

Draft date: 4/28/26

*Virtual Meeting*

**CREDIT RATING PROVIDER (E) WORKING GROUP**

Monday, May 4, 2026

2:00 p.m. – 3:00 p.m. ET / 1:00 p.m. – 2:00 p.m. CT / 12:00 p.m. – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

**ROLL CALL**

|                            |             |               |            |
|----------------------------|-------------|---------------|------------|
| Jake Garn, Chair           | Utah        | Cameron Piatt | Ohio       |
| Laura Clements, Vice Chair | California  | Amy Garcia    | Texas      |
| Ken Cotrone                | Connecticut | Dan Bumpus    | Virginia   |
| Carrie Mears               | Iowa        | Steve Drutz   | Washington |
| Cynthia Iu                 | Nebraska    | Amy Malm      | Wisconsin  |

NAIC Committee Support: Jane Ren

**AGENDA**

1. Discuss and Consider Exposure of the Credit Rating Provider (CRP) Due Diligence Framework—*Jake Garn (UT)*
  - A. PricewaterhouseCoopers (PwC)

Attachment 1  
Attachment 1 -A
2. Discuss Any Other Matters Brought Before the Working Group—*Jake Garn (UT)*
3. Adjournment

# NAIC Credit Rating Provider (CRP) Due Diligence Framework – Whitepaper

---

## Table of Contents

### Contents

|  |    |
|--|----|
| Table of Contents .....  | 1  |
| Executive Summary .....  | 3  |
| Current State & Background .....   | 4  |
| Use of CRP the Translation Matrix .....  | 4  |
| Organizational Structure – New Invested Assets Task Force Organization .....             | 4  |
| Overview of the CRP Due Diligence Framework.....   | 5  |
| Provisional Acceptance of CRPs.....  | 7  |
| Guiding principles .....   | 8  |
| CRP Data Requirements for Implementation and On-going Operation of the CRP Due Diligence | 8  |
| 1. Scoping Assessment.....   | 9  |
| 1.1 Scoping Assessment Overview .....  | 9  |
| 1.2 Key Activities .....   | 9  |
| 1.2.1 Preliminary Scoping Activities .....   | 9  |
| 1.2.2 Quantitative Scoping Activities.....   | 10 |
| 1.2.3 Qualitative Scoping Activities .....   | 12 |
| 1.3 Expected Outcome .....   | 13 |
| 2. Risk Assessment.....  | 15 |
| 2.1 Risk Assessment Overview .....   | 15 |
| 2.2 Defining the Test Segments for Quantitative Risk Assessment .....                    | 16 |
| 2.3 Key Activities .....   | 17 |
| 2.4 Expected Outcome .....   | 20 |
| 3. Detailed Testing Procedures.....  | 21 |
| 3.1 Detailed Testing Procedures Overview .....   | 21 |
| 3.1.1 Sampling Approach.....   | 21 |
| 3.2 Key Activities .....   | 22 |

## PROPOSAL – For Discussion Purposes Only

|       |   |    |
|-------|---|----|
| 3.2.1 | Detailed Testing Procedures.....                            | 22 |
| 3.2.2 | Detailed Testing Procedures Application .....               | 22 |
| 3.3   | Expected Outcome .....                                      | 23 |
| 4.    | , Governance Procedures .....                               | 23 |
| 4.1   | Governance Overview .....                                   | 23 |
| 4.1.1 | CRP Due Diligence Framework Activities .....                | 23 |
| 4.1.2 | Roles and Responsibilities .....                            | 24 |
| 4.2   | Key Activities .....  | 25 |
| 4.2.1 | Annual Report.....  | 25 |
| 4.2.2 | Remediation Actions .....                                   | 25 |
| 4.3   | Expected Outcome .....                                      | 26 |
|       | Appendices .....  | 27 |
|       | Appendix A – CRP Methodology Walkthrough Questionnaire..... | 27 |
|       | Appendix B - Preliminary Asset Class Segmentation .....     | 29 |

## PROPOSAL – For Discussion Purposes Only

## Executive Summary

U.S. insurers depend on NAIC Designations for statutory reporting and solvency monitoring. A significant portion of those designations are derived from the translation of Credit Rating Provider (CRP) opinions for Filing-Exempt (FE) and Private Letter (PL) securities. Currently, the translation of CRP ratings to equivalent NAIC Designations relies on a mapping provided to the NAIC by each CRP. The NAIC has “blind reliance” on these CRP provided mappings in that the NAIC does not have a due diligence process to assess the reasonableness or equivalency of the CRP provided mapping. In 2024, more than 152,000 securities relied on CRP ratings, underscoring the need for a structured, scalable, and pragmatic due diligence program to support the NAIC’s reliance on CRP provided ratings.

This whitepaper sets out a four-part due diligence framework (CRP Due Diligence Framework) including Scoping, Risk Assessment, Detailed Testing Procedures, and Governance (see image below). The framework is intended to corroborate the reasonableness of the translation matrix for NAIC Designations and align with broader objectives to harmonize regulatory oversight related to investments in the insurance industry.

The framework supports consistent translation of CRP ratings to NAIC Designations, focuses due diligence activities where CRP ratings are most consequential on insurer balance sheets and where there are areas of increased risk in CRP provided ratings, and establishes a structured and governed process for remediation activities, monitoring and ongoing maintenance. The framework is led by the Credit Rating Provider (E) Working Group (CRP WG), as supported by NAIC staff, with inputs and information sharing amongst the Invested Assets (E) Task Force (IA TF) working groups including the Investment Analysis (E) Working Group (InvAWG) and Investment Designation Analysis (E) Working Group (IDA WG)<sup>1</sup>.

---

<sup>1</sup> For additional information on the reorganization of the VOS TF, see the *New Invested Assets Task Force Organization* section.

## PROPOSAL – For Discussion Purposes Only

| <b><u>Preliminary CRP Due Diligence Framework</u></b> |   |
|---|---|
| <b>1. Scoping Assessment</b>                          | <ul style="list-style-type: none"> <li>• Preliminary Screening</li> <li>• Quantitative Assessment</li> <li>• Qualitative Assessment</li> </ul>  |
| <b>2. Risk Assessment</b>                             | <ul style="list-style-type: none"> <li>• Historical Data Analysis</li> </ul>  |
| <b>3. Detailed Testing Procedures</b>                 | <ul style="list-style-type: none"> <li>• Methodology Walkthrough and Discussion with CRP</li> <li>• Security Specific Rating Review</li> <li>• Security Specific Rating Methodology Review</li> </ul> |
| <b>4. Governance Procedures</b>                       | <ul style="list-style-type: none"> <li>• Methodology Walkthrough and Discussion with CRP</li> </ul>   |

## Current State & Background

### Use of CRP the Translation Matrix

CRPs follow publicly disclosed rating methodologies that combine quantitative analysis, qualitative judgment, and rating-committee governance to form independent credit opinions evaluating credit risk. These methodologies require transparent documentation, reliable data inputs, and ongoing surveillance. Importantly, CRPs say that they do not differentiate their methodologies between public and private assets, however, public and private assets themselves may be very different. Any variations between public and private ratings may reflect differences in available information, as opposed to differences in methodology.

