This distinction is to highlight that the expected cash flows of a cash-generating non-financial asset may or may not be contractually fixed for the term of the bond. Certain securitized cash flow streams may not by their nature lend themselves to long-term contracts (e.g., single-family home rentals), but may nevertheless lend themselves to the production of predictable cash flows. While the non-contractual nature of the cash flows is an important consideration in determining whether a non-financial asset is expected to produce meaningful cash flows to service the debt, it does not, in and of itself, preclude a reporting entity from concluding that the assets are expected to produce meaningful cash flows.

~~110-113.~~ Example 7 – Lease in SPV with 80% Balloon Payment: A reporting entity invested in a debt instrument issued by a SPV that owns equipment which is leased to an equipment operator. The equipment operator makes lease payments to the SPV, which are passed through to service the SPV's debt obligation. While the debt is outstanding, the equipment and lease are held in trust and pledged as collateral for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the equipment as well as submit an unsecured lease claim in the lessee's bankruptcy for any defaulted lease payments. The ~~loan-to-value~~LTV at origination is 70%.

~~111-114.~~ The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at maturity, there is a balloon payment due, totaling 80% of the original outstanding principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying equipment to service the final debt balloon payment. The ~~loan-to-value~~LTV at maturity is expected to increase to 95% considering the scheduled principal amortization payments net of the expected economic depreciation in the equipment value over the term of the debt. The equipment is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time, but has a

predictable value range and ready market over a longer period of time, such that the equipment could be liquidated over a reasonable period of time, if necessary.

~~112.115.~~ Example 7 Rationale: The equipment is a cash generating non-financial asset which is not expected to generate a meaningful level of cash flows for the repayment of the ~~bonds-issued debt~~ via the existing lease that covers all interest payments and 20% of principal payments. In reaching this determination, the reporting entity considered that, while the cash flows being produced are predictable, the ability to recover the principal of the debt investment is almost entirely reliant on the equipment retaining sufficient value to sell or refinance to satisfy the debt.

~~113.116.~~ The reporting entity also determined that the structure lacks a substantive credit enhancement to conclude that investors are in a different economic position than holding the equipment directly, in accordance with the requirements of the principles-based bond definition. In reaching this conclusion, the reporting entity noted that the debt starts with a 70% ~~loan-to-value~~LTV, but the overcollateralization is expected to deteriorate over the term of the debt as the equipment economically depreciates more quickly than the debt amortizes. This results in a high ~~loan-to-value~~LTV (i.e., 95%) at maturity, relative to the market value volatility of the underlying collateral. Despite the predictable nature of the cash flows, the reporting entity concluded that the debt instrument lacked a substantive level of overcollateralization to conclude that the investor is in a different economic position than owning the underlying equipment directly. It was determined that the level of overcollateralization, as determined by a market participant (i.e., a knowledgeable investor transacting at arm's length), is nominal. Therefore, the reporting entity concluded that it was in a substantively similar position as if it owned the equipment directly.

~~114.117.~~ For the purposes of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to factor in any expected economic appreciation. Note that a debt instrument with a ~~loan-to-value~~LTV that is expected to increase over time is not necessarily deemed to have nominal overcollateralization.

Reflecting the Principles-Based Bond Proposal in SSAP

~~115.118.~~ ~~The This issue paper proposes that statutory accounting principles reflect the principles-based bond definition concepts~~ and the specific accounting guidance for bonds, including ~~both issuer obligations~~ICO and ~~asset-backed securities~~ABS, and the guidance for ~~and~~ debt securities that do not qualify as bond be captured as ~~substantive revisions~~new SAP concepts to existing SSAPs:

- a. *SSAP No. 26—Bonds*
- b. *SSAP No. 43—Asset-Backed Securities* (renamed from Loan-Backed and Structured Securities)
- c. *SSAP No. 21—Other Admitted Assets*

~~116.119.~~ For SSAP No. 26, the revisions capture the full bond definition, and the guidance for determining whether a security qualifies as either an ~~issuer credit obligation~~ICO or an ~~asset-backed security~~ABS. The accounting guidance for ~~issuer credit obligations~~ICO is retained within SSAP No. 26 and is not changed with the inclusion of the bond definition. Other key revisions include transition guidance, to reclassify debt securities that do not qualify as bonds from Schedule D-1 to the subsequent schedule and to delete the glossary as no longer necessary.

