Statutory Accounting Principles (E) Working Group
2026 Fall National Meeting
Embedded ALM Risk Comment Letters Received

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Note: Interested Parties noted support for the ACLI comments in their separate letter.



October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref #2026-10, SSAP No. 26, Embedded ALM Risk

Dear Chair Clark:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the proposed revisions to *SSAP No. 26, Bonds* addressing embedded asset-liability management (ALM) risk.

ACLI supports the objective of ensuring that securities are appropriately classified when their ability to pay contractual principal and interest is materially dependent on the reinvestment of underlying asset cash flows.

Our primary comment is that paragraph 9.d. should more clearly define when embedded ALM risk is considered "significant." The operative text in the exposure "could be impacted" could be interpreted as having any non-zero, even if remote, possibility of impacting cash flows. As drafted, the guidance could capture ordinary changes in reinvestment interest rates or investment spreads, even when those changes would not significantly impair the security's ability to pay contractual cash flows. We discussed this concern with NAIC staff and regulators, and we support considering structural mitigants and applying a severe but precedented stress threshold. We also recommend removing "as scheduled" because the reference to contractual cash flows adequately captures the intended concept.

Accordingly, ACLI recommends revising paragraph 9.d. as follows:

9.d. If the financial assets are self-liquidating, they must produce cash flows that are sufficient to pay all contractual amounts due in order to be considered meaningful. To the extent that the contractual terms permit cash flows of the financial assets to be reinvested rather than used to repay the debt security, the reporting entity should evaluate whether the debt security is subject to significant embedded asset-liability management (ALM) risk. Embedded ALM risk is to be considered significant if, when factoring in any structural mitigants, the ability to pay contractual cash flows of the debt security ~~as scheduled~~ could be significantly impacted by severe but precedented changes in reinvestment interest rates or investment spreads. Securities that include significant embedded ALM risk do not meet the definition of a bond.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

This revision would establish a clearer threshold for significant embedded ALM risk while recognizing structural features that mitigate that risk.

ACLI also recommends a minor clarification to paragraph 9.c. Consistently referring to the "financial assets" of the ABS issuer would eliminate potential ambiguity regarding the scope of the paragraph.

Accordingly, ACLI recommends revising paragraph 9.c. as follows:

9.c. Financial assets of an ABS issuer can either be self-liquidating or not. Self-liquidating means that the assets convert themselves to cash over a defined period in accordance with their contract terms, as is the case with most types of receivables. If the financial assets of the ABS issuer are not self-liquidating, the rebuttable presumption detailed in paragraphs 6.a.-6.d. must be overcome in order for the security to meet the definition of a bond.

Lastly, we understand that the intention of these provisions is generally not to apply to investments with relatively short reinvestment periods, including those present in commonly traded assets (e.g., CLOs), and we would recommend codifying this intention in the operative language.

We believe these revisions would provide greater clarity and support consistent application of the guidance.

Thank you for your consideration of ACLI's comments.

Sincerely,



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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Ref #2026-10 – *Embedded ALM Risk*; Proposed Revisions to SSAP No. 26

Dear Mr. Clark:

Thank you for the opportunity to comment on SAPWG agenda item Ref #2026-10 regarding embedded asset-liability management (ALM) risk and the related proposed revisions to SSAP No. 26.

We recognize the need to examine statutory guidance as insurers invest in new asset classes, and we appreciate SAPWG's efforts to address embedded ALM risk. As currently drafted, however, we are concerned that proposed paragraphs 9.c. and 9.d. of the Principles-Based Bond Definition (PBBD) could be interpreted to disqualify a range of well-established asset classes based on structural mechanics that may create some reinvestment exposure, even when that exposure is not significant.

These proposed modifications include language to clarify how to assess whether reinvestment periods are exposed to significant embedded ALM risk. This language would exclude from this presumption ABS where (i) structural mitigants embedded within the debt security protect the ALM risk from becoming significant or (ii) the economic likelihood of creating ALM risk is insignificant.

I. Potential Issues with the Proposed Revisions

We understand that proposed paragraphs 9.c. and 9.d. are intended to identify debt securities with significant embedded ALM risk. We believe the proposal includes one significant ambiguity -- the use of the word "could" in proposed paragraph 9.d., "…Embedded ALM risk is to be considered significant if the ability to pay contractual cash flows of the debt security as scheduled could be impacted…", may be interpreted to establish a significance threshold so low that any structure permitting the reinvestment of collateral cash flows could be interpreted to fail to qualify for bond treatment. As a result, we believe the proposal, without further modifications or guidance, may affect assets commonly held by insurers and other institutional investors even when the embedded ALM risk is, in reality, limited.

Because holdings are spread across U.S. insurers, a significance threshold established with a non-zero probability (e.g., 'could') could create interpretive ambiguities across the industry.

II. Alternative Modifications to SSAP No. 26 and the Meaningful Level of Cash Flows Test

We believe that revisions to SSAP No. 26 would address SAPWG's concerns while also mitigating unintended consequences.

