



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Proposed P&P Manual Amendment to Clarify that an NAIC Designation 6* can be Self-assigned

DATE: April 16, 2024

Summary: The Securities Valuation Office (SVO) was requested to review the instructions for the self-assignment by insurers of the NAIC 6* Designation. An NAIC 6* can be self-assigned. An NAIC 6* can be self-assigned by an insurer in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. An NAIC 6* can also be self-assigned when the security is deemed to possess the credit characteristics of securities assigned an NAIC 6, meaning the obligation is in or near default and payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement. An NAIC 6 obligation should incur the most severe treatment under the NAIC Financial Regulation Standards and Accreditation Program.

Recommendation: The SVO recommends the attached non-substantive updates to improve the clarity of the instructions for the self-assignment of an NAIC Designation of 6*. The proposed text changes to the P&P Manual are shown below with additions in red underline and deletions in ~~red strikethrough~~, as it would appear in the 2023 P&P Manual format. Editing notes have been added with [] to explain section moves. New text is highlighted in yellow.



PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO



PRODUCTION OF NAIC DESIGNATIONS

...

NAIC DESIGNATIONS RELATED TO SPECIAL REPORTING INSTRUCTION

...

~~28. NAIC 6* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. [Moving the paragraph to keep the NAIC 6* instructions together.]~~

...

30. NAIC 6* is **self**-assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met.
31. Securities with **self-assigned** NAIC 6* Designations are deemed to possess the credit characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/06-NAIC 6/2024-008-01 P&P Manual - NAIC 6.docx>