

**Bond Proposal – Potential Reporting Changes
2021 Fall National Meeting**

Introduction: A key aspect of the bond proposal is improved transparency and granularity in reporting.

1. Reporting Lines:

With the principles-based bond definition, it is recommended that more granular reporting lines be established to capture investments in scope of SSAP No. 26R and SSAP No. 43R. From preliminary assessments, the current general categories are not used for analytical assessments / reports except for U.S. Govt – Full Faith and Credit. As such, this document proposes to replace the current general categories with the inclusion of more useful reporting lines based on the type of investment.

Exposure Request Detail provided on pages 2-5:

1. Information is requested on the potential removal of the general categories and whether the elimination would impact any tools or analyses currently performed.
2. Information is requested on the proposed reporting lines and whether additional categories would be beneficial. (Note – The proposal suggests dedicated reporting lines for certain securities that are now identified by codes. Comments on this approach are requested.)

2. New Sub-Schedule D-1:

The bond project is currently proposing a new sub-schedule that details bond investments that have certain characteristics (e.g., ABS backed by financial assets that are not self-liquidating and ABS backed by cash-generating non-financial assets not captured within the practical expedient.)

Exposure Request– Detail provided on page 5:

1. Information is requested on how investments shall be categorized on this schedule.
2. Information is requested on additional information / columns desired for these structures.

3. Schedule D-1 Information :

As the changes to the reporting lines are considered a significant change, it has been proposed that this would be a good time to do a full-scope assessment of the information captured and reported on Schedule D-1. The following items have been identified for possible revision / clarification:

- Column 3 – Code Column
- Column 5 – Bond Characteristics
- Column 26 – Collateral Type
- Column 34 – Capital Structure Code

Exposure Request– Detail provided on page 6:

1. Information is requested on whether other columns / reporting instructions should be clarified as part of the bond proposal project.
2. Comments are welcome on the additional investment elements should be captured and/or whether certain elements are no longer beneficial to be captured.

1. Reporting Lines

The separation of bond investments in accordance with the current general categories is proposed to be replaced. It is proposed that Schedule D-1 have separate reporting lines for issuer credit obligations and asset-backed securities, with more granular lines within each grouping. Based on information received, the proposal retains reporting for categories that were previously used (e.g., U.S. Govt). The intent is to revamp the organization of reporting lines in a way that is believed to be more useful and transparent.

General Categories Proposed to be Eliminated:

(Under current reporting, each general category has 4 subcategories of issuer obligations, residential mortgage-backed securities, commercial mortgage-backed securities, and other loan-backed securities.)

U.S. Government: U.S. Government shall be defined as U.S. Government Obligations as defined per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

All Other Governments: This includes bond investments issued by non-U.S. governments, including bonds of political subdivisions and special revenue. This includes bonds issued by utilities owned by non-U.S. governments and bonds fully guaranteed by non-U.S. governments.

U.S. States, Territories and Possessions (Direct and Guaranteed): General obligations of these entities (NAIC members), as well as bonds issued by utility companies owned by these entities. NAIC membership is composed of the 50 states, the District of Columbia, American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed): General obligations of cities, counties, townships, etc., as well as bonds issued by utility companies owned by these entities.

U.S. Special Revenue and Special Assessment Obligations and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions: Those U.S. government issues not listed as “Securities That Are Considered “Exempt Obligations” For Purposes of Determining The Asset Valuation Reserve And The Risk-Based Capital Calculation” in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, yet included as “Filing Exemptions for Other U.S. Government Obligations”. This category also includes bonds that are issued by states, territories, possessions and other political subdivisions that are issued for a specific financing project rather than as general obligation bonds. Also include mortgage reference securities that are within the scope of *SSAP No. 43R—Loan-Backed and Structured Securities*.

Industrial and Miscellaneous (Unaffiliated): This category includes all non-U.S. governmental issues that do not qualify for some other category in Schedule D, Part 1, including privatized (non-U.S. government ownership) utility companies. Include Public Utilities.

Potential Schedule D-1 Reporting Lines

(Note: Items in italics were previously identified using codes in the code columns. To improve reporting, it is proposed that these securities be separately identified through dedicated reporting lines.)

