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January 26, 2024

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: Exposure on Revised Proposed P&P Manual Amendment Authorizing the Procedures for the SVO's Discretion Over NAIC Designation Assigned through the Filing Exemption Process

Dear Ms. Mears:

The ACLI, PPIA and NASVA (collectively “the Undersigned”) appreciate the opportunity to comment on the above referenced exposure and related detail, dated November 3, 2023. Generally, the exposure and the proposed P&P Manual changes reflect revisions to the ratings discretion proposal that were discussed at the 2023 NAIC Summer National Meeting and were intended to be responsive to Industry’s concerns. The Undersigned appreciate modifications made to the original exposure to address concerns. We view the current proposal as a positive step in the right direction. However, the Undersigned still have some concerns and offer suggestions to further improve the proposed ratings discretion process.

First, the Undersigned wish to acknowledge how far the Ratings Discretion proposal has evolved from the initial exposure discussed at the 2023 NAIC Summer National Meeting. We particularly appreciate that securities where the SVO has questions are no longer assumed to be inappropriately rated at the outset. We believe that the process introduced, that allows for additional information gathering and review from the SVO, sets the right tone and will facilitate a constructive dialog between the SVO and insurers on such securities. We also note that the SVO and multiple Regulators have assured Industry that the ratings discretion process will be used judiciously and will focus on those securities where the NAIC has the most significant concerns. Additionally, the (E) Committee “Framework for Regulation of Insurers’ Investments” also anticipates that such discretion will be rare. The Undersigned agree that a thoughtful and cautious approach to challenging ratings is best, as it will minimize market disruption. We hope that ratings challenges will be the exception, rather than the rule, if this takes effect. The

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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.

Undersigned have included below a list of suggested changes to help further improve the CRP Ratings Discretion process and stand ready to discuss any questions that Regulators or the IAO might have on these suggested changes.

Step 2 of the revised process denotes a review by the SVO Senior Credit Committee (“SVO SCC”). The Undersigned feel it would be helpful to define in the exposure which SVO members would comprise the SVO SCC.

Step 7 of the revised process states that, following a full review, if the SVO SCC disagrees with a CRP rating by 3 or more notches, then that security’s CRP rating(s) will be removed from the FE process. The Undersigned have a couple concerns with this step as drafted. First, it is unclear to us whether the plural in “CRP rating(s)” was intentional or a drafting oversight? Given that the procedural steps were drafted in a way to imply that only one CRP rating would be challenged at any given time, the Undersigned feel it would be inappropriate to delete multiple CRP ratings from the system. (That is, if there are two or more Eligible CRP Credit Ratings, and one is challenged and deemed inappropriate for NAIC use, then only the rating deemed inappropriate should be removed from the FE system.) We suspect that was not the intent of the exposure but wish to clarify. If we are wrong, and the IAO intends to challenge two or more Eligible CRP Credit Ratings, then the decision to challenge two or more CRP ratings should be clearly communicated at the outset of the ratings discretion process. Second, the Undersigned believe that removing a rating from the system should not occur until after the VOSTF Sub-group has heard the SVO SCC’s concerns and agreed that the process should move forward. We suggest that Step 7 be moved to follow Step 8.

Note that there was some discussion among the Undersigned as to whether Step 7 should follow Step 8, or whether it should be moved to follow Step 13 (i.e., removal of a CRP rating would only occur, once a potential appeal option has been exhausted). Ultimately, the Undersigned elected to place Step 7 behind Step 8, understanding that insurers will not always exercise the appeal option when a rating is challenged. However, one concern that was raised (and we have yet to resolve) is what will happen to a security when the VOSTF Sub-group and SVO SCC decide to remove a CRP rating near-year end? In this scenario, should insurers decide to pursue an appeal, the appeal process may not be concluded before year-end. Meanwhile, the SVO’s designation would drive risk-based capital (RBC) treatment over year-end, while a different rating may ultimately result from the appeal in the following year. The Undersigned feel that this situation could be addressed with a code providing additional disclosure and indicating that the CRP rating has been challenged by the IAO and VOSTF Sub-group, but that the final NAIC Designation is still under appeal. There may be other solutions worth discussing as well. We hope to work together with the IAO to determine an interim solution that would make sense for both parties.

The Undersigned believe that the addition of Step 8, where the SVO SCC presents an analysis of a rating that it wishes to challenge to a Sub-group of the VOSTF, is a material improvement. We believe strongly that it is important for Regulators to be part of any potential ratings challenge process. To further increase transparency and ensure due process, the Undersigned recommend the following additions to **Step 8**:

- 1) Move Step 11, where the SVO provides a genericized summary of its concerns about the security on the NAIC’s website, up in the process document to combine with Step 8. Doing so will put the market on notice that certain types of securities may raise concern for the NAIC. Absent receiving public notice earlier in the process, only those insurers who own a security

under review will be aware of the SVO's potential concerns, and such insurers will then be in possession of material non-public information.

