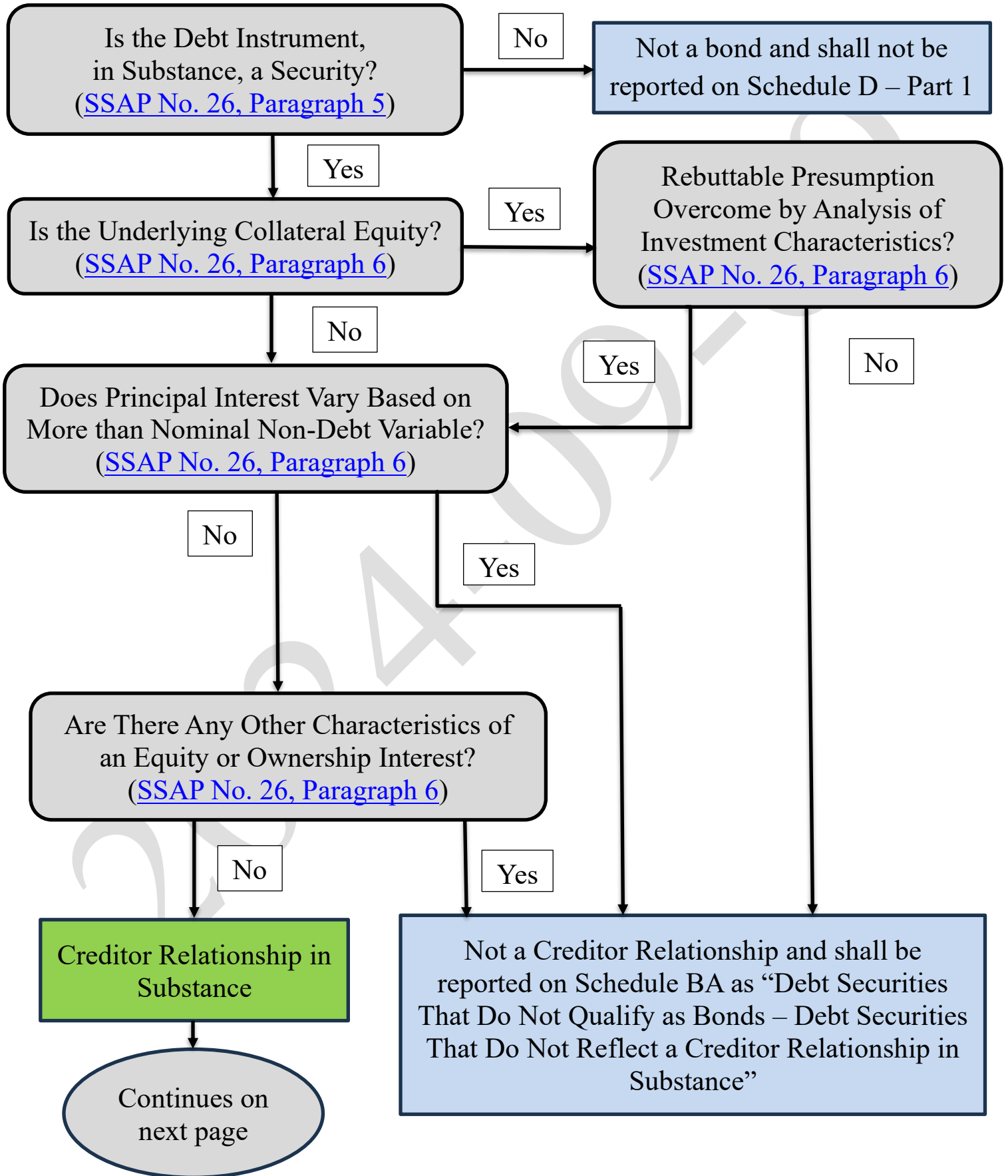