~~117.120.~~ For SSAP No. 43, in addition to revising the name to “Asset-Backed Securities.” revisions reorder and streamline the existing guidance. Although the broad measurement concepts and requirements to assess cash flows have not changed, the guidance specific to whether collection of cash flows is probable, not probable, ~~or and~~ pertains to a-beneficial interests has been eliminated. ~~Instead, t~~ The guidance has been rewritten to provide consistent guidance for the assessment of cash flows and considering the impact of prepayments. These revisions are not expected to result in significant deviations from past practice, as the resulting guidance is believed to be reflective of prominent past industry interpretations. Clarifications have been included to ensure recognition of an other-than-temporary impairment whenever a security is in an impaired state (fair value is less than amortized cost, regardless of if an unrealized loss has been recognized) and there is an adverse change in cash flows expected to be collected. ~~Other~~ key revisions include transition guidance to reclassify debt securities that do not qualify as bonds from Schedule D-1 to the subsequent schedule as well as to incorporate guidance that prohibits reporting ABS as cash equivalents ~~/or~~ short-term investments and ~~transition the process~~ to reclassify any securities reported as such as of the effective date.

~~118.121.~~ For SSAP No. 21, revisions incorporate new guidance for the accounting and reporting for debt securities that do not qualify as bonds as well as residual interests. For both sections, the revisions specify new measurement and admittance concepts for these securities and specify reporting. These investments are reported on Schedule BA in designated reporting lines. For residuals, guidance is included for the recognition of other-than-temporary impairments and transition guidance for situations where the residual had a different measurement method prior to the effective date.

~~119.122.~~ In addition ~~to SSAP No. 26R and SSAP No. 43R,~~ Exhibit ___, details “revisions to other SSAPs” adopted in accordance with the principles-based bond definition.” This section identifies all SSAPs that have modified guidance, which predominantly reflects updated terms and references, but includes the including revisions to SSAP No. 2R to restrict ABS from being in scope.

Discussion of Comments Received and Exposures

~~120.123.~~ This section details key comments received from exposures of the principles-based bond definition revisions and the Working Group’s consideration for potential edits.

- a. ~~This issue paper, along with the principles based bond definition, was exposed. Per the exposure of the issue paper and principles-based bond definition on~~ March 2, 2022, with comments due May 6, 2022. The Working Group heard comments on July 18, 2022, and directed limited edits to be reflected as followed:
 - i. Revise the guidance related to U.S. Treasury Inflation Protected Securities (TIPs) and to clarify the guidance regarding variable contractual principal and interest payments. These revisions clarified that securities with plain-vanilla inflation adjustment mechanisms are not intended to be captured within the provisions that restrict bond classification due to varying principal or interest payments, as well as clarified that other variances in contractual amounts due to reference variables (and not just equity interests) are intended to be precluded from bond treatment.
 - ii. Revise guidance describing substantive credit enhancements, particularly to revise reference to the first loss “tranche” as the first loss “position” and clarify that securitization tranches that do not have contractual principal and interest payments along with substantive credit enhancement do not qualify as a Schedule D Bond and shall be reported on Schedule BA. (Tranches without contractual principal and interest payments are considered residual tranches shall be on Schedule BA.) (Subsequent to these edits further discussion and updates to the residual guidance

were adopted. These revisions improve the guidance and remove specific references to contractual principal and interest payments.)