Issuer Credit Obligations:

- U.S. Government Obligations
- Other U.S. Government Securities.....
- Non-U.S. Sovereign Jurisdiction Securities
- Municipal Bonds – General Obligations.....
- Municipal Bonds – Special Revenue
- Project Finance Bonds Issued by Operating Entities
- Affiliated Project Finance Bonds Issued by Operating Entities.....
- Corporate Bonds
- Affiliated Corporate Bonds
- Qualifying Single-Tenant Lease-Backed Securities (ETC, EETC and CTLs)
- Affiliated Qualifying Single Tenant Leased-Backed Securities.....
- Bonds Issued from Business Development Corps, Closed End Funds & REITS.....
- Affiliated Business Development Corps, Closed End Funds & REITS.....
- Mandatory Convertible Bonds*
- Affiliated Mandatory Convertible Bonds.....
- Bank Loans – Issued
- Affiliated Bank Loans – Issued
- Bank Loans – Acquired.....
- Affiliated Bank Loans – Acquired
- SVO-Identified Bond Exchange Traded Funds – Fair Value
- SVO-Identified Bond Exchange Traded Funds – Systematic Value.....*
- Certificates of Deposit
- Other Issuer Credit Obligations

- Total Issuer Credit Obligations.....
- Total Affiliated Issuer Credit Obligations

Asset-Backed Securities:

Self-Liquidating Financial Asset-Backed Securities

Agency Residential Mortgage-Backed Securities.....

Agency Commercial Mortgage-Backed Securities

Non-Agency Residential Mortgage-Backed Securities.....

Affiliated Non-Agency Residential Mortgage-Backed Securities.....

Non-Agency Commercial Mortgage-Backed Securities

Affiliated Non-Agency Commercial Mortgage-Backed Securities

Other Asset-Backed Securities.....

Affiliated Other Asset-Backed Securities

Total Self-Liquidating Financial Asset-Backed Securities

Total Affiliated Self-Liquidating Financial Asset-Backed Securities

Cash-Generating Non-Financial Asset-Backed Securities (Practical Expedient).....

Affiliated Cash-Generating Non-Financial Asset-Backed Securities (Practical Expedient)

Total Cash-Generated Non-Financial Asset-Backed Securities.....

Government Sponsored Mortgage-Referenced Securities.....

Total Other Asset-Backed Securities (Detailed on New Schedule).....

Total Affiliated Other Asset-Backed Securities (Detailed on New Schedule)

Total Asset-Backed Securities

Total Affiliated Asset-Backed Securities

Total Long-Term Bonds (Issuer Credit Obligations & Asset-Backed Securities)

Total Affiliated Long-Term Bonds (Issuer Credit Obligations & Asset-Backed Securities).....

Potential Sub-schedule D-1 Reporting Lines

The sub-schedule D-1 is proposed to capture the individual investment detail for items reported as “Other Asset-Backed Securities” on Schedule D-1.

Other Asset-Backed Securities:

Non-Self-Liquidating Financial Asset-Backed Securities

Underlying Collateral of Equity Interests.....

Affiliated

Underlying Collateral of Non-Equity Interests.....

Affiliated

Total Non-Self-Liquidating Financial Asset-Backed Securities

Total Affiliated Non-Self-Liquidating Financial Asset-Backed Securities

Cash-Generating Non-Financial Assets (Not Captured in Practical Expedient)

Affiliated

2. **New Sub-Schedule D-1:**

As detailed above, the bond project is currently proposing a new sub-schedule that details bond investments that have certain characteristics (e.g., ABS backed by financial assets that are not self-liquidating and ABS backed by cash-generating non-financial assets not captured within the practical expedient.)

Exposure Request:

1. Information is requested on how investments shall be categorized on this schedule.
2. Information is requested on additional information / columns desired for these structures. Initial ideas that have been proposed include:
 - a. Balloon payment as % of principal at acquisition
 - b. Current loan-to-value
 - c. PIK – Information on whether payment of interest is deferrable
 - d. Amount of PIK interest to date
 - e. Expected payoff date determined at acquisition
 - f. Expected payoff date as of the financial statement date

3. Schedule D-1 Information :

As noted, with the change in reporting lines, it has been proposed a review of the columns and instructions also be considered. The following code columns have been potentially identified.

- Column 3 – Code Column: Potential edits include revising this column to focus on restricted asset classification, with other codes either eliminated or moved to other reporting locations.
- Column 5 – Bond Characteristics: With the granular reporting lines, certain codes captured in this column may no longer be necessary. Other potential edits may consider an expansion of information in the call columns (columns 27-29) rather than this location.
- Column 26 – Collateral Type: With the granular reporting by investment type, potential edits may limit the need for this detail for all ABS. Instead, it may be focused on the non-RMBS/CMBS reporting lines. Additionally, comments have been received requesting better detail on the underlying collateral. This may necessitate a need for enhanced reporting of the underlying collateral.
- Column 34 – Capital Structure Code: Potential edits to improve the reporting instructions to ensure proper classification of tranches.

Exposure Request:

1. Information is requested on whether other columns / reporting instructions should be clarified as part of the bond proposal project.
2. Comments are welcome on the additional investment elements should be captured and/or whether certain elements are no longer beneficial to be captured. Potential elements related to asset-backed securities include:
 - a. Market Validation – This will be a code to identify situations where none of the issuance is owned by unrelated parties.
 - b. Participation in residual tranche (Y/N)