

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

Issue: AVR Line: Unrated Multi-Class Securities Acquired by Conversion

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: NAIC staff received a question as to what should be captured in the AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation reporting line 8 “Unrated Multi-Class Securities Acquired by Conversion.” This line is part of the AVR bond reporting lines in the schedule, following the bonds reported by NAIC designation. After review, NAIC staff does not believe this historical line should be retained in the AVR schedule as there should be no securities reported within this line under current statutory accounting concepts. NAIC staff notes that this guidance seems to date back to 1993, which is before the SVO incorporated the filing exempt concept for filings.

With the principles-based bond definition, only debt securities that qualify shall be reported as bonds. This includes reporting on Schedule D-1 as well as on the AVR schedule. (The AVR schedule cross-checks to the Schedule D-1 for bonds.) For all bond-qualifying securities, an NAIC designation pursuant to the *Purposes and Procedures Manual of the NAIC IAO* must be reported. In review of recent use of this AVR line, no reporting entities utilized this line in 2022 or 2023, but a reporting entity has recently contacted the NAIC indicating intent to report amounts in this line for 2024. Amounts reported in this line cause cross-check errors to the total amounts reported for bonds, and there are questions as to how the amounts are impacted with reserve factors, as all amounts are blocked on the schedule (no factors just XXX’s in the schedule). If a reporting entity was to acquire securities previously held in an ABS structure, those assets shall be captured under the applicable SSAP and reported accordingly to the statutory accounting guidance of that SSAP.

This agenda item proposes to remove this line from the AVR schedule. This agenda item will not result in a change to statutory accounting and will be exposed separately by the Blanks (E) Working Group.

Existing Authoritative Literature:

2024 Annual Statement Instructions:

Line 8	<p>Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion</p> <p>“Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion” are securities acquired through the conversion of a portion of the company’s assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.</p> <p>For instructions for completing this line, refer to “Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion.”</p>
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BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS FOR UNRATED MULTI-CLASS SECURITIES ACQUIRED BY CONVERSION

Assets may be converted into securities backed by the underlying assets. Rated bond classes of these multi-class mortgage-backed/asset-backed securities should be assigned Asset Valuation Reserve (AVR) factors consistent with comparably rated bonds.

A company may hold an “Unrated Multi-Class Security Acquired by Conversion” defined as a security acquired through the conversion of a portion of the company’s assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

In such cases, the rating agency that rates a portion of the newly created security would establish the credit quality of the entire asset pool being securitized. The maximum reserve for the unrated security is the lesser of: (a) 100% of the maximum reserve for the entire pool associated with the unrated security as rated by an SVO approved rating agency, or (b) the book/adjusted carrying value of the unrated security. The reserve objective is equal to the maximum reserve. The basic contribution is equal to 33% of the maximum reserve.

This treatment does not occur when a reporting entity bears continuing actual or contingent liability arising from the securitization of any assets.

Any company which enters into such a transaction must prepare and include with its filed annual statement a schedule prepared in accordance with the following general guidelines to support the calculation of the reserve amounts to be reported on Page 29, Line 8.

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 of the maintenance agenda, categorized as a SAP clarification, and expose revisions, for a shortened comment deadline ending May 2, to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation with a proposal to remove the reporting line 8 “Unrated Multi-Class Securities Acquired by Conversion.” (This item is proposed to be effective for year-end 2025, but the blanks proposal is to rename the line “intentionally left blank” to prevent renumbering all lines in the AVR schedule.)

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

Status:

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to the Life/Fraternal Annual Statement Blank, AVR: Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculation to remove the reporting line 8 “Unrated Multi-Class Securities Acquired by Conversion.” (With the proposal, the line will be renamed to “intentionally left blank” to prevent renumbering in the AVR Schedule.) 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 (2025-12BWG) to remove the AVR reporting line 8 “Unrated Multi-Class Securities Acquired by Conversion.” (With the proposal, the line will be renamed to

“intentionally left blank” to prevent renumbering in the AVR Schedule.) This agenda item will not result in changes to the *Accounting Practices and Procedures Manual*.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/05-22-2025/Adoptions/25-06 - AVR - Unrated Multi-Class Securities.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/05-22-2025/Adoptions/25-06-AVR-UnratedMulti-ClassSecurities.docx)