2) At the 2023 NAIC Fall National Meeting, VOSTF stated that this summary would be detailed enough to provide full transparency, laying out the SVO's concerns in substance, without breaching confidentiality. The Undersigned wish to emphasize how important that level of detail will be to the process, as it will provide transparency for insurers, Regulators and other stakeholders, and help all understand the SVO SCC's concerns in a fulsome manner. Lack of transparency will only serve to create confusion among insurers and could disrupt capital markets more than necessary. Presumably the SVO has already identified some securities with CRP ratings where it has concerns. Regardless of whether/when the proposed exposure takes effect, the Undersigned believe it is important for the SVO to provide a few examples of the types of write-ups that it intends to share publicly. These examples would help address the question of how detailed, or how substantive, the SVO's generic summaries will be and would level set expectations across all stakeholders regarding the degree of robustness.

3) In order to allow for adequate due process, the Undersigned also believe it is important that - insurers who own a security with a rating in question be permitted, at their option, to attend the VOSTF Sub-group meeting when the SVO SCC presents its concerns about that security or rating. This will ensure that insurers fully understand the SVO SCC's concerns and will allow the lead insurance spokesperson (most typically the filer) to present its own view of the security and ratings methodology to the VOSTF Sub-group. Should members of the VOSTF Sub-group have questions, they can ask the insurer directly, rather than receiving information through the SVO SCC as an intermediary. The Undersigned understand that multiple securities may be discussed at such meetings; therefore, there may be concerns about protecting confidentiality. However, this concern can be addressed by having a meeting registration process, an agenda with set discussion times for each deal, and a rotating dial-in or WebEx process. Insurers can be admitted to the meeting when their specific security and rating are up for discussion. The SVO SCC and lead insurance spokesperson can each present, and the VOSTF Sub-group can ask questions and deliberate. Once a final decision is made, those insurers who hold the security can drop, and when the next security and rating are up for review, the next group of insurers can be admitted to the dial-in or WebEx meeting.

4) The Undersigned highlight that Step 8, as currently drafted, requires the SVO SCC to present its analysis to the VOSTF Sub-group and obtain feedback; however, there is no specific requirement for the VOSTF Sub-group to decide whether or not the ratings challenge process should proceed. The Undersigned believe that a decision to override a CRP rating would be impactful to both Industry and capital markets. Therefore, we believe that authority to override a CRP rating should ultimately rest with Regulators, and we recommend clarifying Step 8, to require a specific decision from the VOSTF Sub-group on whether to move forward with a ratings challenge. Most likely, this is in keeping of the spirit of what was proposed in Step 8, but specifically stating that a decision point is required would clarify the process.

5) Once the VOSTF Sub-group has made its decision on how to proceed, the Undersigned request that the SVO update its generic public notice on the security and ratings in question. The update should indicate the VOSTF's Sub-group's decision on whether or not to proceed with

a CRP rating override, and disclose any meaningful insights that the VOSTF Sub-group shared when making its decision. Adding this level of detail would again serve to provide transparency and certainty to the market and would help stem unneeded market disruption.

Step 9 could be split into two separate Steps—9(a) and 9(b)—where Step 9(a) addresses the situation where there is no second CRP rating, and Step 9(b) addresses the situation where there is a second CRP rating in place (or the insurance filer undertakes an effort to obtain a second CRP rating). As described further below, the Undersigned believe that **Step 9(b)** should be combined with Step 13 to replace the previously envisioned appeal process.

The Undersigned agree conceptually with **Step 10**. When the SVO SCC identifies a recurring pattern of concern, it makes sense to consider further action in conjunction with Regulators. The Undersigned believe it would be good to clarify in Step 10 that, following consultation with the VOSTF Chair, a decision regarding the best course of action (whether issues paper, P&P Manual amendment, referral, further monitoring, etc.) be made and publicly communicated, so that all insurers and the capital markets quickly become aware of the Regulatory concern. Further, if it is a recurring pattern (such as a rating methodology that is deemed inappropriate), then it is important for the SVO to identify all securities that they are aware of that will be impacted. Otherwise, the stated objective of consistent and uniform NAIC designations will not be achieved. This also will prevent further investment in assets of concern, until the NAIC has taken the opportunity to fully vet the issue and determine a final course of action, thereby limiting potentially negative RBC impacts for insurers. The Undersigned recall an issues paper published on Principal Protected Securities and Combo Notes a few years ago that was particularly instructive in laying out Regulatory concerns and served to notify the market that these securities were receiving additional scrutiny. We feel this kind of document represents a best practice for transparency and a process for raising issues.