NAIC Designations reflect an assessment of investment risk, as defined in Part One, paragraph 87 of the 2025 P&P Manual, which characterizes investment risk as the likelihood that an insurer will receive the full and timely payment of principal and expected interest. When the NAIC independently determines a designation, they often rely on CRP methodologies as described in Part One - Use of Generally Accepted Techniques or Methodologies of the P&P manual.

For eligible FE/PL securities, the NAIC Designations translation matrix found on the NAIC website, as referenced in the P&P manual is applied to translate eligible assigned ratings from all eight CRPs.

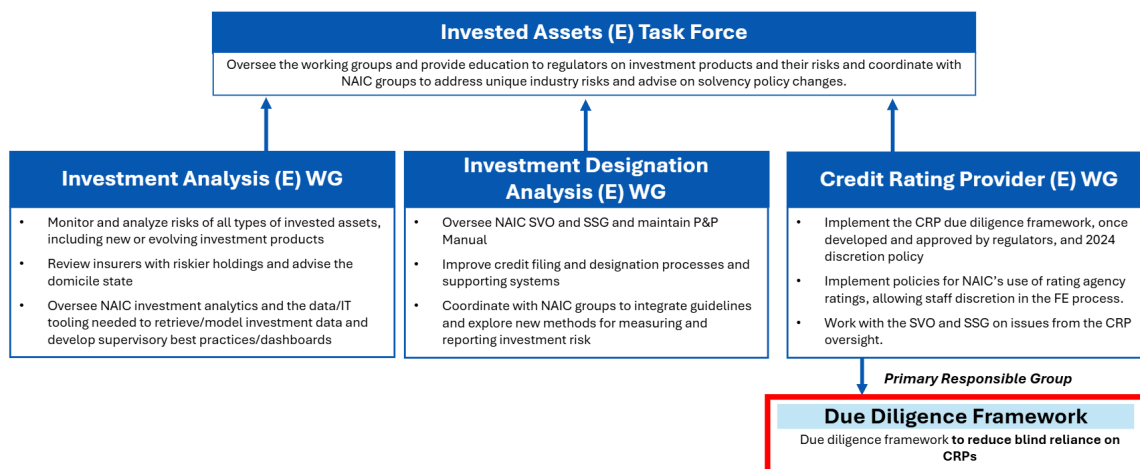
Currently, the translation of CRP ratings to equivalent NAIC Designations relies on a mapping provided to the NAIC by each CRP. The NAIC has “blind reliance” on these CRP provided mappings in that the NAIC does not have a due diligence process to assess the reasonableness or equivalency of the CRP provided mapping.

### Organizational Structure – New Invested Assets Task Force Organization

Under the oversight of the Invested Assets (E) Task Force (IA TF), formerly the VOS TF, the Credit Rating Provider (E) Working Group (CRP WG), with the assistance of NAIC staff as

## PROPOSAL – For Discussion Purposes Only

deemed appropriate by those NAIC groups, will be responsible for implementing and operating the CRP Due Diligence Framework once developed and approved by regulators, with inputs from Investment Analysis (E) Working Group (InvAWG) and Investment Designation Analysis (E) Working Group (IDA WG). The CRP WG will share results and findings of due diligence activities amongst the IA TF and other NAIC groups on an on-going basis.<sup>2</sup>



## Overview of the CRP Due Diligence Framework

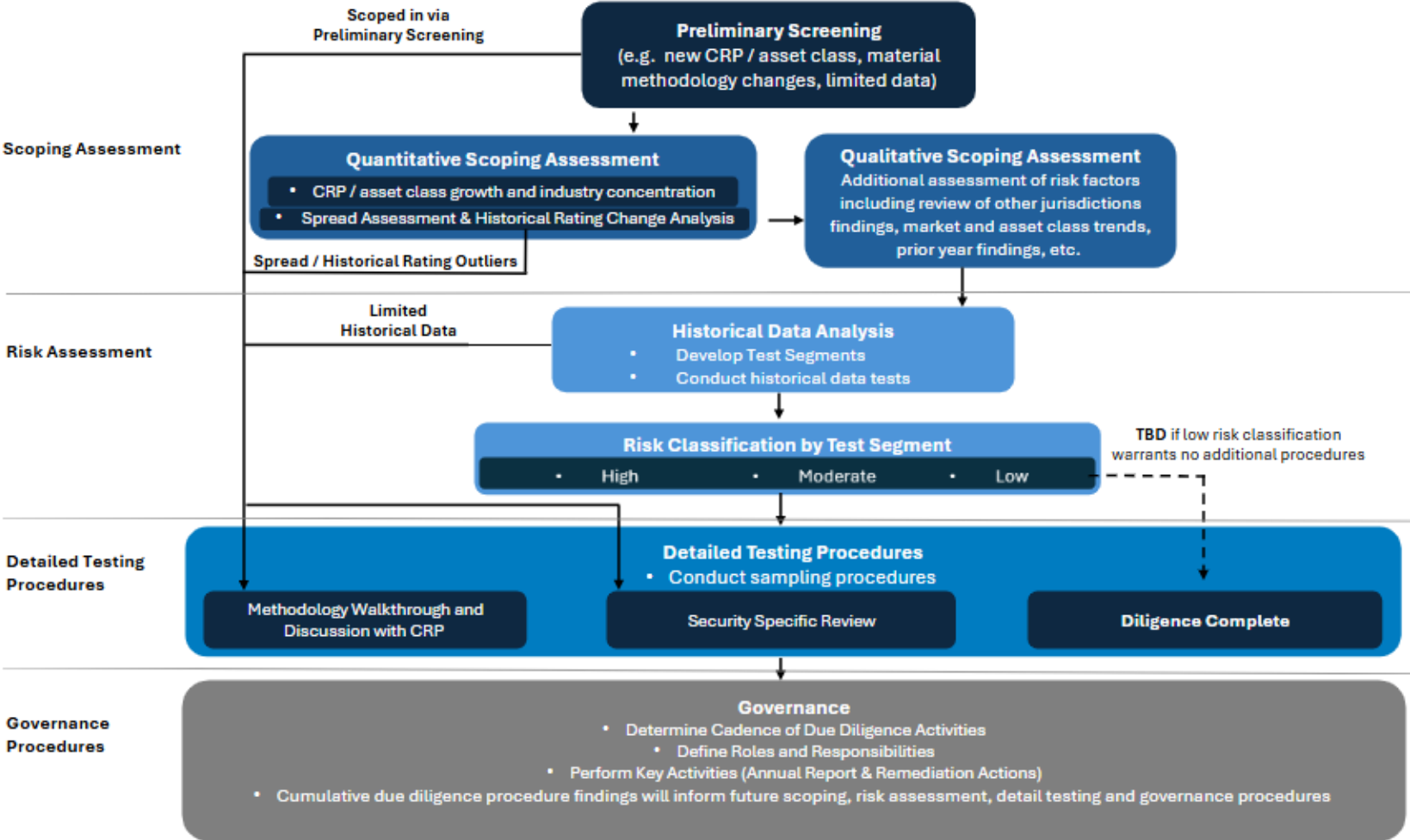
The CRP Due Diligence Framework establishes a structured, scalable, and pragmatic oversight process for the NAIC's reliance on CRP opinions in assigning NAIC Designations through the FE/PL processes. The framework is designed as an ongoing monitoring tool supporting the NAIC and its IA TF working groups. It aims to reduce blind reliance on CRP ratings, promote transparency into the equivalency of CRP ratings as applied to FE/PL securities, and provide disciplined methods for identifying and remediating inconsistencies in ratings outcomes.

