

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

Issue: Capital Structure Code

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 prepared to propose possible deletion of the “capital structure code” reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1)* and *Schedule D-1-2: Asset-Backed Securities (D-1-2)*. This proposal would reflect a reporting change, and not a statutory accounting change, but it is being presented to the Statutory Accounting Principles (E) Working Group to ensure appropriate outreach to regulators on the proposed deletion. **This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness.**

Since the inclusion of the codes, there have been many questions on how to allocate investments to the established codes and whether there is consistent allocation of codes across companies to similar investments. It has also been noted that the reporting codes are required for all investments on Schedule D-1-1 and Schedule D-1-2, and there are questions on whether the codes are still applicable to all reporting lines, or even necessary, with the expanded reporting added from the principles-based bond project.

Per the SVO, the capital structure codes along with the security identifier ISIN were originally added in 2015, sponsored by the Valuation of Securities (E) Task Force, and included in a Blanks (E) Working Group proposal along with a number of other edits. The rationale for the capital structure code inclusion was to derive a “Capital Structure Code Regulator Report.” This report does not appear to have been generated by any group, the codes from Schedule D are not used in SVO assessments, and the Schedule D company-reported information may be misleading. The SVO has noted that although capital structure is an assessment element for investments they review, they do not use the company-reported Schedule D information but rather use information from outside data feeds, legal agreements and financial statements submitted with the filing.

As additional history, the original adoption of the capital structure code reporting component did not include any description or guidance for allocating investments to the different codes. In 2016, a subsequent blanks proposal was adopted to revise the code categories and include descriptions within the annual statement instructions with the intent to improve consistency in reporting. The original capital codes adopted in 2015 were identified as senior secured, senior unsecured, senior subordinated, junior subordinated and other. The 2016 revised codes currently reflected include senior secured, senior unsecured, subordinated and not applicable.

From a review of the year-end 2023 Schedule D-1 filing, 90% of securities (1.38 million) were coded with either a 1 (senior secured – 30%) or a 2 (senior unsecured – 60%). The data also shows that 3% of securities (43K) were coded with a 0, 5, or left blank – all of which are not viable options pursuant to the current Annual Statement Instructions. Although most reporting lines had evidence of all codes being utilized (including investments within the broad category of “U.S. Government” receiving instances of 3’s and 4’s) the bulk of code 3 (subordinated debt) was within the 2023 Schedule D-1 reporting lines for industrial and miscellaneous for RMBS, CMBS and LBSS, hybrid securities, and affiliated bonds involving CMBS or LBSS. Code 4, which reflects a “not applicable” response,

was also used in most of the reporting categories. Code 4 is intended to be used when the other three codes wouldn't apply, such as for the SVO-Identified Bond ETF investments captured on Schedule D.

Existing Authoritative Literature:

2024 Annual Statement Instructions:

Column 34 – Capital Structure Code

Please identify the capital structure of the security using the following codes consistent with the SVO Notching Guidelines in the Purposes and Procedures Manual of the NAIC Investment Analysis Office:

Capital structure is sometimes referred to as rank or payment priority and can be found in feeds from the sources listed in the Issue and Issuer column.

As a general rule, a security is senior unsecured debt unless legal terms of the security indicate another position in the capital structure. Securities are senior or subordinated and are secured or unsecured. Municipal bonds, Federal National Mortgage Association securities (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corporation securities (FHLMC or Freddie Mac) generally are senior debt, though there are examples of subordinated debt issued by Fannie and Freddie. 1st Lien is a type of security interest and not capital structure but could be used to determine which capital structure designation the security should be reported under. The capital structure of "Other" should rarely be used. Capital structure includes securities subject to *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities*.

1. Senior Secured Debt

Senior secured is paid first in the event of a default and also has a priority above other senior debt with respect to pledged assets.

2. Senior Unsecured Debt

Senior unsecured securities have priority ahead of subordinated debt for payment in the event of default.

3. Subordinated Debt

Subordinated is secondary in its rights to receive its principal and interest payments from the borrower to the rights of the holders of senior debt (e.g., for loan-backed and structured securities, this would include mezzanine tranches). (Subordinated means noting or designating a debt obligation whose holder is placed in precedence below secured and general unsecured creditors e.g., another debtholder could block payments to that holder or prevent that holder of that subordinated debt from taking any action.)