Step 9 mentions the possibility of insurers obtaining a second CRP rating on a security. If a second CRP rating is obtained, the Filing Exemption (“FE”) process would effectively start over again. The second CRP rating would drive capital treatment, unless or until the SVO SCC decides to challenge that second rating. Likewise, **Step 13** envisions an appeals process, wherein the NAIC IAO would obtain (at the insurer’s expense) an independent review from a third-party acceptable to the NAIC IAO. Should the third-party rating fall within one-notch of the original CRP rating, then the original rating would prevail. Should the third-party rating be two or more notches lower than the original CRP rating, then the SVO’s designation would prevail.

The Undersigned appreciate that the appeals process laid out in Step 13 was designed to accommodate Industry’s request for due process. However, upon further consideration, the Undersigned believe that the changes we requested for Step 8 are probably more valuable in preserving due process. We recognize the difficulties in selecting an appropriate third-party to adjudicate an appeal—particularly on a “white label” basis, as has been considered in discussions related to this exposure. The proposal doesn’t specify which parties would be acceptable to adjudicate a third-party appeal, and there are concerns about whether such an appeal process may even be practical. For example, are CRPs even willing to assign a rating on a white label basis? If not, who would be? What level of information could be shared with the appeal arbiter to ensure sufficient information for the appeal party to develop an informed and objective opinion, yet still protect issuer confidentiality? Should this avenue be pursued, it would probably be necessary to see examples of the type of information that would be shared on a

white label basis, so CRPs (or any other third-party appeal arbiters), Regulators and Industry can collectively assess whether such information is sufficient for an objective, independent third-party review.

In addition, the Undersigned believe that requiring an appeal provider's rating to land within one notch of the original CRP rating, in order for the CRP rating to be deemed valid is overly restrictive. Take, for example, a situation where a CRP rates a security at an NAIC 1.F-equivalent level, but the SVO believes the security should carry an NAIC 3.B-equivalent designation. If an appeal party is brought to the process and rates a security as NAIC 2.B-equivalent, then the current exposure would require the SVO's recommended NAIC 3.B Designation to stand. This seems like an overly harsh outcome, when two separate CRPs rate the security as investment grade. Provided insurers are allowed to attend and speak at the VOSTF Sub-group presentation in Step 8, the Undersigned believe that the proposed appeals process could be streamlined, thereby avoiding the questions and challenges mentioned above.

Rather than having the formal appeal process as laid out in Step 13, the Undersigned propose that, at any time during the ratings review process, insurers could obtain a second CRP rating on the security. This would effectively provide three separate views regarding a security's risk profile—the original CRP rating, the IAO's recommended designation, and the second CRP rating. Similar to the FE process for public securities, the NAIC could then use the second-lowest of the three independent risk views (the two CRP ratings and the IAO's recommended designation) to determine risk-based capital treatment. The Undersigned believe that this proposed approach balances Regulators' need for multiple views of risk on unique securities or methodologies and has an inherent level of conservatism (through use of the "second-lowest risk assessment" construct). However, the Undersigned's proposed solution also would be an efficient and easy-to-understand approach and would avoid placing the IAO in a position where it must indirectly endorse a particular CRP or credit risk assessment service.

The Undersigned do wish to clarify, however, that while we support providing insurers with the option of seeking a second CRP rating, we would not support making two CRP ratings a requirement for all FE securities. One of the benefits of the ratings discretion exposure as proposed, is that it recognizes a large subset of privately rated securities where Regulators and the IAO have no Regulatory concerns. What the Undersigned want to avoid is a process that would require two or more CRP ratings for these non-controversial securities to receive FE treatment. Many debt issuers do not wish to invest the time and cost necessary to obtain two ratings. Likewise, insurers do not want to drive these issuers away from the insurance-dominated private placement market to the commercial bank lending market or to other capital markets. However, for situations where Regulators or the IAO have significant Regulatory concerns and wish to challenge a specific CRP rating or methodology, the Undersigned believe providing an option for a second CRP rating, that would effectively serve as a third datapoint for risk assessment, would be helpful.

Lastly, in **Step 15**, the SVO Director provides a summary of CRP Ratings Discretion activity at the Summer National Meeting. It is not clear whether this report would be publicly available to insurers and the capital markets. The Undersigned feel that aggregated reporting is important for providing transparency and limiting capital markets disruption. We request that such reports be shared publicly and occur at every NAIC National Meeting, as opposed to annually. After the CRP Ratings Discretion process has been in place for a few years, there may be an opportunity to move to a less frequent aggregated reporting process. But initially, our expectation is that multiple CRP ratings may receive additional

review. We believe increased public reporting frequency is warranted to clearly communicate with insurers the number and types of ratings questions that are being raised, and how these questions are being addressed. In addition, the Undersigned suggest that the process be revisited in the future (perhaps annually) so that Regulators, the IAO, and Industry can collectively assess what is working well, and where the process can be enhanced. To the extent that (E) Committee is developing a due diligence framework to manage and oversee use of CRP ratings, these regular evaluations would also help ensure that the ratings discretion process is aligned with (E) Committee's framework and objectives.