- iii. Document the outcome of small group discussions around the application of the bond principles ~~in Appendix I~~² to feeder fund structures. Feeder fund structures shall not automatically be assumed to qualify for bond classification (even if the ultimate collateral is fixed income), nor be automatically precluded bond classification. The substance of the investment should be the determining factor in these and other similar situations. In particular, the assessment of feeder fund structures should evaluate whether the structure ensures the pass through of the underlying cash flows, or whether uncertainty as to the timing or amount of cash flows is introduced by the structure.
 - iv. Requested interested parties to work with NAIC staff in proposing revisions to capture the elements that may introduce equity-like characteristics ~~examples currently in Appendix I of the bond definition~~ into the main components of the bond definition.
- b. In addition to the revisions incorporated from the July 18, 2022, call, the Working Group also heard comments and elected not to incorporate revisions for the following items:
- i. The Working Group identified that non-bond items that are specifically scoped into SSAP No. 26 will not be identified in the bond definition. The Working Group was explicit that the inclusion of an investment in-scope of SSAP No. 26 did not make the investment a “bond” and such a distinction is necessary to prevent scope-creep or inference of other investments into the bond definition. For example, although SVO-Identified Bond ETFs, SVO-Identified CTLs and certificates of deposit that exceed one year are explicit inclusions to SSAP No. 26 and reported on Schedule D-1, these investments are not bonds.
 - ii. The Working Group did not incorporate industry~~-~~proposed edits to limit guidance that requires the consideration of all returns to equity-backed ABS. Rather, the Working Group clarified that all investments that have contractual principal and interest that can fluctuate due to a referenced variable shall consider all returns in excess of principal repayment as interest when determining whether the investment qualifies for bond reporting under the principles-based definition.
 - iii. The Working Group did not agree with comments supporting ABS to be reported as cash equivalents or short-term investments even if acquired with a maturity date that is less than 90-days or 1-year away. ~~within those timeframes.~~ To ensure proper assessment under the bond definition, and reporting based on the underlying components of the investments, the Working Group retained the provisions that all ABS shall be captured within SSAP No. 43 and be reported on Schedule D-1~~-2~~.
 - iv. The Working Group did not direct changes to the ~~exposed~~ bond definition or issue paper after considering the industry “Lease-Backed Securities Working Group” May 5, 2022, comment letter. That letter, which is consistent with their prior comments, proposes to capture securities as ~~issuer credit obligations~~ICO if they pass-through cash flows unaltered (such as with certain lease-backed structures) and are supported primarily by a single rated credit payor, though principal repayment is not fully supported by the obligation of that payor. The discussion noted that these securities shall follow the guidance for ~~asset backed securities~~ABS if they are not fully supported by an underlying contractual obligation of a single operating entity, including the criteria for substantive credit enhancement and

meaningful cash flows. The Working Group identified that these structures are not based on the credit worthiness of a single operating entity and rely on the underlying collateral for repayment, which is why they should be considered ~~asset backed securities~~ ABS rather than ~~issuer credit obligations~~ ICO. The comment letter also raised concerns around ~~the guidance included~~ for evaluating project finance debt ~~as it is perceived that~~ noting a perception that inconsistent classification may occur for investments with similar characteristics. As a result of the discussion, there were no changes to the exposed bond definition. Working Group members and other interested parties noted during the discussion that the guidance pertaining to project finance is intended to provide guidance for evaluating issuers that share characteristics of both operating entities and ABS Issuers (i.e., the middle of the spectrum). Nevertheless, the guidance is clear that issuers of project finance debt must themselves have the characteristics of operating entities in order for the debt instrument to qualify as an ICO-issuer obligations. As such, project finance bonds issued by operating entities and other municipal revenue bonds will be retained as ~~issuer credit obligations~~ ICO as the design of these structures are supported by the credit worthiness of a single operating entity and are therefore different than the investment structures presented by the industry Lease-Backed Securities Working Group.

- c. ~~This issue paper, along with~~ Per the exposure of the principles-based bond definition, and proposed revisions to SSAP No. 26 and SSAP No. 43 ~~was exposed on~~ August 10, 2022, with comments due October 7, 2022. ~~Comments~~ were received from Fermat Capital, the industry Lease-Backed Securities Working Group and Interested Parties. After considering the comments, the following key revisions were incorporated:
- i. Revisions to incorporate the entire bond definition within SSAP No. 26, with a deletion of bond definition guidance from SSAP No. 43. With this change, ~~Securities~~ that qualify as ABS after application of the bond definition will follow the measurement and reporting guidance within SSAP No. 43. This edit prevents unintended inconsistencies in the guidance that could occur if aspects of the bond definition are in both SSAPs.
 - ii. Revisions to incorporate the guidance for determining a creditor relationship, which was in an exhibit, into the body of guidance within SSAP No. 26.
 - iii. Revisions to the examples for ABS analysis, which were moved to SSAP No. 26, to reflect a scenario in which payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and the assignment of the lease payments from an operating entity tenant. This revision was in response to comments from the industry Lease-Backed Security Working Group and detail that the SPV does not need to have ownership interest in the underlying collateral for the security to qualify as an ABS.
 - iv. Revisions to SSAP No. 26 to clarify that investments with specific guidance and reporting lines (such as surplus notes, working capital finance investments (WCFI) and structured settlements) shall follow the guidance in their specific SSAP and be reported on designated reporting lines. This edit was made in response to the comments from Fermat Capital, who identified that WCFI meet the definition of ~~issuer credit obligations~~ ICO. These investments shall follow the guidance *in SSAP No. 105R—Working Capital Finance Investments* and be reported on their specific reporting lines on Schedule BA.