4. Not Applicable

Securities where the capital structure 1 through 3 above do not apply (e.g., Line 161999999 Exchange Traded Funds – as Identified by the SVO).

2025 Annual Statement Instructions:

The adopted revisions to the 2025 Annual Statement Instructions for the principles-based bond definition retained the column, with virtually identical guidance, but the instructions are captured separately for both *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1)* and *Schedule D-1-2: Asset-Backed Securities (D-1-2)* with different column references.

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:
None

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

Staff Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing and expose, for a shortened comment deadline ending May 2, this agenda item with the proposal to possibly delete the “capital structure code” reporting column in *Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1)* and *Schedule D-1-2: Asset-Backed Securities (D-1-2)* for year-end 2025. This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness.

Although NAIC staff does not desire to remove any investment information being utilized by regulators, this agenda item is consistent with the intent of the Blanks (E) Working Group charge to review and eliminate data elements to ensure reporting meets the needs of regulators. By removing unnecessary or unused data elements, industry can focus on other elements more beneficial to the needs of regulators.

If there is a desire to instead expand / clarify and/or limit application to specific reporting lines, feedback is welcome on guidance to improve consistency in reporting and/or identify if there are certain reporting lines on Schedule D-1-1 or Schedule D-1-2 for which the code should be applicable. The broad reporting lines effective in 2025 for D-1-1 and D-1-2 are illustrated below. (Categories are often divided between affiliated and unaffiliated.)

Schedule D-1-1: Issuer Credit Obligations
U.S. Government Obligations (Exempt from RBC)
Other U.S. Government Obligations (Not Exempt from RBC)
Non-U.S. Sovereign Jurisdiction Securities
Municipal Bonds – General Obligations (Direct & Guaranteed)
Municipal Bonds – Special Revenue
Project Finance Bonds Issued by Operating Entities
Corporate Bonds
Mandatory Convertible Bonds
Single Entity Backed Obligations
SVO-Identified Bond Exchange Traded Funds – Fair Value
SVO-Identified Bond Exchange Traded Funds – Systematic Value
Bonds Issued from SEC-Registered Business Development Corps,
Bank Loans – Issued
Bank Loans – Acquired
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans
Certificates of Deposit
Other Issuer Credit Obligations

Schedule D-1-2: Asset-Backed Securities
<i>Financial Asset-Backed Securities – Self-Liquidating</i>
Agency Residential Mortgage-Backed Securities – Guaranteed
Agency Commercial Mortgage-Backed Securities – Guaranteed
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed
Non-Agency Residential Mortgage-Backed Securities
Non-Agency Commercial Mortgage-Backed Securities

Non-Agency – CLOs/CBOs/CDOs (Unaffiliated)
Other Financial Asset-Backed Securities – Self-Liquidating
Financial Asset-Backed Securities – Not Self-Liquidating
Equity Backed Securities
Other Financial Asset-Backed Securities – Not Self-Liquidating
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient
Other Non-Financial Asset-Backed Securities – Practical Expedient
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis
Other Non-Financial Asset-Backed Securities – Full Analysis

Staff Review Completed by: Julie Gann, NAIC Staff—January 2025

Status:

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed, for a shortened comment deadline ending May 2, a proposal to delete the “capital structure code” reporting column in Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2) for year-end 2025. This agenda item specifically requests information from regulators on the use of these reporting codes and if there is a preference to retain the codes and instead expand, clarify and/or limit application to specific reporting lines to improve consistency and usefulness. This agenda item will not result in changes to the *Accounting Practices and Procedures Manual*.

On May 22, 2025, the Statutory Accounting Principles (E) Working Group adopted, as final, this agenda item which communicates support of the Blanks (E) Working Group proposal (2025-11BWG) for the deletion of the “capital structure code” reporting column from Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2) for year-end 2025. This adoption does not result in changes to the *Accounting Practices and Procedures Manual*.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/05-22-2025/Adoptions/25-04 - Capital Structure Code.docx>