The Undersigned feel that incorporating the suggestions above would create a process that strikes an appropriate balance.¹ The enhanced process recognizes Regulators' desire for oversight and discretion over the FE process, but includes enough checks, balances, and involvement from insurers to ensure clear transparency and provide due process. Implementing the suggested changes would help minimize uncertainty for insurers and prevent unnecessary capital market disruption. The Undersigned appreciate the chance for input and the significant enhancements that have already been included in this exposure. We hope that Regulators will incorporate our recommended enhancements in the spirit of providing strong due process and transparency.

Note that in Appendices A & B, the Undersigned have provided a revised list of steps along with proposed edits to the P&P Manual that align with our comments and requested changes. Suggested deletions to P&P Manual language are indicated with ~~strikethroughs~~. Additions are highlighted in blue. We stand ready to work constructively with the NAIC to discuss our ideas further and implement changes.

Sincerely,



Mike Monahan
ACLI



Tracey Lindsey
NASVA



John Petchler
on behalf of PPIA Board of Directors

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

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¹ The Undersigned have focused most of our commentary on high-level observations regarding the proposed ratings discretion process and on the related P&P Manual changes needed to support this process. In our discussions, implementation questions were raised, such as whether we might need additional codes beyond the two new codes proposed in the exposure. In the interest of moving the process forward, we have chosen not to focus on implementational details in our response letter. We feel it is in all stakeholders' interests to agree on the appropriate procedural steps first and can work through details like codes or other implementation issues later. NASVA has agreed to create flow charts, once a final process is set, which will help identify any details that have yet to be addressed.

² 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. For more information, visit www.acli.com.

³ 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.

⁴ 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.

Appendix A

The Undersigned have included a revised list of process steps below, that reflect our suggested changes to the proposed ratings discretion process. We have started with the IAO's outlined process and edited accordingly. Deletions are indicated with ~~strikethroughs~~ while additions are highlighted in blue.

- 1) SVO staff identifies a FE security with an NAIC Designation determined by a rating that appears to be an unreasonable assessment of risk.
- 2) SVO Senior Credit Committee (SCC) meets to determine if it agrees that the rating appears an unreasonable assessment of risk and, if so, places the security "Under Review". [Please list who will comprise the SVO SCC. We assume it will include the Heads of the SVO and SSG, General Counsel of the SVO, and the Heads of Credit at the SVO?]
- 3) If the SVO SCC votes to put the security "Under Review" an information request will be sent through VISION to insurers that hold that security in their VISION portfolio and an the SVO Administrative Symbol assigned to identify them in VISION and AVS+.
- 4) If the information request is not responded to, the SVO may reach out to the domiciliary Chief Financial Examiner.
- 5) Upon receipt of all necessary documentation through the information request, the SVO will then perform a full analysis of the security and coordinate with the interested insurer(s) on any questions or issues the SVO may have about the security.
- 6) SVO SCC re-convenes and determines, based on its full analysis of all necessary information, whether the FE NAIC Designation is three (3) or more notches different than the SCC's opinion.
- 7) If the SVO SCC opinion differs from the FE produced NAIC Designation Category by a material three (3) or more notches, ~~the specific ratings for that security will be removed from FE.~~ the SCC will present its analysis to a Sub-group of the Task Force to provide oversight over the FE removal process. As part of this process:
 - a) An anonymized summary, detailing the regulatory concern or issue will be published on the SVO webpage or some other insurer-accessible location for transparency. This will be posted as quickly as possible, following Step 6, but no later than one week in advance of the meeting with the Task Force Sub-group. [Note: Insurers request samples of such summaries for securities/ratings where the IAO has concerns in advance of the effective date of this exposure; so, we can get a sense for how substantive such summaries will be.]
 - b) The IAO will notify insurers who hold the security with an Eligible CRP Credit Rating in question, of the meeting with the Task Force Sub-group. Insurers will be allowed to attend the meeting, at their option, and a designated spokesperson for the insurer will be allowed to speak or answer questions.
 - c) The Task Force Sub-group will then determine whether it or not it agrees with the SVO SCC's recommendation to remove a CRP rating from the FE process.
 - d) The anonymized summary that was posted in advance of the Task Force Sub-group review will be updated to reflect the Task Force Sub-group's decision.