The framework primarily applies to assets whose NAIC Designation is derived from a CRP rating, including rated, filing-exempt (FE), and private letter (PL) securities. Its due diligence activities may also inform NAIC consideration of CRP ratings used for other NAIC purposes (e.g., certain non-Schedule D bonds and Subsidiary, Controlled and Affiliated (SCA) and related party investments).

The framework does not assess insurer-specific exposure or opine on whether a given rating is "correct." Instead, it evaluates the risk characteristics of rating cohorts, the degree of alignment or divergence across CRPs, and whether continued reliance on those ratings remains appropriate for regulatory purposes. Please see below a visual illustration of the CRP Due Diligence Framework design, which is discussed in more detail in the following sections.

<sup>2</sup> The roles and responsibilities of the working groups under the Invested Asset (E) Task Force have been established as of the January 1, 2026, reorganization date and may be revised in the future.

PROPOSAL – For Discussion Purposes Only



## PROPOSAL – For Discussion Purposes Only

**Provisional Acceptance of CRPs**

Historically accepted CRPs will be provisionally accepted under this framework immediately following implementation, provided that: (i) the CRP continues to meet the acceptance criteria established in the P&P Manual; (ii) no materially adverse findings related to a specific CRP are identified in the most recently available SEC (or other applicable jurisdictional) examination reports as of the implementation date, and (iii) the CRP agrees to meet NAIC data call requirements to support the NAIC in the implementation and on-going maintenance of this framework.

Provisional acceptance will be granted for a period of 36 months, which can be extended by the CRP WG, from the implementation date and will be carried out in two phases, during which time all historically accepted CRPs must be assessed on both an organizational and methodological basis, as described below.

**Phase 1: Organizational Walkthroughs:**

During the Phase 1 following implementation, the NAIC will conduct organizational walkthroughs with each historically accepted CRP to assess organizational approach, processes, and governance related to the assignment of credit risk ratings.

**Phase 2: Methodology Walkthrough and Discussion with CRPs:**

Following Phase 1, the NAIC will conduct Methodology Walkthroughs and Discussions with CRPs as part of Phase 2 described in section 3 below focusing on the methodologies applied to FE / PL securities. These walkthroughs will leverage Appendix A – CRP Methodology Walkthrough Questionnaire.

The NAIC will determine the sequence of these reviews considering several factors including, but not limited to, relative proportion of FE and PL securities rating coverage provided by each CRP and the proportion of CRP rating coverage for asset classes determined to be higher growth for insurers or higher risk asset classes.

Following the completion of Phase 2, the NAIC will make a determination as to whether each CRP has satisfied the acceptance criteria. For CRPs that were determined not to satisfy the acceptance criteria, the NAIC will determine the appropriate actions in reference to Section 4.2.2 Remediation Actions of the framework.

## PROPOSAL – For Discussion Purposes Only

### **Guiding principles**

The NAIC CRP Due Diligence Framework is grounded in a set of guiding principles that ensure its design and execution remain pragmatic, scalable and transparent. These principles establish how due diligence activities are prioritized, governed and continuously improved to maintain the framework's relevance as the investment landscape evolves:

#### **1. Pragmatic approach**

The framework applies a practical approach to oversight, focusing on areas where the CRP ratings have the greatest potential impact on the insurance industry or an insurance company's solvency. Risk Assessment and Detailed Testing Procedures are aligned to industry exposure, data history and observed rating variability, ensuring that diligence activities are both effective and efficient.

#### **2. Scalable for growth and changing complexity of insurer balance sheets**

The framework is designed to scale with the continued growth and changing composition of insurer balance sheets. It accommodates the evolution of new asset classes, emerging risk types and changes in CRP methodologies, ensuring adaptability to shifting industry dynamics and regulatory priorities over time.

#### **3. Transparency**

All components of the framework – from data collection through scoping, risk assessment, testing, remediation and governance – are documented and transparent. This ensures that key framework design components, diligence activities, quantitative and qualitative results and remediation actions are communicated clearly, reinforcing confidence in both the process and its outcomes.

### **CRP Data Requirements for Implementation and On-going Operation of the CRP Due Diligence**

Many asset classes – particularly private or emerging asset classes may have limited historical data or inconsistent information, restricting the ability to perform meaningful quantitative testing. In addition, differences in data collection practices, as well as self-reported data by insurers can introduce the potential for misleading quantitative outcomes. The NAIC will require the cooperation of the CRPs to provide the requisite rating data and the NAIC will be responsible for maintaining the technological expertise and infrastructure to consume and standardize the data from various parties. If reliable and standardized data are not available, quantitative due diligence activities may not be possible. As a result, additional Detailed Testing procedures including security specific reviews and Methodology Walkthrough and Discussions with CRPs may be required as further detailed in section 3 below. As the NAIC gains more experience with the framework and to address data gaps and other issues that may arise, the NAIC may adjust this framework to utilize other tests and processes as appropriate.