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The preamble to agenda item Ref #2026-10 describes structures that NAIC staff presume to have significant embedded ALM risk and also refers to structures that are presumed not to have significant risk, including those with shorter reinvestment periods. We recommend incorporating the relevant limiting concepts directly into SSAP No. 26 (or other equivalent guidance) as follows:

a) Revise paragraph 9.d. so that significance depends on whether changes in reinvestment interest rates or investment spreads would materially impair the debt security's ability to pay scheduled contractual cash flows, rather than on whether those cash flows could be affected in any respect.
b) Specifically identify structural mitigants of embedded ALM risk in paragraph 9.d., including but not limited to:
    - Interest-rate or basis hedges;
    - Subordination and/or overcollateralization;
    - Diversification;
    - Structural protections, including weighted average spread test, weighted average ratings test;
    - Ability to refinance liabilities;
    - Ability to partially or fully prepay outstanding debt;
    - Bounded reinvestment period with scheduled amortization or a step-up afterwards;
    - Hard-wired spread-compression trigger that ends reinvestment if unable to find suitable assets;
    - Documented access to eligible asset origination capacity at a set multiple of the vehicle's reinvestment needs, under a formal allocation policy; and/or
    - Clear manager alignment of interest (e.g., fee subordination at certain spread compression levels).
c) Add factors to paragraph 9.a. that an insurer should consider when performing the meaningful level of cash flows test, including:
    - Fund-level governance and risk limits, including actions the asset manager must take in response to stress arising from reinvestment risk;
    - Stress testing that demonstrates the effectiveness of the structure and other mitigants for ALM and reinvestment risk;
    - The use of derivatives and other instruments to reduce ALM risk; and
    - Historical and forward-looking macroeconomic data and other factors that could affect reinvestment risk.

We expect these proposed revisions will greatly reduce the interpretive risk and scope of structured securities with significant embedded ALM risk to what we believe is the intended population as foreshadowed in the preamble to the exposure. To the extent that the Working Group prefers to simplify the language within an Issue Paper Q&A, then we respectfully request that the Working Group addressing the salient points from the preamble into other authoritative regulatory guidance. The aim of doing so would be to preserve the durability of the accounting guidance for use years and decades in the future.

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Additionally, we are supportive of the ACC/LSTA letter. The criteria they recommend to limit the range of assets subject to additional testing and regulatory review, including based on length of reinvestment period and alignment of the ABS issuer's effective maturity with the weighted-average life of the underlying assets, would provide a means to avoid disruption or interpretive confusion to any well-established asset classes

III. Conclusion

We appreciate the Working Group's attention to embedded ALM risk and share the objective of ensuring that insurers hold assets that reliably support policyholder obligations.

The PBBD represents a thorough, principles-based standard developed through substantial consideration and engagement, and updates to this standard should also be thoroughly considered. We would welcome the opportunity to work with the Working Group, NAIC staff, and other interested parties on this project, and we would be pleased to provide additional data or analysis. Please do not hesitate to contact us with any questions.

Respectfully submitted,



Michael Consedine
Executive Vice President
Global Head of Government and Regulatory Affairs
Athene Holding Ltd.





October 2, 2026

VIA EMAIL

Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Agenda Item 2026-10 - SSAP No. 26, Bonds (Proposed Treatment of Embedded Asset-Liability Management Risk in Asset-Backed Securities)

Dear Mr. Clark:

LSTA, Inc. ("LSTA")[1] and the Alternative Credit Council ("ACC")[2] respectfully submit these comments on Agenda Item 2026-10, which the Statutory Accounting Principles (E) Working Group ("SAPWG" or the "Working Group") exposed for comment at the 2026 Summer National Meeting. Both organizations' members include, and act as counterparties to, many of the life insurers subject to the Statement of Statutory Accounting Principles ("SSAP") framework, and both organizations have a strong interest in ensuring that the principles-based bond definition ("PBBD") continues to function predictably for the structured credit markets our members build, manage, and invest in.

We understand the regulatory objective underlying Agenda Item 2026-10: SAPWG and state insurance regulators should have the analytical tools and transparency needed to monitor asset-liability management ("ALM") risk. We offer the recommendations below to help the Working Group achieve its stated objective with precision.

[1] LSTA, Inc. is a not-for-profit trade association that has been the leading advocate for the U.S. corporate lending market since 1995. LSTA's mission is to promote a fair, orderly, efficient and growing corporate loan market while advancing and balancing the interests of all market participants. Our 600+ member institutions include commercial banks (ranging in size from GSIBs to community banks), investment banks, broker-dealers, asset managers, and institutional lenders, as well as law firms and market service providers. For more information, visit www.lsta.org.

[2] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits.

I. Background on insurance investments in structured credit and impact of capital charges

Life insurers are among the largest institutional holders of structured credit vehicles that finance non-investment-grade businesses. As of year-end 2024, U.S. insurers held approximately $276.8 billion in CLOs - more than double their 2018 exposure - with life insurers accounting for 82% of that total (approximately $226.5 billion).[3] CLO holdings represented roughly 5.1% of total insurer bond holdings and 3.1% of total cash and invested assets industry-wide, with exposure concentrated among the largest institutions.[4] The treatment of these instruments under the PBBD therefore has an outsized effect both on insurers' investment portfolios and on the cost and availability of credit to the borrowers who depend on this financing.

Most of this exposure is high-quality credit and has performed accordingly. Approximately 90% of insurers' CLO holdings carry investment-grade ratings (39% AAA, 22% AA, 15% A, and 12% BBB), with only about 2% rated below investment grade.[5] This is not simply a product of a benign credit cycle: S&P Global Ratings' 30-year tranche default study found that investment-grade-rated CLO tranches experienced a cumulative default rate of only 0.3% from 1994 through the first quarter of 2024, with those defaults concentrated almost entirely in pre-financial-crisis vintages issued under structural protections weaker than those standard in CLOs today, and confirmed that no CLO tranche rated AAA or AA has ever defaulted.[6] This performance record reflects the structural protections - subordination, overcollateralization and interest-coverage triggers, and typically five-year-or-shorter reinvestment periods - built into conventional, single-collateral-type CLOs, which are not the structures Agenda Item 2026-10 is aimed at.

The stakes of the bond/non-bond determination under Paragraph 9 are unusually high because the accounting classification drives the risk-based capital ("RBC") charge mechanically, with no gradation in between. Life RBC bond factors currently range from roughly 0.4% for the highest-quality designation (NAIC 1) up to 30% for the lowest bond designation (NAIC 6); a security that instead fails the PBBD and is reported on Schedule BA generally defaults to the same approximately 30% factor applied to unaffiliated common stock, unless the insurer subsequently submits the failed bond to the SVO and receives a designation based on their analysis of the credit risk. In addition, the NAIC has separately developed a dedicated 45% pretax factor for CLO residual/equity tranches.[7][8] In practical terms, a well-subordinated, investment-grade-rated debt tranche carrying a 0.4% RBC factor today could see its capital charge increase 75x to well over 100x if it is found to contain "significant" embedded ALM risk and loses bond treatment - a consequence entirely disconnected from any change in the security's actual credit quality or collateral performance.

Because SSAP classification drives RBC charges mechanically, an ambiguous standard is not merely an accounting problem - it is a capital problem. Absent workable, administrable criteria, economically similar structures will be classified inconsistently across filers, producing divergent RBC charges for

[3]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[4]NAIC, Private Credit Issue Brief.
[5]NAIC Capital Markets Bureau, U.S. Insurers' CLO Exposure at Year-End 2024 (2025).
[6]S&P Global Ratings, CLO Spotlight: Thirty Years Strong - U.S. CLO Tranche Defaults From 1994 Through First-Quarter 2024 (2024).
[7]NAIC Life Risk-Based Capital Instructions, Investment Risk-Based Capital Factors.
[8]NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Agenda and Materials (June 23, 2026).

identical risk and undermining the cross-industry comparability RBC is designed to ensure. That uncertainty carries real consequences: it risks forcing sales of legacy holdings into an illiquid secondary market precisely when conditions are already stressed, and it injects unnecessary uncertainty into new-issuance and portfolio-construction decisions for a market on which insurers, CLO managers, and private credit fund managers depend for stable, long-term financing.

II. Recommendations

Determining whether a structured security with a fixed-duration, self-terminating reinvestment period results in significant ALM risk requires significant judgment and analysis. We recommend that SAPWG establish a two-stage process to determine what constitutes significant embedded ALM risk. The first stage would be to establish a rebuttable presumption of significant ALM risk. If a structure meets the criteria for the practical expedient described below, then that structure would not be deemed to pose significant embedded ALM risk and would continue to qualify as a bond. If it does not meet either criterion, the structure would need to be analyzed under the criteria in the second recommendation, which adds relevant factors to subparagraph 9.d to determine whether the rebuttable presumption can be rebutted.

Recommendation 1 – Establish a Rebuttable Presumption Regarding Significant Embedded ALM Risk

As a practical expedient, any structure that meets either of the following criteria would not be considered to create significant embedded ALM risk:

(i) the reinvestment period, measured from the closing date of the transaction, does not exceed seven years; or

(ii) the weighted average life (WAL) of the underlying assets exceeds 30-50%[9] of the vehicle's effective maturity.

Seven years reflects the staff memorandum's own reference to reinvestment periods of five years or less as "not uncommon" for conventional structured credit.[10] A seven-year threshold would de-scope well-established structures with reinvestment periods of five years or less, including most CLOs, while accommodating structures that fall modestly above the five-year mark and ensuring that testing and the associated regulatory review are applied only to true outliers. This threshold reduces regulatory burden for insurers and state regulators, and gives insurers the predictability necessary to avoid disruption to conventional asset classes they already hold. By contrast, the appropriate WAL threshold requires further empirical analysis. We propose 30–50% as a starting range to be calibrated through a data-driven process.

These two tests are designed to be both workable in practice and consistent with how the PBBD already approaches structural protection. These two tests give preparers, auditors, and regulators a predictable, administrable path to resolve the overwhelming majority of conventional securitizations - including CLOs, which, as noted above, make up a large, high-credit-quality, and historically well-performing share of insurers' structured credit portfolios - without requiring a full facts-and-circumstances review of each

[9]. Exact percentage to be determined by empirical analysis.

[10]NAIC Statutory Accounting Principles (E) Working Group, Agenda Item 2026-10, SSAP No. 26 - Embedded ALM Risk, Staff Memorandum, content.naic.org/sites/default/files/inline-files/26-10-ssap-no-26-embedded-alm-risk.docx.

transaction, while preserving full scrutiny for the structures the project targets.

Recommendation 2 - Require Structural Mitigants to Be Included When Determining What Constitutes "Significant" ALM Risk

As drafted, the "could be impacted by changes in reinvestment interest rates or investment spreads" test is so broad and undefined that it could be read to compel a "significant" finding based on a wide variety of theoretical concerns, such as the existence of reinvestment-rate sensitivity, without regard to whether the transaction's own structure has already priced in, hedged, or subordinated that risk. We recommend that subparagraph 9.d. require that, before a reporting entity or examiner concludes that embedded ALM risk is "significant," the analysis consider what structural mitigants are present in the transaction, including but not limited to:

(i) the reinvestment period is fixed at issuance and cannot be unilaterally extended by the manager, sponsor, or servicer;

(ii) the reinvestment period is followed by mandatory - not merely permitted - amortization of the debt tranches;

(iii) the transaction includes overcollateralization and/or interest-coverage triggers that force early amortization upon collateral deterioration during the reinvestment period;

(iv) interest-rate or basis hedges executed at the transaction level;

(v) subordination sized with reference to, and sufficient to absorb, reasonably foreseeable reinvestment-rate or spread-related shortfalls - not merely credit losses; and

(vi) active portfolio and ALM governance, including manager modeling and stress-testing of reinvestment risk.

We recommend that SAPWG follow the same principles-based approach that is used elsewhere in the PBBD, in that the examples above of structural mitigants should not be considered an exhaustive list. A strength of the principles-based approach is that it allows for consideration of what structural mitigant is appropriate and needed for each specific type of underlying asset. For instance, overcollateralization may be sufficient for some types of underlying collateral, whereas subordination and/or hedging might be more appropriate for other types of assets.

Incorporating appropriate ALM mitigants aligns with how the PBBD already treats credit risk elsewhere and avoids the perverse incentives an indiscriminate test would create. The PBBD's existing "substantive credit enhancement" concept in Paragraph 10 already asks whether subordination, overcollateralization, or guarantees put the bondholder "in a different economic position" than a direct holder of the collateral would be. The same principles-based, facts-and-circumstances methodology should apply to embedded ALM risk. A structure with a long legal final maturity but hard triggers that force rapid amortization well before any meaningful reinvestment-rate exposure could materialize presents a fundamentally different risk profile than a similarly-tenored structure with no such protections, and the rule should not treat the two identically.

A mitigant-blind rule creates perverse incentives on both sides of the transaction. Sponsors and managers have less reason to build in costly protections that the test will not recognize. And insurers have correspondingly less reason to select for, or pay up for, better-protected structures, since a hedged, over-

collateralized, actively managed deal receives the same Schedule BA treatment as one with none of those features - pushing capital toward whatever structure technically avoids triggering the standard's literal wording, rather than toward the structure with the best actual risk profile.

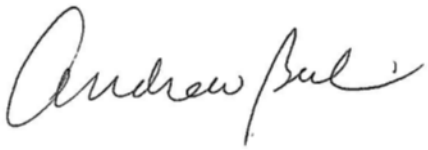
This recommendation is complementary to Recommendation 1 and does not depend on its outcome. Duration-mismatched structures should evaluate mitigants before concluding that risk is "significant," because two structures with the same nominal duration gap can present very different practical ALM risk depending on their protective features.

III. Conclusion

We appreciate SAPWG's willingness to engage with industry on these complex structural questions, and we share the Working Group's interest in ensuring that insurers hold appropriate capital against genuine embedded ALM risk. We believe the recommendations above would allow the Working Group to achieve that objective precisely, while avoiding unintended consequences for the broader and largely unrelated market for conventional structured credit on which insurers, and the companies that depend on this financing, rely. We would welcome the opportunity to discuss these comments further as this project moves forward.

Sincerely,

LSTA, INC.



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ALTERNATIVE INVESTMENT
MANAGEMENT ASSOCIATION



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VIA ELECTRONIC SUBMISSION

October 2, 2026

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
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Re: Comments on Agenda Item 2026-10: Proposed Amendments to SSAP No. 26—Bonds (Principles-Based Bond Definition and Embedded ALM Risk)

Dear Members of the Statutory Accounting Principles (E) Working Group:

Dechert LLP submits these comments on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group ("SAPWG") on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 26, Bonds, that would introduce two new tests under the Principles-Based Bond Definition ("PBBD"): (1) a self-liquidation test for underlying financial assets under proposed Paragraph 9.c, and (2) an embedded Asset-Liability Management ("ALM") risk test under proposed Paragraph 9.d. We submit these comments in our own capacity (having served as counsel to a variety of participants in the structured credit markets), and to better understand how the proposed revisions would affect our ability to advise our clients involved with such structures. As a firm, we have always tried to be constructively engaged in the ongoing dialogue around new regulatory initiatives and in no small part we believe our reputation in the structured credit markets reflects this engagement. As the markets and their investors continue to interconnect, we will increasingly endeavor to provide practical feedback to SAPWG on questions of importance to it.

As an initial matter, we note that we support and appreciate the objectives underlying the proposals and the NAIC's role in bringing to the fore the application of those objectives with respect to multi-collateral structured credit investments. As we consider the concerns identified, they appear to us to be first and foremost disclosure and aggregation questions. In that regard, we would hope there are tools that already exist (or could be enhanced and improved) to adequately address them, including investment characteristic codes and look-through reporting of the kind used for rated note feeders. By corollary, we would respectfully submit that a security-level bond-classification test does not seem to be the right place to address these considerations.

For the reasons explained in more detail below, we would recommend that SAPWG not adopt proposed Paragraphs 9.c and 9.d in their current form. As currently drafted, the proposal does not distinguish structures that genuinely lack cash flow durability and structural protection, which is the risk the agenda item identifies, from established structured finance transactions whose reinvestment, refinancing, and revolving features are already bounded by proven structural safeguards. To assist your further consideration of this topic, we have attempted to lay out in more detail our thoughts with respect to the current proposal.

I. The Self-Liquidating Test (Proposed Paragraph 9.c)

Proposed Paragraph 9.c appears to create a binary test which classifies underlying financial assets as either strictly self-liquidating or not. If an asset does not convert entirely into cash over a defined period under its contractual terms, the reporting entity must overcome the rebuttable presumption framework in Paragraph 6 of SSAP No. 26. In our experience, this approach does not reflect the range of repayment structures routinely found in fixed-income and securitization markets. For example, a wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt.

Transactions that could be captured by the proposed language include, but are not limited to, credit card ABS, floorplan facilities, CRE structures, CLOs, CFOs, rated feeder notes, structured settlements, whole business securitizations, data center and fiber ABS, equipment and fleet lease, timeshare, solar and residential PACE, and CRE CLOs. These products existed at the time the PBBD was originally developed, and it does not appear to be intended that they would be subject to the rebuttable presumption of Paragraphs 6.a through 6.d of SSAP No. 26 simply because their underlying assets were not, in the strictest sense, fully self-liquidating.

We would also submit that the rating agencies have developed an intricate set of criteria for this same inquiry. Their starting premise for asset-backed securities and closed-end fund debt is that there is no market value in the structure: no asset sales are assumed to repay the debt, and under stress cases the collateral must generate sufficient proceeds to repay the rated notes by legal final maturity. That is the same meaningful cash flows inquiry that the first sentence of proposed Paragraph 9.d already asks, and it is an inquiry that credit rating providers already perform, publish, and monitor on an ongoing basis. Where multi-collateral credit vehicles are rated under established closed-end fund or ABS

methodologies, rating agencies have already confirmed the presence of material structural mitigants to ALM risk and reinvestment mismatch, and at investment-grade ratings these residual risks are established as minimal.

The breadth of the proposed test can be illustrated with a government-guaranteed example and a private-market one. Ginnie Mae MBS carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool becomes delinquent, the servicer may institute a partial claim principal deferral, structured as a zero-coupon balloon payment due on sale or maturity, to make the monthly payment more affordable for the borrower. A performing Ginnie Mae bond containing a single loan that received such a deferral would not be fully self-liquidating, and would therefore be presumptively not a bond under proposed Paragraph 9.c, even though that presumption would likely be overcome on the facts. The same dynamic is not unique to government-guaranteed collateral: a conventional commercial real estate mortgage loan with a balloon payment at maturity, or a credit card master trust that continuously revolves and replenishes its receivables pool, would also fail a strict self-liquidation test despite decades of performance history and no government backstop. Together, these examples suggest that the proposed test's breadth is not confined to any one asset class or guarantee structure, but rather reflects a structural limitation in the test's design that should be further considered.

Notwithstanding the various ways in which a self-liquidating asset may not fully convert to cash, the broader structured finance market and federal regulatory authorities have not taken such a strict view when determining what constitutes an "asset-backed security" for purposes of the Securities Exchange Act of 1934. In fact, taking such a strict view would theoretically open up loopholes that Congress and regulators did not intend.

To the extent duration is relevant to this analysis, we believe the proposal's focus on stated legal final maturity is the wrong metric. Stated maturity is an outer limit on repayment, not an expected payoff date. The expected weighted average life of a debt tranche, which reflects prepayment assumptions, reinvestment dynamics, and structural amortization mechanics, is typically considerably shorter, and senior investment-grade tranches often have weighted average lives that are half the length of their legal final maturity. A test anchored to stated maturity will systematically overstate the duration exposure these instruments actually present. Market precedent bears this out: whole business securitizations and data center and fiber ABS routinely carry legal final maturities of 25 to 30 years against Anticipated Repayment Dates ("ARDs") of only 5 to 7 years, coupled with post-ARD excess cash flow sweeps and coupon step-ups, and have been bond-eligible throughout. Music and other royalty-based ABS carry effectively perpetual underlying cash flows and legal maturities of

40 to 50 years, yet equally short ARDs, typically 3 to 10 years, with most of the market set at 5 years. A long legal final paired with an ARD sweep is established transaction architecture, tested through many market cycles.

II. The Significant Embedded ALM Risk Test (Proposed Paragraph 9.d)

Proposed Paragraph 9.d disqualifies an asset from bond treatment if it contains significant embedded ALM risk. This is defined as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. As drafted, there is no materiality qualifier, no probability or likelihood standard, and no safe harbor. Under that framing, we are concerned that virtually any structured instrument with a reinvestment feature could qualify, because the cash flow profile of any reinvesting structure is, in some theoretical sense, sensitive to reinvestment rates and spreads. We respectfully submit that this likely was not the intended scope of the provision, and that, if read literally, it would unintentionally affect the treatment of a large volume of outstanding structured products.

The proposal also treats embedded ALM risk as a single, undifferentiated concept. We think ALM risk is more usefully broken down into three distinct components: (i) interest rate and basis risk, (ii) reinvestment spread risk and (iii) extension risk. The reason we say that is because each is mitigated differently, and to a different degree, by structural features (in our experience) already present in the market. Floating-rate or hedged structures, for example, carry little to no meaningful rate risk, which narrows the relevant inquiry to spread and extension risk, precisely where collateral quality and eligibility covenants are strongest.

The first sentence of proposed Paragraph 9.d, which requires that cash flows be sufficient to pay all contractual amounts due, is a separate test from the embedded ALM risk sentence that follows it, and the two should not be conflated. That threshold cash flow adequacy inquiry is exactly the stressed cash flow sufficiency analysis that credit rating providers already run as part of their surveillance and initial rating processes, and satisfaction of that stressed cash flow test, whether through the safe harbor described in Part III below or through comparable quantitative modeling, should be recognized as the route by which a reporting entity demonstrates compliance.

In our experience, rated revolving structures always contain a number of structural features (and back-ups) that mitigate potential asset-liability mismatch. Short-tenor assets may turn over continuously at high velocity, such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances, replenishing the trust with newly

originated, market-priced assets. This dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants, such as minimum portfolio spread floors, weighted average life limits, and ongoing overcollateralization tests, which constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality. If eligible replacement collateral becomes unavailable, if performance deteriorates, or if reinvestment or performance triggers are breached, contractually mandated early amortization triggers may end the revolving period and redirect cash flows to amortize the senior notes. SAPWG itself recognizes that structured-credit reinvestment periods are commonly of limited duration and subject to early termination provisions. These protections demonstrate why the mere existence of reinvestment exposure should not determine whether ALM risk is significant. We believe SAPWG should consider whether an objective anchor for that term can be crafted. For example, embedded ALM risk should be considered significant only where it produces a projected shortfall to a rated class under the stress assumptions applied by an NAIC credit rating provider, not merely a theoretical sensitivity to future rates or spreads.

The agenda item's implicit premise appears to be that substantive credit enhancement was designed to absorb credit losses and never contemplated ALM risk. We respectfully submit that this premise warrants further scrutiny. Rating agency cash flow models run stressed interest rate vectors, spread compression, and default timing together, and subordination levels are sized to the combination of those stresses, not to credit risk alone. Embedded ALM risk should be assessed with this existing, integrated stress framework in mind.

III. Some Additional Observations

We would add several further observations drawn from our experience across the structured credit markets.

Complexity is not a perfect proxy for credit risk. The agenda item's concerns about complexity, transparency, and interconnectedness stem from the diversity of collateral within multi-collateral structures, which can make it harder to track an insurer's aggregate economic exposure. But the agenda item itself acknowledges that the credit quality and diversity of the collateral, together with the vehicle's capital structure, often supports a view that credit risk is comparable to, or lower than, equivalently rated single-collateral structures. A structure diversified across many obligors and asset classes is more complex to describe than a single bilateral loan, but that complexity is also what allows idiosyncratic underperformance to be absorbed across a pool and by subordination, rather than concentrated in one credit.

Performance history shows the utility of reinvesting structures. CLOs, the most rigorously tested managed reinvestment vehicle in global credit markets, have reinvested continuously into leveraged loans across multiple credit cycles, including the 2008 to 2009 financial crisis and the March 2020 dislocation, and AAA and AA CLO tranches have suffered no material principal losses across more than two decades of market cycles. That track record reflects the benefit of structured reinvestment managed by experienced investment managers. We believe this is a significant benefit over static structures that should be carefully considered as part of the proposals.

The proposal is, at this stage, premature. Multi-collateral structured credit investments are a relatively new addition to the structured credit landscape, and there is not yet a meaningful body of data documenting defaults, losses, or reinvestment-related underperformance in these structures. We respectfully submit that stripping bond eligibility from a class of instruments before there is data establishing that the targeted risk has actually materialized would be premature.

IV. Recommendation

We strongly believe the best approach to address the concerns motivating the proposals is a collaborative, data-driven approach. In that vein, we would suggest the following for consideration.

a. *Enhanced reporting and disclosure*. Instead of excluding these structures from Schedule D-1, to the extent there are shortcomings in the information available to the investors, the NAIC might consider requiring enhanced reporting disclosures, such as specialized reporting codes or supplemental schedules, that give regulators greater look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This might resolve regulatory concerns about opacity, concentration risk, and circularity.

b. *Objective criteria*. If the NAIC develops ALM guidelines in the future, we believe those criteria it be objective, methodology-anchored criteria. For all involved, it would be best for any such criteria to (i) recognize effective risk mitigants, including appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps, and (ii) provide a path for demonstrating through the meaningful cash flow test or quantitative modeling that ALM risk has been mitigated. SAPWG might also want to consider a safe harbor

under which a security rated by an NAIC credit rating provider whose published methodology meets certain standards is deemed not to carry significant embedded ALM risk. This anchors the test in existing public rating criteria and avoids a duplicative insurer-level model for every CUSIP.

c. *Prospective application and grandfathering*. The exposure draft is silent on effective date and transition. SAPWG should state at the outset that any final revisions will apply only prospectively to new issuances and will grandfather securities already held by insurers, consistent with the treatment insurers relied on when the PBBD was originally adopted.

d. *Clarify interaction with SSAP No. 43R*. Because the proposal operates through the existing rebuttable presumption framework under SSAP No. 26, SAPWG should clarify how the new tests are intended to interact with SSAP No. 43R and the rebuttable presumption more generally, so the two frameworks are not applied inconsistently to the same instrument.

Conclusion

Agenda Item 2026-10 raises valid considerations that, in our view, are not yet supported by empirical data and do not fully account for existing structural mitigants and rating agency methodologies already used in this market. We respectfully urge SAPWG to defer adoption of Agenda Item 2026-10 and to work with market participants on enhanced reporting, objective criteria, and further data collection before proceeding.

We would welcome the opportunity to discuss these comments further and to make ourselves available to SAPWG and its members.