~~8) The SCC will present its analysis to a sub-group of the Task Force to provide oversight over the FE removal process and enable the Task Force to provide feedback to the SVO.~~

8) If the Task Force Sub-group, as referenced in Step 7, disagrees with the SVO SCC's recommendation to override an Eligible CRP Credit Rating, then the specific CRP rating will remain in place for FE purposes.

If the Task Force Sub-group agrees with the SVO SCC's recommendation to override the CRP rating, and this decision occurs before October 1st of any calendar year, then the specific CRP rating will be removed from FE.

If the Task Force Sub-group agrees with the SVO SCC's recommendation to override the CRP rating, but this decision occurs on or after October 1st of any calendar year, then the insurers who hold the security must indicate to the IAO whether they wish to pursue an appeal. If the insurers wish to pursue an appeal, then the rating CRP rating in question will be designated with an additional disclosure code, indicating that the rating has been overridden by the SVO SCC and the Task Force Sub-group, but that an appeal is underway, such appeal of which must be resolved in the following calendar year. [NOTE: Please see our suggestion in the letter to potentially develop a new disclosure code for this purpose, or to work with the IAO to develop a mutually agreeable solution.]

9) If there are no alternative CRP ratings, the SVO SCC's assessment will be entered into VISION. If an alternative CRP rating ~~is subsequently received~~ already exists, it will be incorporated into the FE process, as applicable.

10) If the SVO SCC assesses the issue is part of a recurring pattern, the SVO Director will inform the ~~chair and decide if an issue paper, referral or amendment is needed.~~ Task Force Chair and decide a best course of action, whether that be an issue paper, referral or amendment, or further monitoring. This decision will be publicly communicated to provide transparency to stakeholders.

11) An anonymized summary of each unique issue or situation will be published on the SVO webpage or some other insurer accessible location for transparency.

12) An insurer may appeal to the Task Force chair if they believe the SVO did not follow the procedures outlined in the P&P Manual.

13) If an insurer(s) wishes to appeal the SVO SCC's analytical assessment, it may ~~request the NAIC's IAO to contract, at the insurer(s) expense, with an independent third party acceptable to the NAIC IAO to perform a blind review of the security (e.g. without knowledge of the SCC's, insurer's or CRP's assessment) with the information provided through the information request. If the independent third-party review results in an NAIC Designation Category that is one (1) or less notches different from the FE produced NAIC Designation Category, then the SVO SCC's opinion will be overridden by the reinstatement of the CRP rating(s). If the independent third-party review results in an NAIC Designation Category that is more than one (1) notch different from the FE produced NAIC Designation Category, then the SVO SCC's opinion will remain.~~ do so by obtaining an additional Eligible CRP Credit Rating from a separate Eligible CRP Credit Rating Provider. This new CRP rating ~~which~~ will serve as a third, independent view of credit risk (in addition to the SVO SCC's analytical assessment and the original Eligible CRP Credit Rating which was overturned). For purposes of determining the final NAIC Designation, the IAO will take the second-lowest of all available risk assessments and used this to assign an NAIC-equivalent Designation which will also be used to determine capital requirements.

14) The SVO will identify through SVO Administrative Symbols when a CRP rating(s) has been removed from the Filing Exemption process for a security.

15) ~~At the Spring National Meeting, the SVO Director will summarize FE discretion actions take for the preceding year.~~ The SVO Director will prepare a report summarizing FE discretion challenges and actions in conjunction with each NAIC National Meeting. Such report will be shared publicly as part of the Task Force Agenda Materials. At the Spring National Meeting, the SVO Director will summarize FE discretion actions taken for the preceding year and will discuss with the Task Force any proposed changes to the ratings discretion process.

PART ONE
POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE

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POLICIES APPLICABLE TO THE FILING EXEMPTION (FE) PROCESS

NOTE: The policies below provide the policy framework for “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” in Part Three and are related to “The Use of Credit Ratings of NRSROs in NAIC Processes” discussed above; “NAIC Policy on the Use of Credit Ratings of NRSROs” and the “Definition – Credit Ratings Eligible for Translation to NAIC Designations” in Part Two (“Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset.)

Determinations

80. The VOS/TF is resolved that the benefit obtained from the use of credit ratings in state regulation of insurance (i.e. conservation of limited regulatory resources) must be balanced against the risk of blind reliance on credit ratings. To ensure the Task Force properly understands the composition and risk of the filing exempt securities population, promote uniformity in the production of NAIC Designations, reduce reporting exceptions for filing exempt securities and increase the efficiency of this NAIC process, the SVO and SSG (hereafter, the IAO) is charged with administration of the filing exempt process defined in Part Three of this Manual.

