

October 2, 2026

Via Electronic Submission

Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

**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,

A handwritten signature in black ink, appearing to read "Dallin Merrill".

Dallin Merrill
Head of Policy, Structured Finance Association