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To: Debbie Doggett, Chair of the Blanks (E) Working Group  
Steve Drutz, Vice Chair of the Blanks (E) Working Group

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group  
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

Re: Debt Securities Issued by Funds Representing Operating Entities

Date: September 23, 2024

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The purpose of this memo is to notify the Blanks (E) Working Group of Schedule D – Part 1, Section 1: Long-Term Bonds – Issuer Credit Obligations reporting line classification changes effective Jan. 1, 2025, as part of the bond project. The original adopted guidance included a reporting line subcategory for “Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITs” and with the SAPWG adoption of agenda item 2024-01 on Sept. 12, 2024, this subcategory should be revised to “Debt Securities Issued by Funds Representing Operating Entities.” With this adopted change, SEC-registration is no longer a requirement for classification and instead, debt securities issued by funds shall be assessed based on the reason for issuance. The statutory accounting guidance is specific that debt securities issued for the primary purpose of raising debt capital are not permitted as issuer creditor obligations.

As the 2025 quarterly blanks and instructions have already been finalized, the Statutory Accounting Principles (E) Working Group requests that this memorandum be posted on the Blanks (E) Working Group website to detail the adopted guidance to ensure clarity in classifying debt securities under the adopted bond definition. The SAPWG will sponsor a blanks proposal to have the reporting subcategory and instructions updated for the 2025 Annual Statement filing.

The tracked changes below illustrate the revised concepts for application until the blanks proposal is adopted:

### **Investment Schedules General Instructions - Categories for Schedule D, Part 1**

Issuer Credit Obligations – Investments that qualify for reporting on Schedule D, Part 1, Section 1 in scope of SSAP No. 26—Bonds:

~~Bonds Issued by Funds Representing Operating Entities From SEC Registered Business Development Corps, Closed End Funds & REITs~~

A fund representing an operating entity has the primary purpose of raising equity capital and generating returns to its equity investors. Marginal amounts of 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. Although some may consider collateralized fund obligations (CFOs) to be similar to closed-end funds, that assessment is not supported for classification as an issuer credit obligation. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as asset-backed securities. Bonds issued by SEC-registered business development corporates, closed-end funds or similar operating entities registered under the 1940 Act.

**Schedule D – Part 1 – Section 1**

~~Bonds Issued by Funds Representing Operating Entities from SEC Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated) ..... 016999999~~

~~Bonds Issued by Funds Representing Operating Entities from SEC Registered Business Development Corps, Closed End Funds & REITS (Affiliated) ..... 017999999~~

All adopted guidance for the principles-based bond project is publicly available on the SAPWG website. The revisions from this change are reflected within the Sept. 12, 2024 revised *SSAP No. 26—Bonds* and the revised *Issue Paper 169—Principles Based Bond Definition*: <https://content.naic.org/committees/e/statutory-accounting-principles-wg#>

Please contact NAIC staff Julie Gann ([jgann@naic.org](mailto:jgann@naic.org)), Jake Stultz ([jstultz@naic.org](mailto:jstultz@naic.org)); Robin Marcotte ([rmarcotte@naic.org](mailto:rmarcotte@naic.org)), Wil Oden ([woden@naic.org](mailto:woden@naic.org)); or Jason Farr ([jfarr@naic.org](mailto:jfarr@naic.org)) if you have any questions.

Cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr