***SSAP No. 21R—Other Admitted Assets***

*Debt Securities That Do Not Qualify as Bonds*

1. The guidance within paragraphs 20-28 of this statement shall apply for any security, as defined in SSAP No. 26R, whereby there is a fixed schedule for one or more future payments (referred to herein as debt securities), but for which the security does not qualify for bond reporting under SSAP No. 26R as an issuer credit obligation or an asset backed security.Investments in scope of this guidance are limited to:
2. Debt securities for which the investment does not reflect a creditor relationship in substance.
3. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement.
4. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.
5. Debt securities as described in this statement meet the definition of assets as defined in SSAP 4 and are admitted assets to the extent they conform to the requirements of this statement. The guidance in these paragraphs shall not be inferred to other securities or investment structures that are not otherwise addressed in statutory accounting, nor shall it be applied to any investments that are captured within other statutory accounting guidance.
6. Debt securities in scope for which the source of repayment is derived through rights to underlying collateral, qualify as admitted assets only to the extent they are secured by admitted invested assets. Any amounts in excess of the fair value of the underlying admitted invested assets shall be nonadmitted.
7. Debt securities in scope of this statement shall be initially reported at acquisition at cost, including brokerage and other related fees on *Schedule BA: Other Long-Term Invested Assets*.
8. Debt securities captured in scope shall be reported at the lower of amortized cost or fair value. Changes in measurement to reflect a lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses.
9. Debt securities that do not qualify as bonds captured in scope of this statement shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities* for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and interest maintenance reserve (IMR).
10. Investment income shall be recorded, with assessments for collectability and nonadmittance completed and recognized, pursuant to *SSAP No. 34—Investment Income Due and Accrued*.
11. Securities captured within this section shall be included in all invested asset disclosures, along with the following disclosures:
12. Fair values in accordance with *SSAP No. 100R—Fair Value*.
13. Concentrations of credit risk in accordance with SSAP No. 27;
14. Basis at which the securities are stated;
15. The adjustment methodology used for each type of security (prospective or retrospective);
16. Descriptions of sources used to determine prepayment assumptions.
17. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment: (1) intent to sell, (2) inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (3) present value of cash flows expected to be collected is less than the amortized cost basis of the security.
18. For each security with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:
19. The amortized cost basis, prior to any current-period other-than-temporary impairment.
20. The other-than-temporary impairment recognized in earnings as a realized loss.
21. The fair value of the security.
22. The amortized cost basis after the current-period other-than-temporary impairment.
23. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):
24. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and
25. The aggregate related fair value of securities with unrealized losses.
26. The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 100R.
27. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.
28. When it is not practicable to estimate fair value, the investor should disclose the following additional information, if applicable:
29. The aggregate carrying value of the investments not evaluated for impairment, and
30. The circumstances that may have a significant adverse effect on the fair value.
31. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.

*Residual Tranches or Interests / Loss Positions*

1. Residual tranches or interests from securitization tranches, beneficial interests and loss positions that lack contractual payments along with substantive credit enhancements as defined in *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities* (which are collectively referred to as residuals), do not qualify for bond reporting and are required to be reported on Schedule BA: Other Long-Term Invested Assets.
2. Residuals are permitted to be admitted if debt securities from the same securitization qualify, or would qualify, as admitted assets. For example, if a debt security from a securitization does not qualify as a bond, and the source of repayment is derived through rights to the underlying collateral, the debt security is only permitted to be admitted if the underlying assets qualify as admitted assets. If the debt security from a securitization is nonadmitted, then any residual interests or loss positions held from the same securitization also do not qualify as admitted assets and would be reported as nonadmitted assets.
3. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values) if acquired along with debt tranches from the securitization. Subsequent to initial acquisition, residuals shall be reported at the lower of amortized cost or fair value, with changes in fair value (or from amortized cost to fair value) reported as unrealized gains or losses.
4. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis. An OTTI shall be considered to have occurred if it is probable that the reporting entity will not receive cash flows distributed to the residual tranche to cover the reported amortized cost basis. Upon identification of a probable OTTI, the reporting entity shall recognize a realized loss equal to the remaining amortized cost basis. Subsequent to the recognition of an OTTI, the residual shall be reported with a zero book adjusted carrying value. Any subsequent cash flows received attributed to the residual tranche shall be reported as interest income.

*Exposure Question: Industry is requested to provide information on how residual tranches have been amortized and how they have been assessed for OTTI as there are no contractual principal or interest payments.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/3-22-23 - Spring/Hearing/SSAP No. 21R 3-2-23.docx