Respectfully submitted,

Dechert LLP

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/s/ Jay R. Alicandri
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/s/ Christoper P. Duerden
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October 2, 2026

Via Electronic Submission

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
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Re: Comments on Agenda Item 2026-10: Proposed Amendments to SSAP No. 26—Bonds (Principles-Based Bond Definition and Embedded ALM Risk)

Dear Members of the Statutory Accounting Principles (E) Working Group:

The Structured Finance Association ("SFA") appreciates the opportunity to comment on Agenda Item 2026-10, exposed by the Statutory Accounting Principles (E) Working Group ("SAPWG") on August 12, 2026. This agenda item proposes revisions to Statement of Statutory Accounting Principles ("SSAP") No. 26—*Bonds* that would introduce two new gating tests under the Principles-Based Bond Definition ("PBBD") regarding: (1) self-liquidating financial assets under proposed Paragraph 9.c, and (2) embedded Asset-Liability Management ("ALM") risk under proposed Paragraph 9.d.

SFA supports the NAIC's statutory accounting objectives of preserving solvency, safeguarding policyholder reserves, and ensuring that regulatory reporting accurately reflects underlying economic risk. We recognize that state insurance regulators are seeking to appropriately understand, monitor, and regulate multi-collateral structured credit investments and whether substantial mismatch between the duration of underlying assets and debt tranches create embedded ALM risk that is not adequately reflected in bond classification. Regulators also have legitimate supervisory interests in transparency, portfolio interconnectedness, and potential circularity. SFA agrees that unhedged, speculative reinvestment risk should be appropriately differentiated from fixed-income bond cash flows. At the same time, the mere presence of reinvestment risk features or a degree of mismatch does not, by itself, mean that a debt security lacks the economic substance of a bond.

However, SFA urges SAPWG not to adopt the proposed additions of Paragraphs 9.c and 9.d to SSAP No. 26 as drafted. The proposal in its current form does not adequately distinguish the kind of ALM risk identified in the agenda item, particularly, the risk attributed to multi-decade asset-liability duration mismatch observed in certain multi-collateral structures from more typical reinvestment, refinancing, and revolving features found in established structured finance transactions. SFA's primary objections center on two fundamental flaws:

1. *The Proposed Changes Are Excessively Broad in Scope*: As drafted, the proposed tests extend far beyond the multi-collateral structures with substantial, long-dated duration mismatches that prompted regulatory concern, threatening to disqualify wide swaths of traditional, well-established structured finance asset classes from Schedule D-1 bond classification.

2. *The Proposal Fails to Account for the Use of Structural Mitigants*: The proposal does not distinguish ordinary reinvestment exposure from material dependence on future reinvestment conditions. In particular, the proposed revision does not factor in how structural mitigants are used today in revolving ABS structures to neutralize ALM mismatch risk.

Rather than adopting blunt, disqualifying accounting exclusions that penalize prudent portfolio diversification and more typical reinvestment structures and disrupt the secondary market, SFA advocates for enhanced transparency, robust reporting schedules, and ongoing education.

I. Analysis of the Two Proposed Tests

a. The "Self-Liquidating" Test (Proposed Paragraph 9.c): Binary Approach & Allocation of Burden

Proposed Paragraph 9.c creates an overly rigid gating test: underlying financial assets are either strictly "self-liquidating" or they are not. Under the proposal, if an asset does not convert entirely into cash over a defined period in accordance with its contractual terms, the reporting entity must overcome the intensive rebuttable presumption framework in Paragraph 6 of SSAP No.26.

That approach does not adequately reflect the range of repayment structures routinely found in fixed-income and securitization markets. A wide range of traditional, highly performing debt instruments are not fully self-liquidating; they routinely feature balloon payments, bullet maturities, refinancing features, revolving draws, or other repayment mechanics without calling into question their fundamental character as debt. Established structured finance transactions may likewise incorporate revolving or controlled reinvestment periods before entering amortization. As a result, transactions that could be captured by the proposed language include, but are not limited to, credit-card ABS, floorplan facilities, CRE structures, CLOs, and rated feeder notes. Structured products with these features existed at the time the PBBD was initially developed, yet at no point was it contemplated by the industry that such instruments would be subject to the rebuttable presumption of paragraphs 6.a-6.d of SSAP No.26 simply because their underlying assets were not—in the strictest sense—fully self-liquidating.

The potential breadth of the proposed test can also be illustrated by considering its application to Ginnie Mae MBS, which carry the full faith and credit of the United States Treasury. When a loan in a Ginnie Mae pool goes delinquent, the servicer will work with the borrower to institute a partial claim principal deferral so that the monthly payment is more affordable for the borrower. This partial claim amount is attached to the first lien but structured as a zero-coupon balloon payment that is due on sale or maturity. The presence of this balloon payment would mean that a performing Ginnie Mae bond containing a

single loan that received a partial claim deferral is not fully self-liquidating, and therefore presumptively *not* a bond under paragraph 9.c of the PBBD. While it is true that this presumption is likely to be overcome in this fact pattern, the fact that Ginnie Mae MBS can be presumed to not be a bond demonstrates that the revised text of Paragraph 9.c may result in the rebuttable presumption scoping in more securities than intended.