- v. Revisions to SSAP No. 26, and the addition of a new footnote, to clarify that the general creditworthiness of an entity can be direct or indirect recourse and is the primary source of repayment for issuer credit obligations.
 - vi. Revisions to SSAP No. 26 to clarify application when interest and principal vary based on the performance of an underlying value or variable. The revised guidance adds language to clarify that the exclusion is not intended to restrict variables that are commonly linked to debt instruments, such as plain-vanilla inflation or benchmark interest rates.
 - vii. Revisions to SSAP No. 26 to delete the [proposed](#) glossary, with the inclusion of the bank loan definition into a footnote. Other definitions were identified as not being necessary for retained inclusion in the statement.
 - viii. Revisions to SSAP No. 43 to identify Freddie-Mac When Issued Trust Certificates, pursuant to *INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates*, as an explicit scope inclusion.
 - ix. Revisions to SSAP No. 43 to clarify the guidance for prospective adjustment method for high-credit quality investments, and on the assessment of cash flows. This guidance clarifies that if a security is in an unrealized loss position, and there is an adverse change in cash flow, the entity shall recognize an other-than-temporary impairment.
 - x. Revisions to both SSAP No. 26 and SSAP No. 43 to provide specialized transition and disclosure guidance for the reclassification of securities previously reported that will no longer qualify for reporting as bonds.
 - xi. Revision to the issue paper to clarify the application of [the principles-based bond definition to the feeder funds guidance](#).
- d. ~~After considering the comments and proposed revisions, on November 16, 2022, the Working Group exposed revisions to SSAP No. 26R and SSAP No. 43R for comment. The Working Group also exposed proposed revisions to other SSAPs that will be impacted with the revisions under the bond project. This includes revisions to detail the short term and cash equivalent restriction for ABS in SSAP No. 2R as well as guidance for debt securities that do not qualify as bonds in SSAP No. 21R. This guidance was~~Per an exposure on November 16, 2022 of SSAP No. 26, SSAP No. 43 and other SSAPs that will be impacted under the bond project, ~~exposed~~ until February 10, 2023, ~~revisions were incorporated to reflect~~ ~~The Working Group considered comments during the 2023 Spring National Meeting and exposed updated guidance, with a comment period ending June 9, 2023, to reflect~~ most of the interested party comments. ~~The revised documents were discussed and exposed at the 2023 Spring National Meeting.~~ Most of the edits were minor, but the following elements are specifically noted:
- i. Revisions to SSAP No. 26 incorporated an exception for nominal interest rate adjustments. The guidance defines the exception as being too small to be taken into consideration when assessing an investment's substance as a bond. This revision was added based on industry's comments on inadvertent impact to sustainability-linked bonds, but the exception guidance is not limited to those specific bonds.

- ii. Revisions clarify that replication (synthetic asset) transactions are addressed in *SSAP No. 86—Derivatives* and are not impacted by the principles-based bond definition.
- iii. Revisions to SSAP No. 26 to explicitly identify residuals, including first loss positions ~~that lack contractual payments or substantive credit enhancement~~, do not qualify as bonds and shall be captured in *SSAP No. 21—Other Admitted Assets*.
- iv. Revisions specific to transition that clarify that investment assessments are required as of origination and to permit current or acquisition information in determining whether investments qualify as bonds at the time of transition. ~~Furthermore, the~~The guidance was also clarified that the transition guidance shall be applied prospectively beginning with the first year of adoption. For disclosures that provide comparable information, reporting entities shall not restate the prior year's information in the 2025 disclosure.
- v. With an exposure of the revised documents, Aan updated SSAP No. 21 was also exposed to update guidance for the measurement of debt securities at the lower of amortized cost or fair value and to incorporate proposed accounting and reporting guidance for residuals.
- e. The Statutory Accounting Principles (E) Working Group received comments on June 9, 2023, from the 2023 Spring National Meeting exposure. No comments were received on SSAP No. 26, SSAP No. 43 or the document that detailed revisions to other SSAPs. The Working Group adopted the SSAP revisions reflected in these documents on August 12, 2023, during the 2023 Summer National Meeting, effective January 1, 2025.
- f. During the 2023 Summer National Meeting, the Working Group considered comments ~~received~~ on SSAP No. 21 pertaining to ~~on~~ the guidance for debt securities that do not qualify as bonds and for residual interests and exposed a revised SSAP No. 21 until September 29, 2023. The revisions for debt securities that do not qualify as bonds reflect a majority of interested parties' comments.
 - i. For debt securities that do not qualify as bonds, ~~the~~revisions clarify that if the primary source of repayment is derived through underlying collateral, the investment shall only be admitted if the underlying collateral qualifies as admitted invested assets. For residuals, ~~the~~revisions clarify that if the reporting entity holds a debt tranche from the same securitization, and the debt tranche does not qualify as a bond (either an ~~issuer credit obligation~~ICO or ~~asset backed security~~ABS), and the debt security does not qualify as an admitted asset under SSAP No. 21, then the residual does not qualify as an admitted asset.
 - i.ii. ~~In addition, the r~~Revisions ~~to SSAP No. 21R included a~~ proposed new measurement method for residuals. This guidance is different from what was proposed by interested parties but intends to reflect the highly uncertain amount and timing of residual cashflows. This proposed guidance will require all cash flows received to be treated as a return of principal ~~/investment~~ until the ~~residual book adjusted carrying value (BACV)~~ is zero. At that point, all cashflows received would be treated as interest income. This proposed guidance was noted to intends ~~to~~ best suit how residuals work conceptually. The reporting BACV will reflect the potential risk of loss prior to recovering the initial investment, rather than requiring an assessment of potential loss over the entire life of the securitization. ~~Comments~~