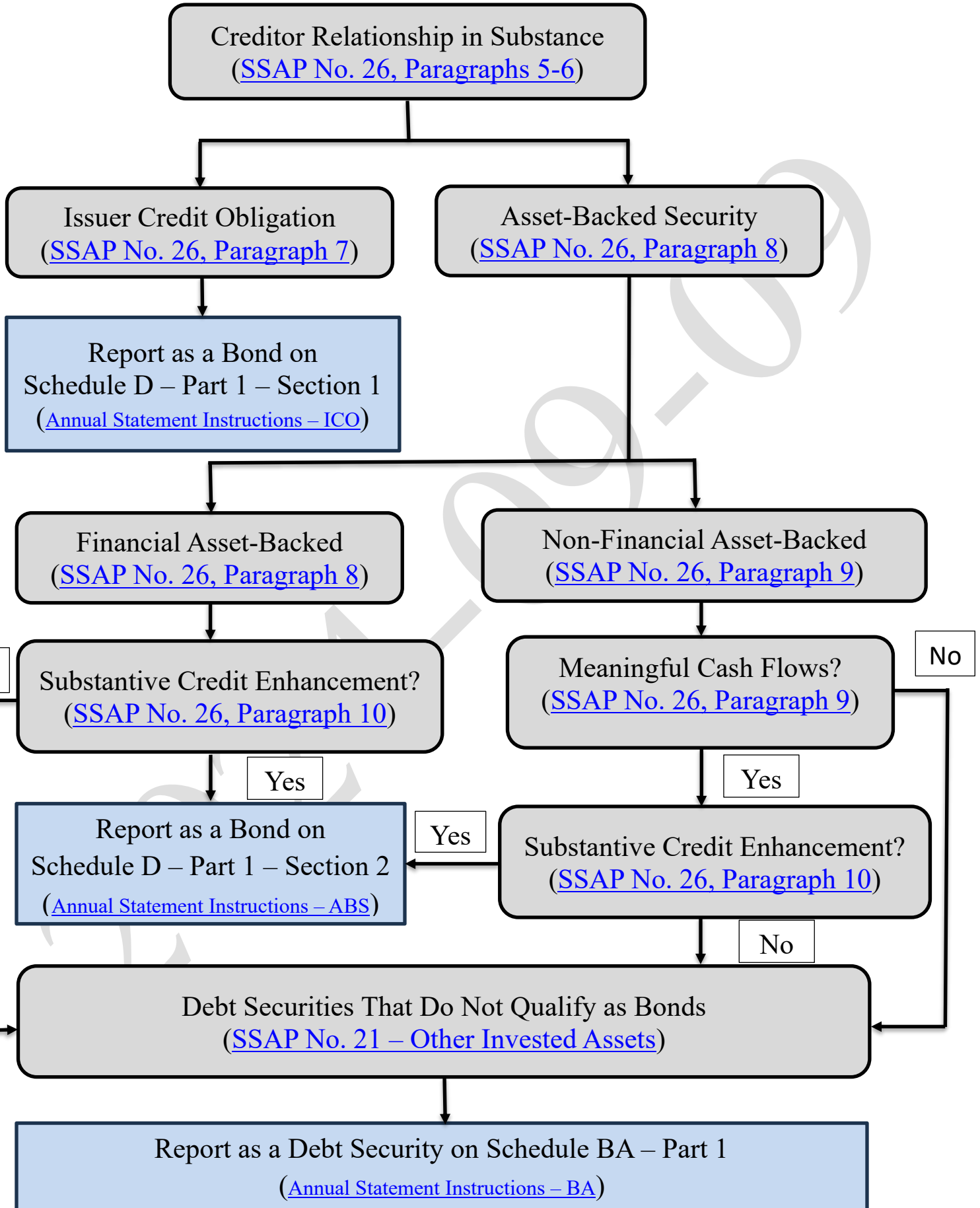


