

NAIC Principles-Based Bond Solution

Provides determination whether a security meets the criteria to be considered a Principles-Based Bond, as defined by the National Association of Insurance Commissioners (NAIC).

What is the Principles-Based Bond rule?

The National Association of Insurance Commissioners released guidance in their Statement of Statutory Accounting Principles (SSAP) No. 26R, as well as 43R for Asset-Backed Securities, detailing the criteria that a bond must meet to be considered a Principles-Based Bond and be allowed to be reported by insurance companies on their Schedule D filing, benefitting from preferable capital treatment. Insurance companies are expected to be compliant with this guidance from 1 January 2025 for all required filings.

What types of assets will be included?

Bloomberg will deliver this determination for all Government, Sovereign, Agency and Corporate (GSAC) securities. Bloomberg will also provide classifications for Municipal securities as well as all Asset-Backed Securities (ABS). Finally, there is a subset of Exchange-Traded Funds (ETFs) that qualify for treatment as a bond under the regulation, and this list will be updated monthly and provided as part of Bloomberg's service.

What does the rule require?

This rule update is intended to set a tighter standard for what type of exposure can qualify as a Principles-Based Bond. Historically, the standard was not explicit regarding certain bond characteristics, and certain bonds that were linked to equity instruments or not tied to corporate cash flow were permitted. The rule aims to clarify what types of instruments can be reported as bonds and receive preferential capital treatment.

On the Asset-Backed Security (ABS) front, among other factors, the assessment focuses largely on ensuring that the deal structure provides credit enhancement that makes the securitization substantially different than holding the assets themselves.

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What does this impact?

Insurance companies that are subject to regular NAIC filing requirements will need to incorporate this guidance into their processes and ensure that they are maintaining evidence of compliance for positions that they are holding and reporting. Additionally, asset managers who provide services for insurance clients will need to provide this data as part of their client servicing processes.

What will Bloomberg provide?

Bloomberg will provide an indicator that communicates whether the security in question qualifies as an Issuer Credit Obligation (ICO) or as a qualified Asset-Backed Security (ABS) under the guidance. Bloomberg will also provide rationale as to what criteria has been tested to meet this conclusion. In addition, Bloomberg will provide further descriptive information about the bond structure in the case of ICOs and a determination in the case of ABS securities as to whether the bond is to be considered a Financial Asset or a Cash-Generating Non-Financial Asset.

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Field name	Description
NAIC Principles Based Bond Classification	<p>Provides principles-based bond definition classification according to the Statement of Statutory Accounting Principles (SSAP) No. 26R published by the National Association of Insurance Commissioners (NAIC).</p> <p>This will return Issuer Credit Obligation in the case of an eligible GSAC or Municipal bond. This will return Asset-Backed Security in the case of an eligible ABS bond. This will return Not a Principles- Based Bond in the case where Bloomberg has failed to identify any criteria that would qualify the bond for inclusion.</p>
NAIC Principles Based Bond Attribute	<p>Provides principles-based bond definition attribute according to the Statement of Statutory Accounting Principles (SSAP) No. 26R published by the National Association of Insurance Commissioners (NAIC).</p> <p>This is intended to be a further descriptor, providing clarity as to why a security is or is not considered an NAIC Principles-Based Bond, as flagged in the NAIC Principles Based Bond Classification field.</p>
NAIC Principles Based Bond Characteristic	<p>Provides the Principles-Based Bond Definition characteristic that is relevant to the classification of the bond for the Statement of Statutory Accounting Principles (SSAP) No. 26R published by the National Association of Insurance Commissioners (NAIC).</p> <p>This field will provide structural information about the coupon and payment schedule of the bond.</p>
NAIC ABS Asset Type	<p>Provides principles-based bond definition asset type owned by the Asset Backed Security (ABS) according to the Statement of Statutory Accounting Principles (SSAP) No. 26R published by the National Association of Insurance Commissioners (NAIC).</p> <p>This field will delineate whether the security is a Financial Asset or Cash-Generating Non-Financial Asset as defined in the guidance by the NAIC.</p>

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Beijing
+86 10 6649 7500

Dubai
+971 4 364 1000

Frankfurt
+49 69 9204 1210

Hong Kong
+852 2977 6000

London
+44 20 7330 7500

Mumbai
+91 22 6120 3600

New York
+1 212 318 2000

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+1 415 912 2960

São Paulo
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+65 6212 1000

Sydney
+61 2 9777 8600

Tokyo
+81 3 4565 8900

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