## PROPOSAL – For Discussion Purposes Only

## 1. Scoping Assessment

| <b><u>Preliminary CRP Due Diligence Framework</u></b> |   |
|---|---|
| <b>1. Scoping Assessment</b>                          | <ul style="list-style-type: none"> <li>• Preliminary Screening</li> <li>• Quantitative Assessment</li> <li>• Qualitative Assessment</li> </ul>  |
| <b>2. Risk Assessment</b>                             | <ul style="list-style-type: none"> <li>• Historical Data Analysis</li> </ul>  |
| <b>3. Detailed Testing Procedures</b>                 | <ul style="list-style-type: none"> <li>• Methodology Walkthrough and Discussion with CRP</li> <li>• Security Specific Rating Review</li> <li>• Security Specific Rating Methodology Review</li> </ul> |
| <b>4. Governance Procedures</b>                       | <ul style="list-style-type: none"> <li>• Methodology Walkthrough and Discussion with CRP</li> </ul>   |

### 1.1 Scoping Assessment Overview

The Scoping Assessment procedures will be carried out by the NAIC. The scoping procedures include:

- **Preliminary scoping activities** - designed to target new CRPs, new asset classes, CRPs and asset classes with limited data or revisions to CRP asset class methodologies deemed significant.
- **Quantitative scoping activities** – designed to identify areas of elevated risk across CRPs, asset classes, or securities based on insurance industry exposure, growth trends, spread outliers, limited rating comparability and material changes in ratings or SVO or SSG designations over time.
- **Qualitative scoping activities** – designed to assess the reliability of CRP ratings using regulatory review findings and other qualitative risk factors, including rating methodologies, market conditions, and asset class trends, to determine whether additional targeted procedures are warranted.

### 1.2 Key Activities

#### 1.2.1 Preliminary Scoping Activities

The preliminary scoping activities are designed to assess either a) new NRSROs for acceptance as accepted CRPs by the NAIC, or b) instances where previously accepted CRPs have introduced a new and / or a materially changed methodology for a legacy or new asset class. This process will be carried out by conducting interviews with each CRP on an annual basis to understand if there are new assets classes or significant changes to methodologies. (Refer to *Appendix A – CRP Methodology Walkthrough Questionnaire*) This preliminary scoping process establishes a baseline

## PROPOSAL – For Discussion Purposes Only

understanding of the CRP’s methodologies, data history and analytical transparency before inclusion in the broader due diligence cycle.

In cases where either a) a new CRP or b) a new and / or a materially changed methodology for a legacy or new asset class is introduced, that CRP or asset class will automatically proceed to Section 3. Detailed Testing Procedures for targeted methodology walkthroughs and additional security specific testing procedures. Similarly, if a CRP or asset class has fewer than two years of historical data, it bypasses the Risk Assessment entirely and proceeds directly to Section 3. Detailed Testing Procedures, where additional testing can be performed based on available ratings information and supplemental CRP data.

### 1.2.2 Quantitative Scoping Activities

Quantitative scoping activities are made up of four component assessments, CRP Scoping, Asset Class Scoping, Spread Comparison, and Historical Rating Change Analysis. It is expected that the availability, volume, and quality of data will improve over time, potentially enabling a broader range of quantitative scoping activities to be performed.

#### 1.2.2.1 Quantitative Attribute Analysis

Quantitative scoping activities will first compare key attributes and metrics at the rating, CRP, and asset class level using a binary assessment against thresholds to determine whether each CRP or asset class segment is “In Scope” or “Out of Scope.”

For the CRP scoping assessment, activities include reviewing aggregate insurance sector balance sheet exposure by individual CRPs (as measured by Book Adjusted Carrying Value) to identify exposure risk and analyzing the growth of CRPs that provide ratings for FE/PL securities to detect rapid expansion relative to peer CRPs.

| Category | Attribute                   | Thresholds*  |
|----------|-----------------------------|--|
| CRP      | Insurance Industry Exposure | Low – Within 1 <sup>st</sup> quartile of distribution<br>High – Above 1 <sup>st</sup> quartile of distribution   |
|          | Growth                      | Low - Within 1 <sup>st</sup> quartile of year over year growth relative to peers<br>High – Above 1 <sup>st</sup> quartile of year over year growth relative to peers |

\* These thresholds are preliminary and will require further discussion and refinement

Similarly, the Asset Class Scoping activities include reviewing aggregate insurance sector balance sheet exposure by individual asset classes (as measured by book adjusted carrying value) to identify exposure risk and analyzing the growth of asset classes that were FE or PL rated to detect rapid expansion relative to other asset classes. Asset classes used for scoping purposes will be defined based primarily on insurer statutory filing categories, supplemented where appropriate by CRP methodology classifications and available external data sources (see Appendix B). The level of granularity applied will reflect data availability, recognizing that overly granular segmentation may limit the ability to draw meaningful conclusions. Asset class definitions may evolve over time as data quality and availability improve.

## PROPOSAL – For Discussion Purposes Only

| Category    | Attribute                   | Thresholds*  |
|-------------|-----------------------------|--|
| Asset Class | Insurance Industry Exposure | Low – Within 1 <sup>st</sup> quartile of distribution<br>High – Above 1 <sup>st</sup> quartile of distribution   |
|             | Growth                      | Low – Within 1 <sup>st</sup> quartile of year over year growth relative to peers<br>High – Above 1 <sup>st</sup> quartile of year over year growth relative to peers |

\* These thresholds are preliminary and will require further discussion and refinement

If *either* attribute for the CRP or Asset Class is deemed high risk, then the corresponding scoping segment will be “In Scope”. In instances where both the CRP and Asset Class attributes are deemed low risk, then the corresponding scoping segment will be “Out of Scope”.

#### *Illustrative 1.2.2 Quantitative Scoping Activities Outcome*

|                 |                             | Corporate Debt              |              |
|-----------------|-----------------------------|-----------------------------|--------------|
| Scoping Segment |                             | Insurance Industry Exposure | Growth       |
| Example CRP     | Insurance Industry Exposure | In Scope                    | In Scope     |
|                 | Growth                      | In Scope                    | Out of Scope |

Result: Example CRP, Corporate Debt: In Scope

#### **1.2.2.2 Spread Comparison**

The next quantitative scoping activity involves a spread comparison at the security level. In scope securities will be segmented by rating band. Origination spreads for the in scope securities will be compared to the overall spreads within a given rating band. The process will include:

- Identification of individual security outliers within the rating band. Thresholds to determine outliers will be monitored overtime but may include statistical measures such as standard deviations from the mean, quartile outliers or alternative approaches.
- Review of the asset classes that the individual outlier securities fall into to determine if additional asset class qualitative scoping assessment is warranted. Individual security outliers will be subject to Detailed Testing Procedures as outlined in section 3.