Directives

81. The IAO shall:

- Recommend improvements to the production of NAIC Designations based on NRSRO credit ratings.

- Identify monitoring and communication procedures that enhance the possibility of regulatory intervention by the VOS/TF to respond to risks to insurer solvency posed by securities in the filing exempt population.

- Identify and develop correctives to the administrative, operational and system-based causes of reporting exemptions in the filing exempt process.
- Change the NAIC Designation equivalent calculated for filing exempt securities when necessary to correct errors or other anomaly that occur in the automated filing exempt process.
- Develop a staff-administered reporting exceptions resolution process that incorporates state insurance regulator and insurance companies' participation.
- In furtherance of the above directives, exclude specific otherwise Eligible NAIC CRP Credit Ratings from the automated filing exemption process in accordance with the administrative procedures outlined in Part Two of this Manual, if the IAO, following a self or state regulator-initiated review, determines the resulting NAIC Designation equivalent does not provide a reasonable assessment of risk for regulatory purposes.

...

PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO

SVO ORGANIZATION

...

SVO Administrative Symbols

153. SVO administrative symbols convey information about a security or an administrative procedure instead of an opinion of credit quality. The administrative symbols in use by the SVO and their meanings are described below.

SVO Analytical Department Symbols

154. All SVO analytical departments use the following administrative symbols:

...

- **UR** means the NAIC Designation assigned pursuant to the filing exemption process is under review by the NAIC's Investment Analysis Office.

- **DR** means that one or more otherwise Eligible NAIC CRP Credit Ratings have been removed from the filing exemption process when determining the NAIC Designation through the IAO's discretion procedures.

PROCESS FOR PLACING A FILING EXEMPT SECURITY UNDER ANALYTICAL REVIEW FOR POSSIBLE REMOVAL FROM FILING EXEMPTION

Overview

164. This section outlines the process by which a state insurance regulator or IAO staff can contest an NAIC Designation Category assigned through the filing exemption process which it thinks is not a reasonable assessment of risk of the security for regulatory purposes.

(Note: The guidance in this part is effective as of January 1, 2025, but this date may be amended if additional time is needed to implement the necessary NAIC technological enhancements to IAO systems.)

Request for Information

165. The IAO staff will bring to the attention of the NAIC IAO Senior Credit Committee, (comprised of the Heads of the SVO and SSG, the General Counsel of the SVO, and the Heads of Credit at the SVO—collectively, the SCC) any filing exemption-eligible security assigned an NAIC Designation Category equivalent through the automated filing exemption process as being a security under review if (i) a state insurance regulator notifies the IAO staff that it has determined the NAIC Designation Category equivalent may not be a reasonable assessment of risk of the security for regulatory purposes, or (ii) the IAO staff, in its opinion, determines that the NAIC Designation Category equivalent may not be a reasonable assessment of risk of the security for regulatory purposes. State insurance regulator notification pursuant to this section does not negate the authority of state insurance regulators under “States May Require a Filing of Exempt or Other Transactions” in Part One of this Manual.

166. The SCC will convene to determine if, in its opinion, the NAIC Designation Category assigned pursuant to the filing exemption process is a reasonable assessment of risk of the security for regulatory purposes. As part of its review, the SCC may consider observable factors, among others, such as (i) a comparison to peers rated by different CRPs, (ii) consistency of the security’s yield at issuance or current market yield to securities with equivalently calculated NAIC Designations rated by different CRPs, (iii) the IAO’s assessment of the security applying available methodologies, and (iv) any other factors it deems relevant. If the SCC’s opinion is that the assigned NAIC Designation Category is likely a reasonable assessment of risk of the security for regulatory purposes, no further action will be taken at that time. If the SCC’s opinion is that the assigned NAIC Designation Category is likely not a reasonable assessment of risk of the security for regulatory purposes, an information request will be initiated and the security will be identified as “Under Review”.

167. The IAO will notify insurance company holders of a security determined to be a Filing Exempt Security “Under Review” by issuing an information request and publishing a separate SVO Analytical Department Symbol of “UR” for Under Review in NAIC systems for that security that will not be reported on the statutory investment schedules. The purpose of the information request is to provide the IAO staff with sufficient information to perform a full analysis of the security. Consistent with the informational deficiencies instructions in this Manual, security information consistent with an Initial Filing should be provided to the IAO within 45 days, unless an extension has been granted to the insurance company by the IAO, not to exceed 90 days in total from the date that the IAO issues an information request. The IAO may contact the insurance company’s domiciliary chief financial regulator for assistance after the initial 45 days if there has been no meaningful response. If after 90 days additional information equivalent to a complete filing has not been provided to the IAO, the IAO may proceed with removal of the otherwise Eligible NAIC CRP Credit Rating(s) from the Filing Exempt process.