Principles-Based Bond Definition Flowchart

Determining a Creditor Relationship in Substance



Principles-Based Bond Definition Flowchart



Principles-Based Bond Definition Flowchart

SSAP No. 26—Bonds	Other SSAPs Impacted by Bond Definition
SSAP No. 43—Asset-Backed Securities	Issue Paper No. 169 – PBBD
SSAP No. 21—Other Admitted Assets	SAPWG Q&A (exposure)

Principles-Based Bond Definition (per SSAP No. 26 – Bonds)

5. A bond shall be defined as any security² representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security as described in this statement.

² This statement adopts the GAAP definition of a security as it is used in FASB Accounting Standards Codification Topics 320 and 860. Evaluation of an investment under this definition should consider the substance of the instrument rather than solely its legal form.

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:

- a. 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.
- b. 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.
- c. It is either one of a class or series or by its terms is divisible into a class or series of shares, participations, interests or obligations.

6. Determining whether a security represents a creditor relationship should consider its substance, rather than solely the legal form of the instrument. The analysis of whether a security represents a creditor relationship should consider all other investments the reporting entity owns in the investee as well as any other contractual arrangements. A security that in substance possesses equity-like characteristics or represents an ownership interest in the issuer does not represent a creditor relationship. While not intended to be all-inclusive, paragraphs 6.a.-6.d. discuss specific elements that may introduce equity-like characteristics:

- a. Determining whether a debt instrument represents a creditor relationship in substance when the source of cash flows for repayment is derived from underlying equity interests inherently requires significant judgment and analysis. Unlike a debt instrument collateralized by assets with contractual cash flows, debt instruments collateralized by equity interests are dependent on cash flow distributions that are not contractually required to be made and are not controlled by the issuer of the debt. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not represent 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. Factors to consider in making this determination include but are not limited to:
 - i. Number and diversification of the underlying equity interests
 - ii. Characteristics of the underlying equity interests (vintage, asset-types, etc.)
 - iii. Liquidity facilities
 - iv. Overcollateralization
 - v. Waiting period for distributions/paydowns to begin
 - vi. Capitalization of interest
 - vii. Covenants (e.g., loan-to-value trigger provisions)
 - viii. Reliance on ongoing sponsor commitments

Principles-Based Bond Definition Flowchart

- b. While reliance of the debt instrument on 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.
- c. Analysis of whether the rebuttable presumption for underlying equity interests is overcome shall 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 larger 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.
- d. In order for a debt instrument to represent a creditor relationship in accordance with Paragraph 6, 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 (i.e., performance) of any underlying collateral value or other non-debt variable. 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 variable is precluded from bond treatment. This exclusion is not intended to restrict variables that are commonly related to debt instruments such as, but not limited to, plain-vanilla³ inflation or benchmark interest rate adjustments (such as with U.S. TIPs or SOFR-linked coupons, respectively), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. This exclusion is also not intended to encompass nominal interest rate adjustments⁴. For clarification purposes, all returns from a debt instrument in excess of principal are required to be considered as interest. Therefore, investments with “stated” interest and then “additional returns” to which the holder of the debt instrument is entitled are collectively considered as interest and shall be assessed together in determining whether the investment has variable principal or interest due to underlying referenced non-debt variables. Examples of securities excluded from the bond definition under this guidance:
 - i. Structured Notes, which are securities that otherwise meet 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 the failure of the borrower to pay the principal amount due, are excluded from the bond definition. These investments, 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 currency fluctuations are not structured notes.
 - ii. Principal-protected securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* are excluded from the bond definition as they have a performance component whose payments originate from, or are determined by, non-fixed income securities. These investments shall follow the guidance for non-bond securities in *SSAP No. 21—Other Admitted Assets*.

Principles-Based Bond Definition Flowchart

7. An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary⁵ source of repayment. Operating entity or entities includes holding companies with operating entity subsidiaries where the holding company has the ability to access the operating subsidiaries' cash flows through its ownership rights. An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or "ABS Issuer" (as defined in paragraph 8). Examples of issuer credit obligations include, but are not limited to:

- a. U.S. Treasury securities, including U.S. Treasury Inflation-Indexed Securities;^(INT 01-25)
- b. U.S. government agency securities;
- c. Municipal securities issued by the municipality or supported by cash flows generated by a municipally-owned asset or entity that provides goods or services (e.g., airport, toll roads, etc.);
- d. Corporate bonds issued by operating entities, including Yankee bonds and zero-coupon bonds;
- e. Corporate bonds, issued by holding companies that own operating entities;
- f. Project finance bonds issued by operating entities;
- g. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity (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 principal 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.
- h. Bonds issued by real estate investment trusts (REITs) or similar property trusts;
- i. Bonds issued by business development corporations, closed-end funds, or similar operating entities, in each case registered under the 1940 Act.
- j. Convertible bonds issued by operating entities, including mandatory convertible bonds as defined in paragraph 20.b.