#### **1.2.2.3 Historical Rating Change Analysis**

The final quantitative scoping activity, historical rating change analysis, involves comparison of the following for in scope securities:

- a) Securities previously assigned a designation by the SVO or SSG
- b) Securities previously rated by one CRP now rated by another CRP

## PROPOSAL – For Discussion Purposes Only

These securities will be reviewed to determine whether there has been a material increase in rating from the prior rating or designation provider. Those securities that have a more than 3 sub notch improvement compared to the prior rating or designation will be subject to Detailed Testing Procedures as outlined in section 3 below.

### 1.2.3 Qualitative Scoping Activities

#### *1.2.3.1 SEC Assessment and Monitoring Over Rating Agencies*

Under the Credit Rating Agency Reform Act (2006) and Section 15E of the Exchange Act, the SEC (through the Office of Credit Ratings) examines each NRSRO annually. Importantly, the SEC cannot regulate the substance of ratings or methodologies, but it can enforce compliance with laws, rules, and governance standards.

In order to not duplicate efforts under the SEC regulatory oversight, the NAIC will utilize the outcomes of the SEC assessment to inform the Due Diligence Framework Scoping Assessment. SEC assessment findings that are published publicly are anonymized and not attributable to a specific CRP. The NAIC will therefore require each accepted CRP to agree to confidentially share their annual SEC assessment findings with the NAIC to inform the NAIC's Scoping Assessment. The NAIC will confidentially review the SEC assessment findings and will make a judgement as to whether the findings constitute a material risk to ratings of a given CRP. We expect that to constitute a material risk to ratings of a given CRP, the findings of the SEC assessment would need to be significant and that a conclusion that would impact scoping, within the CRP Due Diligence Framework, based on the findings of the report are likely to be rare.

At their discretion the NAIC may also utilize findings or data from other jurisdictions including but not limited to the Bermuda Monetary Authority (BMA), the European Securities and Markets Authority (ESMA), the Financial Conduct Authority (FCA) and the Japanese Financial Services Agencies (JFSA) to make a qualitative judgement about whether findings under other jurisdictions indicate material risk to ratings of a given CRP. If that determination is “yes”, that CRP will be assessed as “In Scope” across all asset classes.

#### *1.2.3.2 Additional Qualitative Assessment*

The CRP working group may also utilize additional qualitative assessments to inform their scoping conclusions for CRPs and asset classes. These qualitative factors include but are not limited to:

- CRP methodologies with significant qualitative approaches in their methodology (e.g. lack of specific factors, thresholds and defined weightings in publicly available methodology documentation)
- CRP methodologies with significant qualitative adjustments to quantitative approaches included as part of the overall rating methodology
- Market driven events or emerging asset class trends that can be reasonably expected to have an impact of risk in ratings by CRPs or for asset classes
- Results of a prior year Due Diligence Risk Assessment or Detailed Testing Procedures that indicate elevated risks of a given CRP or asset class
- Information from regulators or relevant NAIC groups, for example, findings from the Financial Analysis Working Group

PROPOSAL – For Discussion Purposes Only

### 1.3 Expected Outcome

The results from the CRP and Asset Class scoping activities are then combined to determine which CRP/asset class intersections, or “**Scoping Segments**”, should be prioritized for further analysis, based on cumulative results of the Scoping Assessment.

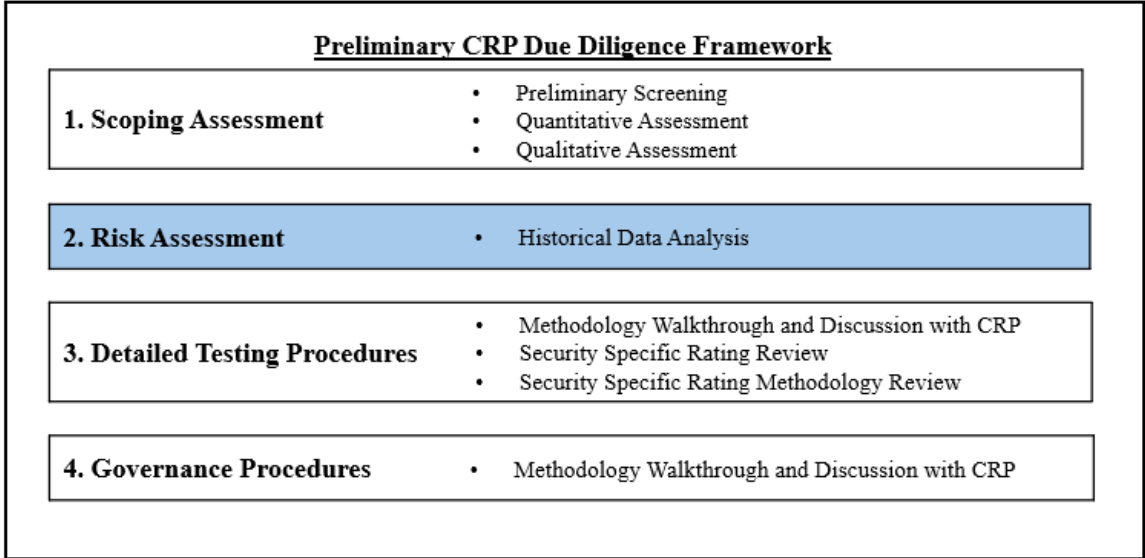
Final Scoping Activity Outcomes:

| Scoping Activity                      | Outcome Categories   | Logic   | Final Scoping Outcome   |
|---------------------------------------|--|---|---|
| 1.2.1 Preliminary Scoping Activities  | <ul style="list-style-type: none"> <li>- New CRP</li> <li>- New Asset Class</li> <li>- Material Methodology Change</li> <li>- CRP or asset class with &lt;2 years of historical data</li> </ul>  | If any condition is met, the Scoping Segment automatically qualifies for Section 3 Detailed Testing procedures  | Automatically “ <b>In Scope</b> ”   |
| 1.2.2 Quantitative Scoping Activities | <p>CRP Scoping:</p> <ul style="list-style-type: none"> <li>• Insurance Industry Exposure (High/Low)</li> <li>• Growth (High/Low)</li> </ul> <p>Asset Class Scoping:</p> <ul style="list-style-type: none"> <li>• Insurance Industry Exposure (High/Low)</li> <li>• Growth (High/Low)</li> </ul> <p>Spread Comparison</p> <ul style="list-style-type: none"> <li>• Outlier</li> <li>• Non-outlier</li> </ul> <p>Historical Rating Change Analysis</p> | <p>A scoping segment is “In Scope” if either the CRP or Asset Class has a high risk outcome in any attribute (Insurance Industry Exposure or Growth).</p> <p>If all attributes for both CRP and Asset Class are Low Risk, then segment is “Out of Scope.”</p> <p>A security specific origination spread is determined to be an outlier within a specific rating band if the spread is materially higher or lower than the population average.</p> <p>Comparison of an individual security rating or SVO or SSG designation as the rating or designation provider has changed to determine when material improvements have occurred with the change in provider.</p> | <p>“<b>In Scope</b>” if any attribute is high risk</p> <p>“<b>Out of Scope</b>” only if all four attributes are low risk</p> <p>“<b>Outliers</b>” if the spread difference is above tolerance threshold, securities bypass risk assessment and are subject to Detailed Testing Procedures</p> <p>“<b>Material Rating Change</b>” Individual securities with a rating change of 3 rating sub-categories are subject to Detailed Testing Procedures</p> |
| 1.2.3 Qualitative Scoping Activities  | <ul style="list-style-type: none"> <li>-SEC or other jurisdiction findings indicate material risk to ratings of a given CRP</li> <li>-Additional qualitative assessment</li> </ul>   | <p>If NAIC review of SEC findings or findings across other jurisdictions indicate material risk, the entire CRP is deemed “In Scope,” across all asset classes, irrespective of preliminary or quantitative results.</p> <p>If additional qualitative assessment indicates risk to a specific CRP or asset class the entire</p>   | <p>SEC or other jurisdiction findings: CRP “<b>In Scope</b>” across all asset classes</p> <p>Additional qualitative assessment: entire CRP, asset class for a given CRP or entire</p>   |

## PROPOSAL – For Discussion Purposes Only

|  |  |  |  |
|--|--|--|--|
|  |  | CRP, specific asset classes for a given CRP, or an entire asset class may be deemed “In Scope” | asset class determined to be <b>“In Scope”</b> |
|--|--|--|--|

## 2. Risk Assessment



### 2.1 Risk Assessment Overview

In the Risk Assessment, quantitative methods are used to facilitate the assessment of the equivalency, potential inappropriateness, and consistency, of the CRP ratings. The goal of these procedures is to assess the CRP equivalency of ratings that is implied by the CRP rating to NAIC designation mapping (the “NAIC Translation Matrix”). Using quantitative methods designed to accept or reject either the hypothesis of equivalency or non-equivalency of ratings across comparable Test Segments allows the NAIC to focus its detailed testing efforts on Test Segments of securities that exhibit the potential for systematic disagreement across the CRPs. Systematic disagreement across comparable Test Segments of securities implies that the CRP ratings that are mapped to analogous NAIC designations may not be equivalent. The Risk Assessment functions as the analytical bridge between Scoping (what to examine) and Detailed Testing Procedures (how to examine), enabling the NAIC to apply data-driven rigor in determining which CRP-ratings within comparable Test Segments of securities present elevated risk.

By assessing rating equivalence, Risk Assessment provides empirical evidence to support supervisory decisions, enhance transparency, and ensure proportional regulatory focus. The goal is to establish a quantitative foundation for risk tiering that can be used to define which Test Segments warrant further testing (and the extent of that testing).

Using historical CRP and asset class data, NAIC applies time-series, cross-sectional, and pooled-time-series descriptive and statistical analyses to evaluate rating performance across time and between rating providers. (Refer to *Appendix B - Preliminary Asset Class Segmentation*)

## PROPOSAL – For Discussion Purposes Only

The outcome of this process includes:

- A quantitative assessment of rating alignment, across CRPs for Test Segments (as defined below) of securities.
- Identifying potential systematic differences that may indicate misalignment across CRPs within certain Test Segments.
- Classification of Test Segments (as defined below) into High, Moderate, or Low Risk, setting thresholds for further diligence procedures.

### 2.2 Defining the Test Segments for Quantitative Risk Assessment

Defining the appropriate segments for quantitative testing (the “Test Segments”) is a foundational part of the Risk Assessment. While an idealized set of Test Segments can be defined for the purposes of developing the Risk Assessment framework, in practice, there are limitations due to a) the availability of certain data attributes, b) the reliability of certain data attributes, c) the limited history associated with certain data, and d) the number of available observations available to make meaningful statistical inferences.

For the purposes of this CRP Due Diligence Framework, the data used to perform the quantitative risk assessment procedures is limited to a) data supplied by the rating agencies to the NAIC, b) data reported to the NAIC by insurance companies, and c) data the NAIC licenses. Due to limitations in the available data, it may be necessary to segment the data in a way that produces larger Test Segments than would be ideal in a more refined segmentation analysis (e.g. more granular homogenous Test Segments). Once the Test Segments are determined, if those Test Segments result in population sizes that do not meet minimum viable sizes to inform statistically significant findings, the Test Segments may be grouped into larger populations as needed. As a result, this may impact the level of detailed testing that is performed. Additionally, it may be necessary to extrapolate results across Test Segments (e.g. applying findings from jointly rated securities to comparable single-rated securities).

The table below presents an illustrative, idealized set of fields considered when defining Test Segments for equivalency testing. Certain idiosyncratic characteristics of the securities (such as borrower financial information) are excluded, as obtaining this data from each CRP, for each security, over a meaningful time period is not practical or feasible. Augmentation of the data with publicly available and vendor data sources can and should be considered to the extent that they are practical, facilitate the refinement of the Test Segments, and expand the population of securities available for quantitative testing.

## PROPOSAL – For Discussion Purposes Only

| Segmentation                                  | Description   | Potential Limitations  |
|---|---|--|
| Public / Private                              | Indicates whether a rating is publicly available (public) or not publicly disclosed (private)   | The population of privately rated securities with ratings from multiple CRPs is limited.   |
| Asset Class or Security Type                  | e.g. Corporates, CLOs, etc.   | Granularity is limited in the available data, particularly amongst privately-rated securities. Self-reported data can be inconsistent across institutions and may be subjective in some cases. |
| Industry                                      | e.g. Financial, Technology, etc.  | Self-reported data can be inconsistent across institutions and may be subjective in some cases. When including Industry, certain Test Segments may have limited observations.                  |
| Investment Grade (IG) vs Non-Investment Grade | Test Segments may consider the bifurcation of securities into investment grade and non-investment grade tiers for analysis. Non-IG ratings may exhibit more ratings volatility and/or a higher risk of non-equivalency across CRPs. | Further segmentation into IG vs Non-IG ratings could further reduce the observations available for testing purposes.   |
| Jointly Rated / Single Rated                  | Test Segments can be divided into groupings with one CRP rating vs multiple CRP ratings   | There are a significant amount of single rated securities, which limits the available tests that can be performed  |
| CRP   | The rating agency that provided a given credit score.   | The time series associated with certain credit rating providers in certain Test Segments may be limited  |

### 2.3 Key Activities

The Key Activities table below presents the following:

- Activity** – A high-level overview of the types of statistical tests that would be conducted to evaluate rating equivalence across predefined Test Segments is provided below. The feasibility of each activity will depend on data availability. It is expected that the availability, volume, and quality of data will improve over time, enabling a broader range of activities to be performed. Upon adoption of the framework, testing may be limited to analyses that can be conducted on jointly rated securities. As indicated above, as the NAIC gains more experience with the framework, it may determine that it needs to utilize other tests and processes it deems appropriate to determine the reasonableness of a CRP's ratings.
- Data Requirements** – A high level description of the data required from each CRP to perform the activity

## PROPOSAL – For Discussion Purposes Only

- **Example Tests** – Examples of descriptive and/or statistical tests designed to test CRP equivalency/Non-equivalency across each Test Segment. The universe of tests (descriptive or statistical) within each “Activity” area will be refined and is a function of the available data within each Test Segment. Given the data limitations, not all of the example tests will be utilized in the Risk Assessment of the framework.
- **Illustrative Thresholds** – Hypothetical thresholds related to the Example Tests that can be used to classify the Test Segments into risk cohorts (e.g. low, moderate, high) and ultimately determine the level of detailed testing that may be required. The thresholds presented below are illustrative statistical thresholds for consideration and will ultimately be refined.
- **Expected Outcomes** – The potential outcomes of the tests that would allow for the classification of each cohort into their respective risk buckets (low, moderate, high)

## PROPOSAL – For Discussion Purposes Only

| Activity <sup>3</sup>   |  | Data Requirements <sup>4</sup>   | Example Tests  | Illustrative Thresholds <sup>5</sup>  |
|---|--|--|--|---|
| Event-Based and Predictive Equivalence Tests                  | 1) Identification of deviations between CRP ratings and realized default frequency or losses.<br>2) Assessment of whether CRP ratings rank-order risk appropriately. | Historical ratings and realized default data (binary outcomes) over time.                        | - ROC & AUC analysis;<br>- CAP / Accuracy Ratio  | - AUC > 0.7 = good discrimination.<br>- AR/CAP > 0.6 = strong predictive power.   |
| Descriptive and Distributional Tests                          | Compare rating distributions and migration patterns across CRPs to test alignment in rating philosophy (equivalency) and stability.                                  | Long-term historical ratings from multiple CRPs and relevant rating change/review dates.         | - Comparison of Transition matrices and Ratings histograms;<br>- Chi-square test<br>- Kolmogorov–Smirnov (KS) test;  | - KS test: $p \geq 0.05 \rightarrow$ no significant difference.<br>- Chi-square: $p \geq 0.05 \rightarrow$ independent distributions.<br>- Kullback-Leibler (KL) divergence ( $> .05$ higher risk of divergence). |
| Correlation and Association Tests of jointly rated securities | Detect divergence or systemic biases in jointly rated securities.  | Matched security ratings from multiple CRPs.   | - Spearman's $\rho$ ;<br>- Kendall's $\tau$ ;<br>- Cohen's $\kappa$ ;<br>- Concordance Correlation Coefficient (CCC) | - Spearman's $\rho$ / Kendall's $\tau > 0.8 =$ strong agreement.<br>- Cohen's $\kappa > 0.8 =$ high; $0.6-0.8 =$ moderate; $< 0.6 =$ weak.<br>- CCC $\approx 1 \rightarrow$ high equivalence.                     |
| Time-Series Equivalence Tests                                 | Identifying equivalency in ratings over time (changes in ratings)  | Time-series issuer ratings from multiple CRPs that includes specific rating review/change dates. | - Cointegration (Engle–Granger, Johansen);<br>- Cross-correlation functions;<br>-                                    | - Cointegration $\rightarrow$ shared long-run equilibrium.<br>- CCF: peaks near lag 0 $\rightarrow$ no leader/laggard; lag $> 0 \rightarrow$ leader/laggard exists.<br>-  |

Benchmark Comparison Test compare spreads at origination to ratings as of origination across the Test Segment to assess outliers spread at origination and benchmark spreads by Test Segment

Test Segments that lack sufficient data or reliable history will initially default to High Risk status and proceed to qualitative review or Detailed Testing.

<sup>3</sup> Initial testing may be limited to tests of jointly rated securities (“Correlation and Association Tests of jointly rated securities”)

<sup>4</sup> The use of particular activities / tests may depend on the nature and scope of the data received from CRPs.

<sup>5</sup> Concluded thresholds and resulting Risk Assessment outcomes to be finalized once additional data analysis is performed.

## PROPOSAL – For Discussion Purposes Only

## 2.4 Expected Outcome

The Risk Assessment should result in a risk classification for each Test Segment that is based on tests that result in quantifiable outcomes with pre-defined thresholds.

It provides:

- A clear High / Moderate / Low risk rating, by Test Segment.
- Identification of cohorts requiring detailed testing or additional qualitative review.
- Analytical insights into CRP rating behavior, performance alignment, and systemic differences.
- A composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification.

The expected outcome of the Risk Assessment is to ensure that subsequent due diligence activities are proportionate to the level of risk, forming a cornerstone for the NAIC’s risk-based oversight of CRP reliance.

### *Illustrative 2.4.1 Risk Assessment Activities Outcome*

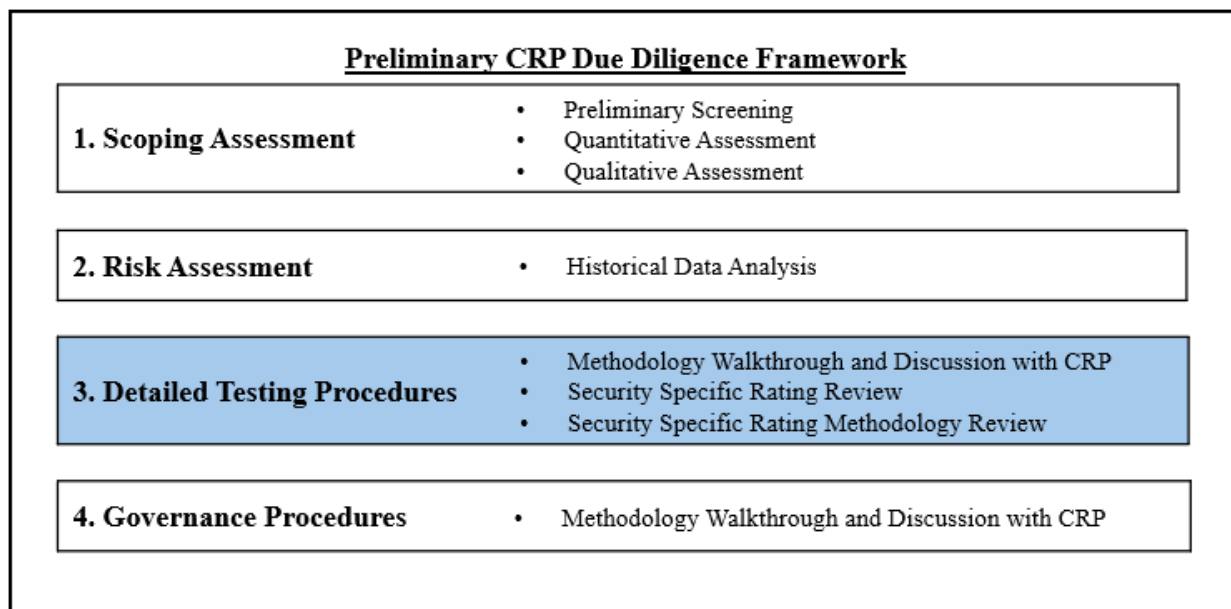
*For a hypothetical Test Segment, the risk assessment procedures will categorize each security and CRP combination within that Test Segment as high, moderate, or low risk, as illustrated in the table below. In the case below, CRP X ratings are statistically different from the other CRP ratings in the example Test Segment, signaling that CRP X ratings may be systematically not equivalent to the other CRP ratings.*