Treating self-liquidation as a rigid either/or test ignores established market mechanics and forces routine debt instruments into an onerous rebuttable presumption regime that was originally designed for equity-collateralized structures.

b. The "Significant Embedded ALM Risk" Test (Proposed Paragraph 9.d): Ambiguity and Scope Creep for Revolving ABS Structures

Proposed Paragraph 9.d categorically disqualifies an asset from bond treatment if it contains "significant embedded ALM risk," defined broadly as any situation where scheduled contractual debt service could be impacted by future reinvestment interest rates or investment credit spreads. The proposal fails to define what level of interest rate sensitivity constitutes "significant" embedded ALM risk and could even be read as saying that any impact at all on the ability to pay contractual cash flows is deemed “significant”. Without objective metrics or quantitative thresholds, this test creates immense regulatory uncertainty, leaving reporting entities unable to assess whether standard reinvestment flexibilities will disqualify their holdings from Schedule D-1. In particular, this proposal risks scoping in existing revolving ABS structures even when reinvestment risk is controlled, bounded, and substantially mitigated by structural protections.

Under proposed Paragraph 9.d, any vehicle that redeploys principal collections during a reinvestment or revolving period could be subject to significant embedded ALM risk analysis if its cash flows could be affected by future interest rates or spreads. In practice, the revolving mechanic contains a number of features to mitigate potential asset-liability mismatch. In these structures, short-tenor assets may turn over continuously at high velocity (such as dealer floorplan lines that repay every 30 to 90 days or monthly credit card receivables balances), replenishing the trust with newly originated, market-priced debt assets. Crucially, this dynamic reinvestment is generally subject to legally enforceable eligibility criteria and collateral quality covenants—such as minimum portfolio spread floors, weighted-average life limits, and ongoing overcollateralization tests. These covenants constrain the collateral that may enter the pool and help protect against deterioration in collateral economics or credit quality that could impair debt service.

There are additional protections in place if eligible replacement collateral is unavailable, if transaction performance deteriorates, or applicable reinvestment or performance triggers are breached. In these cases, contractually mandated early amortization triggers may conclude the revolving period and redirect cashflows to amortize the senior notes. The overall dynamic between collateral velocity, binding eligibility criteria, credit enhancement, and turbo-amortization triggers can materially mitigate ALM risk associated with revolving structures. Indeed, SAPWG itself recognizes that other structured-credit investments commonly contain reinvestment periods of more limited duration and provisions that can

terminate reinvestment early if specified triggers are breached. In short, these protections demonstrate why the existence of reinvestment exposure alone should not determine whether ALM risk is "significant". The relevant inquiry should consider the magnitude and duration of the ALM mismatch, the extent to which repayment depends on future investment conditions and the structural protections available to limit exposure.

II. Recognizing Structural Mitigants and the Value of Multi-Collateral Credit

Insurers—particularly life insurers with long-tail liabilities—must hold long-dated, high-quality fixed-income assets to match obligations. Prudently engineered multi-collateral credit structures could help reduce idiosyncratic credit risk across uncorrelated asset classes. Importantly, well-structured transactions do not expose senior noteholders directly to unhedged reinvestment risk. They incorporate structural mitigants like substantive credit enhancements & first-loss tranches, contractual reinvestment covenants, dynamic hedging & liquidity facilities, and mandatory amortization of senior notes. As discussed above, embedded ALM risk should be assessed after taking these contractual protections into account, rather than based solely on the existence of a reinvestment period or duration mismatch within the structure.

The PBBD was established to determine whether an instrument represents a bona fide creditor relationship supported by substantive credit enhancement. A debt security that uses overcollateralization, subordination, and hedging to protect scheduled payments functions as a true bond in economic substance. Pushing these investments onto Schedule BA could impose disproportionate, equity-like RBC charges that directly penalize prudent portfolio diversification.

III. SFA Recommendations: Transparency, Objectivity, and Education

Rather than enacting punitive accounting disqualifications that are overly broad in scope and not based on observed empirical findings, the NAIC should pursue a collaborative, data-driven approach to first help inform whether and to what degree amendments to the PBBD may be appropriate. Along these lines, SFA suggests the following for consideration:

a. *Enhanced Reporting and Disclosures*: Instead of excluding these structures from Schedule D-1, the NAIC should implement enhanced reporting disclosures—such as specialized reporting codes or supplemental schedules—that provide regulators with look-through visibility into underlying collateral concentrations, duration profiles, and structural mitigants. This would resolve regulatory concerns regarding opacity, concentration risk, and circularity without destabilizing bond accounting.

b. *Objective Use of Structural Mitigants:* If the NAIC develops ALM guidelines in the future, it must establish explicit bright-line guardrails that: (1) recognize effective risk mitigants, such as

appropriate credit support relative to underlying asset credit quality, subordination, active hedging programs, and mandatory contractual cash sweeps; and (2) provide a path for demonstrating through the meaningful cash-flow test or quantitative modeling that ALM risk has been mitigated. This is especially important for existing ABS using revolving structures coupled with proven structural ALM mitigation features.

c. *Industry Education and Collaborative Data Gathering:* SFA is actively working across the structured finance ecosystem—including life insurers, asset managers, rating agencies, and accounting firms—to foster a comprehensive understanding of emerging products with novel structural features. We would be happy to continue our work with the NAIC to bring together market participants and policymakers to discuss the path forward.

Conclusion

The Structured Finance Association shares the NAIC's commitment to solvent, transparent insurance markets. However, Agenda Item 2026-10 introduces a self-liquidation test and an undefined ALM threshold that would both benefit from further refinement.

We urge the SAPWG to defer adoption of Agenda Item 2026-10 and partner with market participants on enhanced reporting and data collection.

Respectfully submitted,



Dallin Merrill
Head of Policy, Structured Finance Association