~~on the proposed measurement method for residual tranches in general, and also for individual types of residuals, were specifically requested.~~

- ~~g. During the 2023 Fall National Meeting, the Working Group considered comments and exposed an updated SSAP No. 21 until January 22, 2024. No comments were received on the section for non-bond debt securities, but comments focused on the guidance for residual interests. Revisions reflected in the 2023 Fall National Meeting exposure:~~
- ~~i. Revisions capture an Allowable Earned Yield method for the measurement of residuals. This guidance will limit the extent interest income can be recognized without recognizing cash flows as return of principal. Provisions were also included to permit a practical expedient to allow all cash flows received to be taken as a reduction of BACV. Under the practical expedient, interest income would not be recognized until BACV was zero.~~
 - ~~ii. Revisions clarified the treatment of reductions in fair value as unrealized losses and updated OTTI guidance to be consistent with SSAP No. 43 and the assessment of the present value of expected cash flow to the BACV.~~
- ~~h. On February 22, 2024, an updated SSAP No. 21 reflecting a variety of edits from working with industry throughout the interim was exposed until March 7, 2024. The shortened comment period was proposed to allow for adoption consideration during the 2023 Spring National Meeting.~~
- ~~i. Revisions for residual incorporate the definition and characteristics captured in other SSAPs to make SSAP No. 21 the location for all residual guidance. All residuals shall follow the accounting, admittance and reporting guidance detailed in SSAP No. 21.~~
 - ~~ii. Revisions clarified that residuals shall be accounted for at the lower of Allowable Earned Yield method or fair value, or under the practical expedient.~~
 - ~~iii. Revisions eliminated the guidance that directed reclassification of residuals to other SSAPs and reporting schedules in situations when the residual tranches cease to meet the definition of residual tranches. With the deletion, once classified as a residual, an investment would retain that classification and reporting until it is disposed by the reporting entity.~~
 - ~~iv. Revisions separate the OTTI calculation between items measured at the Allowable Earned Yield method and those that follow the practical expedient.~~
 - ~~v. Revisions incorporate transition guidance for residuals that were accounted for under a different SSAP prior to the effective date.~~
 - ~~vi. Revisions prescribe a January 1, 2025, effective date, but permit early adoption of the residual guidance.~~

History of Definition / Scope Development of SSAP No. 43 – Before the Principles-Based Definition

The following section details the historical development of SSAP No. 43 along with the prior benefits for reporting investments in scope of SSAP No. 43 and key issues from the prior guidance. Due to various revisions that have been reflected since its original adoption, this information is retained for historical reference on the SSAP No. 43 guidance prior to the reflection of the principles-based bond proposal.

~~121.~~124. SSAP No. 43—Loan-backed and Structured Securities was originally effective with the SAP codification and resulted with separate guidance for “bonds” (in SSAP No. 26) and “loan-backed and structured securities” (in SSAP No. 43). (The initial guidance indicated that investments in scope of SSAP No. 43 met the definition of a bond in *SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities*.) Although most of the guidance between the original SSAP No. 26 and SSAP No. 43 was the same, the guidance in SSAP No. 43 recognized the need to review (at least quarterly) the assumptions and resulting cash flows of the underlying loans, as changes in assumptions could necessitate a recalculation of the effective yield or other-than-temporary impairment.

~~122.~~125. The original issue paper to SSAP No. 43 (Issue Paper No. 43) cited guidance originally contained in Chapter 1, *Bonds and Loan Backed and Structured Securities*, from the *Accounting Practices and Procedures Manual of the Life and Accident and Health Insurance Companies*. The issue paper identified that the *Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies* contained similar guidance. In this Issue Paper No. 43, and the original SSAP No. 43, loan-backed securities were defined as “pass-through certificates, collateralized mortgage obligations (CMOs) and other securitized loans...” The reference to “securitized loans” was a key aspect of this original definition.

~~123.~~126. Original definition / scope guidance for SSAP No. 43:

2. Loan-backed securities are defined as pass-through certificates, collateralized mortgage obligations (CMOs), and other securitized loans not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the interest and/or principal received by the issuer from the mortgage pool or other underlying securities.
3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to interest and/or principal received by the issuer from the mortgage pool or other underlying securities.
4. Loan-backed securities are issued by special-purpose trusts (issuer) established by a sponsoring parent organization. Mortgage loans or other securities securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee under the issuer's obligation has been fully satisfied. The investor can only look to the issuer's assets (primarily the trustee assets or third parties such as insurers or guarantors) for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying mortgage loans. Some sponsors do guarantee the performance of the underlying loans.
5. Loan-backed securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted asset to the extent they conform to the requirements of this statement.

~~124.~~127. In agenda item 2007-26, *FAS 156: Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*, the Working Group adopted with modification FAS 156 in *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, revising the terminology for “retained interests” to “interests that continue to be held by the transferor.” This action also clarified that beneficial interests from the sale of loan-backed and structured securities shall be accounted for in accordance with SSAP No. 43. This initial adoption identified that the holder of a beneficial interest in securitized financial assets should recognize the excess of all cash flows attributed to the beneficial interest estimated at the acquisition date over the initial investment as interest income over the life of the beneficial interest using the effective yield method.

~~125.~~128. In 2009, the Working Group adopted a substantively-revised SSAP No. 43 (effective September 30, 2009). The focus of the substantive revisions was to revise the valuation and impairment

requirements based on the cash flows expected to be collected for the securities, rather than fair value. Although the focus of the revisions was inclusion of impairment guidance based on whether an entity has an intent to sell, whether an entity does not have the intent and ability to hold a security, and when there is a non-interest related decline if there is no intent to sell and the entity has the intent and ability to hold, the revisions resulted in a significant rewrite of the guidance in SSAP No. 43, including the guidance for beneficial interests. This guidance expanded the prior scope inclusion from “beneficial interests from the sale of LBSS,” to include “purchased beneficial interests in securitized financial assets.”

~~126-129.~~ In agenda item 2010-12, Clarify Definitions of Loan-Backed and Structured Securities, the Working Group received a regulator-sponsored, nonsubstantive Form A with a proposal to revise the definitions of a loan-backed and structured security (LBSS). As a result of this proposal, the definition was revised to eliminate the reference to “securitized loans” and instead refer to “securitized assets.” These revisions were adopted with an effective date of January 1, 2011.

- a. Although the agenda item simply identifies that this item was exposed in August 2010, and then adopted after a single exposure in October 2010, with an effective date of January 1, 2011, there were significant comments received during the exposure period. In short summary, these comments highlighted that the scope of the changes were intended to move fixed-income assets that had been accounted for as bonds under SSAP No. 26 to SSAP No. 43 as LBSS. Particularly, the comments noted concerns with the movement of equipment trust certificates and credit tenant loans from the accounting provisions of SSAP No. 26 to the accounting rules of SSAP No. 43. These comments stated that “instruments with radically different sources of cash flows and risk characteristics utilize trust structures, and not all should be classified as loan-backed.” There were no changes incorporated to the proposed guidance as a result of these comments, and the revisions were adopted as exposed.

~~127-130.~~ In 2019, revisions to the definition and scope section were also adopted to clarify the identification of affiliate/related party transactions (agenda item 2019-03) as well as to explicitly capture mortgage-referenced securities issued from a government sponsored enterprise in scope of SSAP No. 43 (agenda item 2018-17). The inclusion of mortgage-referenced securities was a distinct departure from the “trust” structure required in determining inclusion within scope of SSAP No. 43, but was incorporated as the securities (with the referenced pool of assets), functions similarly to the securities held in trust and the referenced pool of assets can be assessed for the underlying credit risk

~~128-131.~~ Between the adoption of agenda item 2010-12 and the items adopted in 2019, there were several revisions to SSAP No. 43, but those revisions did not impact the definition / scope of the statement. Those revisions included changes to incorporate price-point NAIC designations, guidance for interim financials for RMBC/CMBS, clarification of disclosures, updating Q/A guidance, and guidance for prepayment fees.