⁵ "Primary" refers to the first in order of repayment source, not to a majority of the sources of repayment. For example, an issuer obligation may have secondary recourse to collateral upon default of the operating entity but would otherwise be expected to be fully repaid with cash flows of the operating entity. This differs from an asset-backed security for which the primary source of repayment is from cash flows of the collateral.

Principles-Based Bond Definition Flowchart

8. An asset-backed security⁶ is a bond issued by an entity (an “ABS Issuer”) created for the primary purpose of raising debt capital backed by financial assets⁷ or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity⁸. 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. Also, many ABS Issuers are in the form of a trust or special purpose vehicle (“SPV”), although the presence or lack of a trust or SPV is not a definitive criterion for determining that a security meets the definition of an asset-backed security. The provisions in paragraphs 9-10 detail the two defining characteristics that must be present for a security to meet the definition of an asset-backed security.

9. The assets owned 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 level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the underlying assets held by the ABS Issuer. Reliance on cash flows from the sale or refinancing of cash generating non-financial assets does not preclude a security from being classified as an asset-backed security so long as the conditions in this paragraph are met.

- a. *Meaningful Level of Cash Flows*: Determining what constitutes a “meaningful” level of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral pursuant to paragraph 9 is specific to each transaction, determined at origination, and shall consider the following factors:
 - i. The price volatility in the principal market for the underlying collateral;
 - ii. The liquidity in the principal market for the underlying collateral;
 - iii. The diversification characteristics of the underlying collateral (i.e., types of collateral, geographic location(s), source(s) of cash flows within the structure, etc.);
 - iv. The overcollateralization of the underlying collateral relative to the debt obligation; and
 - v. The variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

⁶ The underlying collateral supporting an asset-backed security shall meet the definition of an asset by the ABS Issuer. Certain forms of collateral, such as rights to future cash flows, may not be recognized as assets by the selling entity but may be recognized as assets when sold to an ABS Issuer. These assets are permitted as the collateral supporting an asset-backed security, although they may not represent an asset that can be liquidated to provide payment toward the issued debt obligations (i.e., if the future cash flows do not materialize). The limited ability to liquidate the underlying collateral supporting an asset-backed security does not impact the structural determination of whether an issued security meets the definition of an asset-backed security but may impact the recoverability of the investment, as well as the consideration of whether there is sufficient credit enhancement.

⁷ *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* defines a financial asset as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of this standard, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

⁸ Dedicated cash flows from an operating entity can form the underlying defined collateral in an asset-backed security. This dynamic, perhaps noted in a whole-business securitization, still reflects an asset-backed security and is not an issuer credit obligation.

Principles-Based Bond Definition Flowchart

10. 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. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

- a. *Substantive Credit Enhancement*: The intent of the criteria 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 an ABS 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 in scope of SSAP No. 26 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. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated 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. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.
- b. The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. 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, 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 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*.)

Principles-Based Bond Definition Flowchart

Principles-Based Bond Definition (per SSAP No. 21 – Other Invested Assets)

Debt Securities That Do Not Qualify as Bonds

20. The guidance within paragraphs 20-27 of this statement shall apply for any security, as defined in *SSAP No. 26—Bonds*, whereby there is a fixed schedule for one or more future payments (referred to herein 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 in scope of this guidance are limited to:
 - 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.
21. Debt securities as described in this statement 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 guidance in these paragraphs shall not be inferred to other securities or investment structures that are not otherwise addressed in statutory accounting, nor shall it be applied to any investments that are captured within other statutory accounting guidance.
22. Debt securities in scope of this standard 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 paragraph 31, in the 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.
23. Debt securities in scope of this statement shall be initially reported at acquisition at cost, including brokerage and other related fees on *Schedule BA: Other Long-Term Invested Assets*.
24. Debt securities captured in scope of this statement shall be reported at the lower of amortized cost or fair value. Changes in measurement to reflect a lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses.

Principles-Based Bond Definition Flowchart

Issuer Credit Obligations

U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999

U.S. Government Obligations (Exempt from RBC)

U.S. Government Obligations as defined per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* includes direct claims (including securities, loans and leases) on, and the portions of claims that are directly and unconditionally issued, guaranteed or insured by the U.S. Government or its agencies. U.S Government obligations captured within this category include obligations issued by U.S. Government agencies that are fully guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. Government.

