



Mike Monahan
Senior Director, Accounting Policy
T: 202-624-2324
mikemonahan@acli.com

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Ms. Carrie Mears, Chair
Valuation of Securities Task Force (VOSTF)
National Association of Insurance Commissioners (NAIC)
110 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “P&P Manual”) to Incorporate Practical Expedient for PLR Issue Date

Dear Ms. Mears:

The undersigned (ACLI, PPIA, and NASVA) appreciate the opportunity to comment on the exposure referred to above that was released for comment by the VOSTF on December 4th, 2023.

Background

The VOSTF adopted an amendment, in 2021, to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to require the filing of private rating letter rationale reports. The amendment was effective in 2022 and contained guidance specific to the security’s (original) issue date. Therefore, issue date is a needed data element for programming within the NAIC’s Vision \ AVS+ systems.

Without the ability to consistently source issue date information from third parties, there is a problem with programing around issue date. The SVO has requested the VOSTF to allow the use of a practical expedient which assumes that any security subject to the private rating letter guidance acquired on 01/01/2022 or later, was issued after 1/1/2022 unless the insurer can provide documentation showing an earlier date. This approach would incorrectly include in the pool of securities assumed to be issued on or after 01/01/2022:

- Secondary market purchases for deals issued prior to 01/01/2022.
- Deals which are issued in one year but when acquired in the next year cross issue date categories.
- Private ABS securitizations issued after 01/01/2022 where a comparable public rating rationale update is not normally produced by the CRP for a comparable publicly rated security. Paragraph

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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 280 member companies represent 94 percent of industry assets in the United States.

21 of Part 3 of the P&P Manual explicitly states that updated rationale reports should be filed every year “so long as such rationale update would normally be produced by the CRP for a comparable publicly rated security.”

We are concerned these forced issued dates, combined with existing inaccurate Vision \ AVS+ issue dates, will result in unintended consequences. The critical part of this process will be the annual deletion of private rating letters, from AVS+, for those private rating letter rationales that did not meet the requirements or where no rationale submission has been received for the calendar year. Ratings could be deleted based on inaccurate issue date information.

Comments

We appreciate that the SVO is considering a systematic approach to source original issue date and recognize the impetus of the proposal. However, we feel that there are questions that must be answered prior to determining a solution.

First, we would like the SVO to provide industry with a dataset that contains the complete universe of securities where the original issue date is missing so that industry may assess whether the proposal would significantly resolve the data gaps. As a result, more time is needed for analysis and assistance to identify an approach that will maximize the number of securities with an accurate issue date.

Second, the proposal references that the burden of proof for the accuracy of the original issue date information rests with industry. However, insurers have encountered system problems when trying to enter the data. This information will be contained in NAIC systems, and potentially used for additional reasons, therefore the data needs to be verified and accurate. The proposal does not provide information detailing how accuracy would be measured or the requirements for meeting the burden of proof. Industry needs the ability to see and challenge issue dates currently populated within Vision.

In addition, there is concern with the timing of the AVS+ “deletion” process and the potential for unintended consequences. The deletion process is slated to be performed in December. This timeframe does not allow industry sufficient time to respond and overcome the burden of proof prior to the deletion process. More information is needed on the mechanics of this process, including:

- How long an insurer would have to respond and correct issues before the deletion process is put into place?
- The ability of an insurer to make a submission before the actual filing of the annual update or submission of a private rating letter/rationale for current year (since this does not exist today)

Finally, the SVO has sourced the majority of the current issue date information from insurer (filing) submissions. As a result, the quality of data is dependent on the accuracy of insurer filings. Many critical controls have been added in VISION since the inception in 2022. As a result, there are cases in AVS+/VISION where inaccurate data may exist which prevent companies from submitting a filing. For example, in one instance, we found a security listed in the NAIC’s systems, where the issue date stored was actually a later date than the purchase date. We would like more details on how these problems will be addressed.

In conclusion, we appreciate the SVO’s efforts and look forward to starting discussions to address the issue date data gaps. However, there are additional questions that need to be answered before putting a

solution in place. We recommend that the SVO staff work with industry to flush out any additional questions to avoid potential unintended consequences, including inaccurate year-end Schedule D reporting.

Thank you for your consideration. We look forward to partnering with regulators and SVO staff on this issue.

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The Private Placement Investors Association (“PPiA”) is a business association of insurance companies, other institutional investors, and affiliates thereof, that are active investors in the primary market for privately placed debt instruments. The association exists to provide a discussion forum for private debt investors; to facilitate the development of industry best practices; to promote interest in the primary market for privately placed debt instruments; and to increase accessibility to capital for issuers of privately placed debt instruments. The PPiA serves 66 member companies and works with regulators, NASVA, the ACLI, the American College of Investment Counsel, and the investment banking community to efficiently implement changes within the private placement marketplace. For more information, visit www.usppia.com.

The National Association of Securities Valuation Analysts (“NASVA”) is an association of insurance company representatives who interact with the NAIC Securities Valuation Office (“SVO”) to provide important input, and to exchange information, in order to improve the interaction between the SVO and its users. In the past, NASVA committees have worked on issues such as improving filing procedures, suggesting enhancements to the NAIC’s ISIS electronic security filing system, and commenting on year-end processes.

Sincerely,



Mike Monahan
ACLI

Tracey Lindsey

Tracey Lindsey
NASVA

John Petchler

John Petchler
on behalf of PPiA Board of Directors

cc: Charles Therriault, Director, Securities Valuation Office
Eric Kolchinsky, Director, Structured Securities Group