Full Review

168. At any time during the information request submission period or during the IAO’s subsequent analysis of the security, the insurance company holders of the security are encouraged to provide additional information to the IAO such as their internal analysis, presentations from the issuer, meetings with the issuer’s management team and any other information that may be useful or persuasive in the analysis of the security. The IAO will coordinate with the interested insurer(s) on any questions or issues it may have about the security.

169. Upon satisfactory receipt of the information through the information request, the IAO will perform a full analysis of the security during which time the SVO Analytical Department Symbol “UR” will remain in place but it will not be reported on the statutory investment schedules.

Materiality Threshold for IAO Analysis

170. Upon completion of the IAO’s analysis, the SCC will reconvene to determine whether the NAIC Designation Category assigned through the automated filing exemption process is materially different from the SCC’s assessment of the security’s risk.

171. The IAO will consider the materiality of the difference between the Eligible NAIC CRP Credit Rating used in the filing exempt process and the IAO’s own assessment of the risk. The IAO will continue with the process of determining whether removal of an otherwise Eligible NAIC CRP Rating from the Filing Exempt process is appropriate, ~~remove an otherwise Eligible NAIC CRP Credit Rating from the Filing Exemption process~~ only if the SCC determines, based upon its review, that the Eligible NAIC CRP Credit Rating for the security is three (3) or more notches different than the IAO’s assessment (e.g. NAIC Designation Category 1.G versus 2.C) (the “Materiality Threshold”).

Valuation of Securities (E) Task Force Oversight

172. Regardless of the VOS/TF's sub-group's decision (as discussed in item 173 below), IAO staff will post an anonymized summary of each unique CRP ratings issue and challenge on its webpage or some other insurer-accessible location. The summary will anonymize the name of the security and the Eligible CRP's rating (instead discussing the CRP rating in terms of NAIC Designation-equivalents); however, the summary will be detailed enough to describe the nature of the security, the regulatory or ratings methodology concern, and (after being reviewed by the VOS/TF sub-group as discussed in in item 173 below) whether the VOS/TF sub-group determined the rating should be reaffirmed or overturned.

173. The SCC shall discuss and explain its analytical basis for any Eligible NAIC CRP Credit Rating being removed from Filing Exemption eligibility with a sub-group of the VOS/TF (the composition of which ~~to~~ will be determined by the VOS/TF chair). The SCC will notify the insurers who hold the security or transaction. The insurers may voluntarily attend this meeting, at their option, and a spokesperson for the insurers may present at this meeting or answer questions from VOS/TF. ~~for so long as the VOS/TF chair deems such meetings necessary.~~

174. The VOS/TF sub-group will determine whether or not it agrees with the SCC's recommendation to remove the Eligible CRP Credit Rating in question from Filing Exemption eligibility. Should the VOS/TF sub-group agree, the IAO will remove an otherwise Eligible NAIC CRP Credit Rating from the Filing Exemption process, unless the VOS/TF decision occurs on or after October 1st of any calendar year and the insurers who hold the security wish to appeal the decision. [Interim solution for this scenario to be developed jointly with IAO.] Should the VOS/TF sub-group disagree, then the Eligible CRP Credit Rating will stand.

175~~3~~. If the SCC identifies that there is a recurring analytical pattern or concern, the IAO Director(s) will inform the VOS/TF chair and decide ~~together~~ an appropriate course of action. Should the SCC and the VOS/TF Chair determine that ~~if~~ an issue paper, referral, amendment to this Manual, or some other action is needed, ~~this will also be documented on the SVO's webpage or some other insurer-accessible location.~~

Assignment of NAIC Designation Category

176~~4~~. If the IAO SCC determines that the NAIC Designation Category assigned pursuant to the Filing Exemption process *does not* meet the Materiality Threshold, the Eligible NAIC CRP Credit Rating shall remain eligible for Filing Exemption, the SVO Analytical Department Symbol "UR" will be deactivated, and no further action will be taken at that time. The IAO's determination to maintain the filing exemption eligibility of an Eligible NAIC CRP Credit Rating shall not preclude the IAO from placing the same Eligible NAIC CRP Credit Rating

under analytic review at a later date following a subsequent review should changing conditions warrant.

177~~5~~. If the IAO SCC determines that the NAIC Designation Category assigned pursuant to the Filing Exemption process *does* meet the Materiality Threshold, **and the IAO SCC has presented the Eligible CRP Credit Rating in question to VOS/TF and received approval from VOS/TF to proceed**, then the IAO will block the otherwise Eligible NAIC CRP Credit Rating in NAIC systems to prevent it from using the automated Filing Exempt Securities Process.