Other U.S. Governments Obligations (Not Exempt from RBC)

Bonds issued by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government.

This category includes bonds issued from agencies that are not backed by the full faith and credit of the U.S. Government but have a filing exemption detailed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* based on analytical judgement.

Non-U.S. Sovereign Jurisdiction Securities

This includes bonds issued by non-U.S. sovereign governments, including bonds of political subdivisions and special revenue. This also includes bonds issued by utilities owned by non-U.S. governments and bonds fully guaranteed by non-U.S. governments.

Principles-Based Bond Definition Flowchart

Municipal Bonds – General Obligation (Direct and Guaranteed):

Include bonds issued by states, cities, counties and other governmental entities to fund day-to-day obligations and to finance capital projects that are not secured by specific assets, but are backed by the “full faith and credit” (taxing power) of the issuer.

Municipal Bonds – Special Revenue

Include bonds issued by states, cities, counties, and other governmental entities to finance projects not backed by the taxing power of the issuer, but by revenues from the specific project or source (e.g., highway tolls). Also include other municipal bonds that do not qualify as general obligation (e.g., pre-refunded bonds and insured bonds).

Project Finance Bonds Issued by Operating Entities

Include non-municipal bonds issued by an operating entity as defined in *SSAP No. 26 – Bonds*, that finances a single asset or operation (such as a toll road or power generation facility). For these investments, the asset or operation collateralizes the issuance and the cash flows produced satisfy the debt payments. The use of a bankruptcy remote entity (e.g., Special Purpose Vehicle) does not preclude reporting in this category when the entity is determined to represent an operating entity and the primary purpose of the debt issuance is to finance a specific operating project for the operating entity.

Corporate Bonds

Issuer credit obligation issued by a company to raise capital and support company operations. Include convertible bonds, but not mandatory convertible bonds which are included in a separate category.

Mandatory Convertible Bonds

A type of convertible bond that has a required conversion or redemption feature. Either on or before a contractual conversion date, the holder must convert the mandatory convertible into underlying common stock.

Single Entity Backed Obligations

Bonds for which repayment is fully supported by an underlying contractual obligation of a single operating entity. This does not include corporate bonds or project finance structures. Examples of structures that could qualify for reporting within this category, if payment is fully supported by a single operating entity, include but are not limited to, equipment trust certificates, enhanced equipment trust certificates, single-tenant lease-backed securities and funding agreement backed notes. Repayment is considered fully supported by the underlying operating entity if the structure in place at origination provides cash flows to satisfy all interest and at least 95% of the principal of the security. (For example, a 5-year lease-backed security that has all cash flows for interest and principal repayment generated from one existing tenant who is under a matching 5-year lease term on the building qualifies for reporting as a single entity backed obligation.)

SVO- Identified Bond Exchange Traded Funds – Fair Value:

Include SVO-Identified Bond Exchange Traded Funds included on the “List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List)” as found on the Securities Valuation Office Web page (<https://www.naic.org/svo.htm>) that do not qualify for, or for which the reporting entity has elected not to report, at systematic value.

SVO-Identified Bond Exchange Traded Funds – Systematic Value:

Include SVO-Identified Bond Exchange Traded Funds included on the “List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List)” as found on the Securities Valuation Office Web page (<https://www.naic.org/svo.htm>) that qualify for, and that the reporting entity has elected to report, at systematic value. Use of systematic value is an irrevocable election as long as the qualifying investment is held by the reporting entity and qualifies for systematic value within the parameters of SSAP No. 26.

Principles-Based Bond Definition Flowchart

Bonds Issued From SEC-Registered Business Development Corps, Closed-End Funds & REITs

Bonds issued by SEC-registered business development corporates, closed-end funds or similar operating entities registered under the 1940 Act.

Bank Loans - Issued

Fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans in this category shall be obligations of operating entities acquired directly at issuance by a reporting entity.

Bank Loans - Acquired

Fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans in this category shall be obligations of operating entities acquired through an assignment, participation or syndication.

Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans

Mortgage loans, in scope of *SSAP No. 37—Mortgage Loans*, that have been filed with the SVO and included on the SVO-Identified Credit Tenant Loan listing. Investments in the form of security structures shall not be captured on this reporting line. Security structures supported by a credit tenant lease shall be reported as single entity backed obligations (if qualifying) or captured in the appropriate reporting line for Asset-Backed Securities.

Certificates of Deposit

Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition.

Other Issuer Credit Obligations

Report investment structures that qualify as issuer credit obligations pursuant to *SSAP No. 26 - Bonds* that do not fit within a specific reporting line. (Specific reporting lines shall be utilized when applicable.) Debt instruments in a certified capital company (CAPCO) permitted under *SSAP No. 26* shall also be captured within this category.

Affiliated Reporting Lines

Each reporting category, other than those specific to Government Jurisdictions, and SVO-Identified Bond ETFs, shall have affiliated investments separately reported within the affiliate reporting line. The definition of affiliates is pursuant to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Refer to the Blanks Working Group item [2023-06BWG Modified](#) for more information on changes to the columns for Schedule D – Part 1 – Section 1 starting on page 10 of the pdf.

Principles-Based Bond Definition Flowchart

Asset-Backed Securities

Financial Asset-Backed Securities – Self-Liquidating

Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC).....	1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) ...	1039999999
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC)..	1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated)	1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated)	1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated)	1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated)	1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated)	1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated)	1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated)	1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated)	1129999999

Financial Asset-Backed Securities – Not Self-Liquidating

Equity Backed Securities (Unaffiliated).....	1319999999
Equity Backed Securities (Affiliated)	1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated)	1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated)	1349999999

Non-Financial Asset-Backed Securities – Practical Expedient

Lease-Backed Securities – Practical Expedient (Unaffiliated).....	1519999999
Lease-Backed Securities – Practical Expedient (Affiliated).....	1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated)	1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated)	1549999999

Non-Financial Asset-Backed Securities – Full Analysis

Lease-Backed Securities – Full Analysis (Unaffiliated).....	1719999999
Lease-Backed Securities – Full Analysis (Affiliated)	1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated)	1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated).....	1749999999

Financial Asset-Backed Securities - Self-Liquidating

A self-liquidating security is a design where the terms of the underlying collateral has contractual principal and interest that results with a conversion into cash over a period of time (e.g., receivables or other such assets). (For example, a mortgage loan backing a mortgage-backed security, where the loan balance is reduced as payments are made and is ultimately fully paid off by the borrower, or a collateralized loan obligation (CLO) backed by bank loans that is reduced as the loan is paid off.) A financial asset is defined within *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 (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of the bond definition and reporting on Schedule D, Part 1, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

Agency Residential Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC)

Include ‘agency’ residential mortgage-backed securities where the mortgages or bonds are guaranteed (i.e., they are backed by the full faith and credit of the U.S. Government) as to principal and interest by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). Also include loans guaranteed by the U.S. Department of Veteran Affairs or the U.S. Department of Agriculture’s Rural Development Housing and Community Facilities Programs. Government Sponsored Mortgage Referenced Securities shall not be captured within this category.

Principles-Based Bond Definition Flowchart

Agency Commercial Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC)

Include 'agency' commercial mortgage-backed securities where the mortgages or bonds are guaranteed (i.e., they are backed by the full faith and credit of the U.S. Government) as to principal and interest by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). Also include loans guaranteed by the U.S. Department of Veteran Affairs or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Government Sponsored Mortgage Referenced Securities shall not be captured within this category.

Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC)

Include residential mortgage-backed securities issued by an agency that is not or partially guaranteed (i.e., they are not backed by the full faith and credit of the U.S. Government) as to principal and interest by federal or federally sponsored agencies such as Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). This category shall include mortgage-referenced securities issued by a government-sponsored enterprise (e.g., FNMA or FHLMC) in the form of a credit risk-transfer in which the security is tied to a pool of residential mortgages. 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, the holder may not receive a return of their full principal as repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages.

Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC)

Include commercial mortgage-backed securities issued by an agency that is not or partially guaranteed (i.e., they are not backed by the full faith and credit of the U.S. Government) as to principal and interest by federal or federally sponsored agencies such as Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). This category shall include mortgage-referenced securities issued by a government-sponsored enterprise (e.g., FNMA or FHLMC) in the form of a credit risk-transfer in which the security is tied to a pool of commercial mortgages. 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, the holder may not receive a return of their full principal as repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages.

Non-Agency Residential Mortgage-Backed Securities

Include residential mortgage-backed securities not issued by a government agency.

Non-Agency Commercial Mortgage-Backed Securities

Include commercial mortgage-backed securities not issued by a government agency.

Non-Agency – CLOs/CBOs/CDOs

Include self-liquidating collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). In general, this category includes pools of assets whose cash flows are divided into 2 or more tranches. This also includes any other significant leverage inside the deal, for example, in the form of off-market swaps or repo. The underlying collateral in this category consists of corporate or structured credit, cash or synthetic. This category does not include single name underlying collateral. Lastly, the repayment of the securities issued by CLOs/CBOs/CDOs depend primarily on the default and recovery of the underlying collateral and not on their market value.

Other Financial Asset-Backed Securities – Self-Liquidating

Include self-liquidating financial asset-backed securities not issued by a government agency that are not backed by commercial or residential mortgage loans and that are not considered CLOs/CBOs/CDOs.

Financial Asset-Backed Securities – Not Self-Liquidating

Include all financial asset-backed securities where the structure does not represent a design where the terms of the underlying collateral has contractual principal and interest that results with a conversion into cash over a period of time (e.g., receivables or other such assets).

Principles-Based Bond Definition Flowchart

Equity-Backed Securities

Include structures where the financial assets backing the structure reflect equity. These securities must overcome the rebuttable presumption that equity-like structures do not inherently possess the characteristics to be reported on Schedule D, Part 1 and have appropriate reporting entity documentation supporting a conclusion that 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. This category should include securitized collateralized fund obligations (CFOs) and other such structures, that qualify within Schedule D, Part 1. (Securitized equity-backed structures, including CFO structures, that do not qualify for Schedule D, Part 1 reporting shall be captured on Schedule BA.)

Other Financial Asset-Backed – Not Self-Liquidating

Include non-self-liquidating financial asset-backed securities that are not backed by equity.

Non-Financial Asset-Backed Securities (Practical Expedient)

A non-financial asset-backed security is defined as a bond backed by assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the assets. Pursuant to *SSAP No. 43—Asset-Backed Securities*, a practical expedient may be utilized, which is defined as if less than 50% of the original principal relies on the sale or refinancing of the underlying assets, the meaningful criteria is considered to be met. In applying this practical expedient, only contractual cash flows of the non-financial asset may be considered.

Lease-Backed Transactions (Practical Expedient)

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying lease transactions.

Other Non-Financial Asset-Backed Securities (Practical Expedient)

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying cash flow streams that do not predominantly reflect lease arrangements.

Non-Financial Asset-Backed Securities (Full Analysis)

Include non-financial asset-backed securities that qualify for reporting on Schedule D, Part 1 pursuant to *SSAP No. 43—Asset-Backed Securities*, but that do not qualify within the practical expedient for meaningful cash flows.

Lease-Backed Transactions (Full Analysis)

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying lease transactions.

Other Non-Financial Asset-Backed Securities (Full Analysis)

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying cash flow streams that do not predominantly reflect lease arrangements.

Affiliated Reporting Lines

Each reporting category, other than those specific to government agency issuances, shall have affiliated investments separately reported within the affiliate reporting line. The definition of affiliates is pursuant to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Refer to the Blanks Working Group item [2023-06BWG Modified](#) for more information on changes to the columns for Schedule D – Part 1 – Section 2 starting on page 31 of the pdf.

Principles-Based Bond Definition Flowchart

Debt Securities That Do Not Qualify as Bonds

Debt Securities That Do Not Reflect a Creditor Relationship in Substance NAIC	
Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0199999
Affiliated.....	0299999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0399999
Affiliated.....	0499999
Debt Securities That Lack Substantive Credit Enhancement	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0599999
Affiliated.....	0699999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0799999
Affiliated.....	0899999
Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows NAIC	
Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0999999
Affiliated.....	1099999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	1199999
Affiliated.....	1299999

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*, 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*.