~~129-132.~~ Definition of loan-backed and structured securities in the “As of March 2020” AP&P Manual:

2. Loan-backed securities are defined as securitized assets not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the payments received by the issuer from the underlying assets, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.
3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to payments received by the issuer from the underlying assets.

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.

- a. In determining whether a loan-backed structure is a related party investment, consideration shall be given to the substance of the transaction, and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, although a loan-backed security may be acquired from a non-related issuer, if the assets held in trust predominantly⁴ reflect assets issued by affiliates of the insurance reporting entity, and the insurance reporting entity only has direct recourse to the assets held in trust, the transaction shall be considered an affiliated investment, and the transaction shall also be subject to the accounting and reporting provisions in *SSAP No. 25—Affiliates and Other Related Parties*.

5. Mortgage-referenced securities do not meet the definition of a loan-backed or structured security but are explicitly captured in scope of this statement. In order to qualify as a mortgage-referenced security, the security must be issued by a government sponsored enterprise⁵ in the form of a "credit risk transfer" in which the issued security is tied to a referenced pool of mortgages. These securities do not qualify as "loan-backed securities" as the pool of mortgages are not held in trust and the amounts due under the investment are not backed or secured by the mortgage loans. Rather, these items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, reporting entity holders may not receive a return of their full principal as principal repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. Unless specifically noted, the provisions for loan-backed securities within this standard apply to mortgage-referenced securities.

6. Investments within the scope of this statement are also subject to the provisions and disclosure requirements of SSAP No. 25 if the SSAP No. 43 transaction is a related party arrangement⁶. Loan-backed and structured securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.

7. The scope of this statement encompasses all types of loan-backed and structured securities, including, but not limited to, the following:

⁴ In applying this guidance, a reporting entity is not required to complete a detailed review of the assets held in trust to determine the extent, if any, the assets were issued by related parties. Rather, this guidance is a principle concept intended to prevent situations in which related party transactions (particularly those involving affiliates) is knowingly captured in a SSAP No. 43 structure and not identified as a related party transaction (or not reported as an affiliated investment on the investment schedule) because of the involvement of a non-related trustee or SSAP No. 43 security issuer. As identified in *SSAP No. 25—Affiliates and Other Related Parties*, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

⁵ Currently, only Fannie Mae and Freddie Mac are the government sponsored entities that issue qualifying mortgage-referenced securities. However, this guidance would apply to mortgage-referenced securities issued by any other government sponsored entity that subsequently engages in the transfer of residential mortgage credit risk.

⁶ As discussed in paragraph 4.a. of this statement, a SSAP No. 43 security may still be considered a related party transaction even if the asset trustee or security issuer is a non-related party.

- a. Loan-backed and structured securities acquired at origination,
- b. Loan-backed and structured securities acquired subsequent to origination for which it is probable, at acquisition, that the reporting entity will be able to collect all contractually required payments receivable, and are accounted for at acquisition under SSAP No. 103R,
- c. Loan-backed and structured securities for which it is probable, either known at acquisition or identified during the holding period⁷, that the reporting entity will be unable to collect all contractually required payments receivable, and
- d. Transferor's beneficial interests in securitization transactions that are accounted for as sales under SSAP No. 103R and purchased beneficial interests in securitized financial assets⁸.

Benefits of Reporting in Scope of SSAP No. 43 – Before the Principles-Based Definition

~~130.133.~~ There are a variety of benefits for reporting investments as bonds on Schedule D-1. Also, with regards to bifurcated impairment, capturing an investment in scope of SSAP No. 43 may be more advantageous than capturing in scope of *SSAP No. 26—Bonds*. These benefits include:

- a. Capturing an investment in scope of SSAP No. 26 or SSAP No. 43 results with reporting the investment on Schedule D-1, Long-Term Bonds. By reporting on this bond schedule, the investment is generally not subject to investment limitations, the asset is admitted and the investment has the benefit of lower risk-based capital (RBC) charges based on NAIC designation. (Moving held equity instruments from Schedule BA into a SSAP No. 43 trust has been particularly noted as providing “regulatory capital relief.”)
- b. Capturing an investment in scope of SSAP No. 26 or SSAP No. 43 may result in amortized cost reporting and a delay in recognizing decreases in value or other-than-temporary impairments than if the assets held in trust were reported separately on the statutory financial statements.
 - i. Under the SSAP No. 43 bifurcated impairment model, an entity is not required to recognize an OTTI or deviate from an amortized cost measurement as long as the entity can assert that they have the intent and ability to hold the SSAP No. 43 security to recover the amortized cost basis and there is no non-interest related decline. (This has been a key factor in the PPN design, as a high-quality bond is placed in trust (along with other assets), and the bond – over several years – will single-handedly satisfy the contractual requirements of the 43 issued security, preventing any recognition of OTTI or a reduction of NAIC designation even when the other securities held in trust could completely default to zero.)
 - ii. The SSAP No. 43 bifurcated impairment can be considered an advantage over SSAP No. 26 as under SSAP No. 43, if there is an intent and ability to hold the asset, a reporting entity only has to recognize an OTTI for the portion of the non-interest related loss. Under SSAP No. 26, if there is any assessed OTTI (despite if

⁷ Securities classified within the type of paragraph 7.a. or 7.b. may be required to change classification to type 6.c. when it becomes probable that the reporting entity will be unable to collect all contractually required payments receivable.

⁸ The accounting requirements related to these types of securities included in paragraphs 22-25 shall be determined at acquisition or initial transfer.

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interest or credit related), a reporting entity must recognize an OTTI down to the then-current fair value for the security.

- iii. Prior to the principles-based bond project, guidance in SSAP No. 43 did not differentiate between different types of tranches or payment streams for the issued securities. This is easiest to illustrate through the “equity” tranche of a SSAP No. 43 investment but could be a factor if payments are provided sequentially. (Sequential payments are used to pay the senior notes first, until paid in full, before payments are allocated to junior notes.) For the “equity” tranche, which is a term that refers to the junior-most layer of issued SSAP No. 43 securities, this tranche is the first-loss position and only receives payment after all other layers have been satisfied. Without prior guidance in SSAP No. 43 for this layer, entities were able to classify these residual tranches as “bonds” on Schedule D-1, which did not properly reflect the nature of those investments.
- c. SSAP No. 43 permits admittance of the security without any verification to the assets held in trust. As such, if a reporting entity was to derecognize a joint venture or LLC from Schedule BA and reacquire through the ownership of a SSAP No. 43 security, the reporting entity would be permitted to admit the security without any verification of the joint venture or LLC held in trust. Under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, assets must have audited support (audited U.S. GAAP financials, audited reconciliation to U.S. GAAP, audited IFRS financials or audited U.S. tax basis equity) in order to be admitted in the statutory financial statements.

Key Issues with Scope / Definition Application of SSAP No. 43 – Before the Principles-Based Definition

~~131-134.~~ 134. With the existing guidance in SSAP No. 43, there are no restrictions to the assets that can be placed in trust and used to support securities issued from the trust structure. Although these structural designs are referred to as “securitizations” and reported as debt instruments, these investment structures may not reflect actual securitizations in which cash flows from multiple contractual debt obligations held in trust are used to pay principal and interest payments on the trust-issued security. The assets being securitized may include assets that are not cash flow producing, creating reliance on an underlying collateral valuation risk. Or, there may be no economic substance to the use of the securitization structure, such that the insurer is in the same economic position as owning the underlying assets directly. As a result, there is a regulatory concern that assets being represented as bonds may contain unidentifiable risks that regulators would not traditionally associate with bond risk.

~~132-135.~~ 135. As an additional issue of the existing guidance, questions have been raised on whether securities captured in scope of SSAP No. 43 would be “asset-backed securities” as defined by the Code of Federal Regulations (17 CFR 229.1101(c)). These questions have arisen as an SEC identified nationally recognized statistical rating organization (NRSRO) must be specifically approved to provide ratings of “asset-backed securities.” Since the CFR definition is different than what is permitted in scope of SSAP No. 43, a rating from an NRSRO approved as a credit rating provider (CRP) that may not be approved by the SEC for “asset-backed securities” could provide a valid rating for a SSAP No. 43 instrument permitted as “filing exempt” if that asset was not an “asset-backed security.” This has caused questions as regulators have identified designations given by CRPs not SEC approved to provide “ABS” designations and have questioned the use of these CRP ratings in determining the NAIC designation.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/05-15-24/BondIP-5-2-24.docx>