178~~6~~. If an Eligible NAIC CRP Rating has been removed from Filing Exemption eligibility for a security according to this section and the security has another Eligible NAIC CRP Rating which has not been removed or one is subsequently received, then the security can receive its NAIC Designation Category through the Filing Exemption process based on the other Eligible NAIC CRP Rating(s). If there is no alternate Eligible NAIC CRP Rating in NAIC systems, the SCC's NAIC Designation Category will be entered into NAIC systems to assign an NAIC Designation Category to the security.

179~~7~~. As noted in this Manual, any insurer that owns a security for which the SVO has provided an NAIC Designation, a classification or a valuation, may request a clarification of the decision from the SVO (Requests for Clarification of SVO Decisions).

Use of Second CRP Eligible Credit Rating as a Form of Potential Appeal

180. At any time in the process, insurers may obtain and file a second CRP Eligible Rating for the security in question with the SVO. When two or more Eligible CRP Credit Ratings are available, and the NAIC Designation Category recommended by the SCC differs from both of these ratings, the SCC will defer to the second-lowest of all available risk assessments (whether a CRP rating or the IAO's recommended designation) to determine the final assigned NAIC Designation Category.

181. Should that second-lowest risk assessment be one of the two or more Eligible CRP Credit Ratings, the IAO will allow that second-lowest rating to remain part of the Filing Exemption process, but will block the higher Eligible CRP ratings in NAIC systems, to prevent that highest CRP rating from using the automated Filing Exempt Securities Process. Should the IAO's recommended NAIC designation be the second-lowest view of risk, then the IAO will delete all otherwise Eligible NAIC CRP Credit Ratings in NAIC systems to prevent them from using the automated Filing Exempt Securities Process.

182. Once the process is final, the IAO will update and finalize its ~~also publish an~~ anonymized summary of each unique situation encountered for the securities and ratings subject to removal from Filing Exemption Eligibility and publish it on an insurer-accessible web location.

Appeal to the VOS/TF

183~~7~~~~8~~. An insurer that thinks the IAO did not make its Filing Exemption determination regarding the insurer's security in accordance with the procedures in this Manual ~~it~~ may

request consideration of the concern by the VOS/TF pursuant to “Review of SVO Decisions by the VOS/TF” in this Manual.

10

Attachment Five
Valuation of Securities (E) Task Force
12/2/23

Analytical Appeal to an Independent Third-party

~~179. An insurer that disagrees with the SCC’s final analytical assessment may request, at its own expense, that the NAIC’s IAO contract with an independent third-party acceptable to the IAO to perform a blind analysis of the security (e.g. without knowledge of the SCC’s, insurer’s or CRP’s assessment) based upon the information provided through the information request and consistent with the objectives and purposes of an NAIC Designation Category.~~

~~180. If the independent third-party’s assessment results in an NAIC Designation Category that differs from the NAIC Designation Category assigned pursuant to the Filing Exemption process by no greater than a one (1) notch, the originally assigned NAIC Designation Category will remain in force and the Eligible NAIC CRP Credit Rating remain eligible for Filing Exemption.~~

~~181. If the independent third-party’s assessment results in an NAIC Designation Category that that differs from the NAIC Designation Category assigned pursuant to the Filing Exemption process by greater than one (1) notch, the SCC’s opinion will remain in force and the Eligible NAIC CRP Credit Rating will remain ineligible for Filing Exemption.~~

Reinstatement of Filing Exemption Eligibility

~~184~~². If an insurer would like the IAO to re-evaluate an Eligible NAIC CRP Credit Rating that was removed from Filing Exemption Eligibility for possible reinstatement in a subsequent filing year, it can follow the operational steps outlined in Appeals of SVO Determinations in this Manual to submit the request.

Reporting Securities Removed from Filing Exemption Eligibility

~~185~~³. For each NAIC National Meeting ~~t~~^{The} IAO Director(s) will prepare and discuss a summary of the removed from Filing Exemption Eligibility actions taken since the last summary, and publish this summary on its web page or in some other insurer-accessible location~~over the prior calendar year.~~

~~184. The IAO will also publish an anonymized summary of each unique situation encountered for the securities subject to removal from Filing Exemption Eligibility and publish it on an insurer accessible web location.~~

186. VOS/TF and the IAO will revisit the process of removal of Eligible CRP Credit Ratings annually, and propose changes, as necessary, to continue to refine the process.

187. To facilitate transparency as to the SVO’s application of discretion, the SVO Analytical Department Symbols “DR” will be added in NAIC Systems to securities with a blocked

otherwise Eligible NAIC CRP Credit Rating(s). The SVO Analytical Department Symbols, “DR” *will be* reported on the insurer’s statutory investment schedules for the effected security as SVO Administrative Symbols.