| <b>Correlation and Association Test of Jointly Rated Securities (Example Results by Illustrative Test Segment)</b> |                    |                      |                  |                      |  |                |
|--|--------------------|----------------------|------------------|----------------------|--|----------------|
| <b>Public Private</b>  | <b>Asset Class</b> | <b>Industry</b>      | <b>IG/Non-IG</b> | <b>Jointly Rated</b> | <b>Test Result</b>                           | <b>Outcome</b> |
| Public   | Corporate          | Drilling Oil and Gas | Non-IG           | Y                    | CRP X > Threshold                            | High           |
| Public   | Corporate          | Drilling Oil and Gas | Non-IG           | Y                    | CRP Y < Threshold                            | Low            |
| Public   | Corporate          | Drilling Oil and Gas | Non-IG           | Y                    | Low Threshold<br>< CRP Z <<br>High Threshold | Moderate       |

*The Asset Class “Corporate” being a security issued by an operating entity consistent with the Statement of Statutory Accounting Principles (SSAP) No. 26 – Bond definition for an issuer obligation.*

## PROPOSAL – For Discussion Purposes Only

### 3. Detailed Testing Procedures



#### 3.1 Detailed Testing Procedures Overview

Detailed Testing Procedures due diligence activities are performed when Scoping and Risk Assessment indicate elevated risk. Detailed testing includes methodology walkthroughs and security specific rating reviews that focus on verifying the reasonableness and consistency of CRP ratings. Its primary purposes are to determine future on-going due diligence activities and potential remediation actions, ensuring that the reliance on CRPs and translation matrix outcomes are governed by sufficient NAIC oversight and are well substantiated.

##### 3.1.1 Sampling Approach

Sampling for Detailed Testing Procedures will be directly informed by the risk classifications of High Moderate or Low established during the Risk Assessment.

The sampling methodology will emphasize that higher risk Test Segments require larger sample sizes and lower tolerable unreasonable results in Detail Testing Procedure results. While final sample sizes are still to be determined, the approach may leverage statistical or judgmental (nonstatistical) sampling techniques depending on the characteristics of Test Segments and data availability. Risk-based sampling is expected to be informed by both the risk classifications (High, Moderate and Low) in the current year and the outcomes of the prior year Detailed Testing Procedures (reasonable vs. unreasonable and Translation Matrix equivalency findings). Test Segments from the prior year where Detailed Testing Procedures determined results were unreasonable or Translation Matrix equivalency was at risk for a CRP or asset class, will be expected to be subject to increased sampling.

Sampling is intended to produce findings that can inform views for each Test Segment.

## PROPOSAL – For Discussion Purposes Only

### 3.2 Key Activities

The Detailed Testing Procedures outlined below will be conducted by the NAIC in coordination with the CRPs. These procedures are designed to evaluate consistency of CRPs. All data requests, follow-up analyses, and methodological discussions related to these procedures will be managed directly between the CRP WG and the respective CRPs.

#### 3.2.1 Detailed Testing Procedures

- (a) **Methodology Walkthrough and Discussion with CRP** — Conduct technical walkthroughs to understand asset class scope for the methodology, methodology design, input assumptions, and quantitative and qualitative analysis conducted by a CRP for given asset class(es) to understand details of the CRP methodology and determine appropriate level of subsequent Security-Specific Review. (See *Appendix A – CRP Methodology Walkthrough Questionnaire*) for example questionnaire for guiding methodology walk-through with CRPs.)
- (b) **Security-Specific Rating Review:** Perform an independent rating analysis.
- a. NAIC to perform rating analysis, leveraging an acceptable methodology (as outlined in the P&P Manual) and an independent approach, to assess the reasonableness of the CRP rating provided.
  - b. When performing an independent rating analysis, the NAIC will consider the most recent available public rating and any changes in rating from the latest insurer filing. When performing an independent rating analysis for a private security, the NAIC will request the most recent private rating letter from the CRP to perform the analysis.
  - c. **Materiality:** When performing ratings review, apply the NAIC’s three sub-notch materiality tolerance—as defined under the Ratings Challenge Authority in the P&P Manual—as the acceptable deviation threshold between independent and CRP-assigned ratings. Deviations beyond this tolerance will be flagged for escalation.
- (c) **Security-Specific Rating Methodology Review:** Perform an independent rating methodology review for a sample security that includes the reasonableness of the methodology selected by the CRP, accuracy of inputs, reasonableness of assumptions, and model accuracy to assess for reasonableness of the CRP rating provided for the sample security.

#### 3.2.2 Detailed Testing Procedures Application

##### 3.2.2.1 Test Segments in Scope based on 1.2.1 Scoping Activities

When Scoping Activities, as described above in section 1.2. indicate “In Scope”, Detailed Testing Procedures will include a Methodology Walkthrough and Discussion with CRP as described above. The results of those procedures will determine what level of additional security specific Detailed Testing are appropriate, if any.

##### 3.2.2.2 Test Segments In Scope and Categorized based on 2. Risk Assessment Procedures

Following the Scoping Assessment determination of “In Scope” as described in section 1 above, the nature and extent of Detailed Testing Procedures will be determined based on the outcome of the Risk Assessment for each identified Test Segment as follows:

- Low risk Test Segments are expected to be subject to Methodology Walkthrough and Discussions with CRPs with no additional security specific Detailed Testing

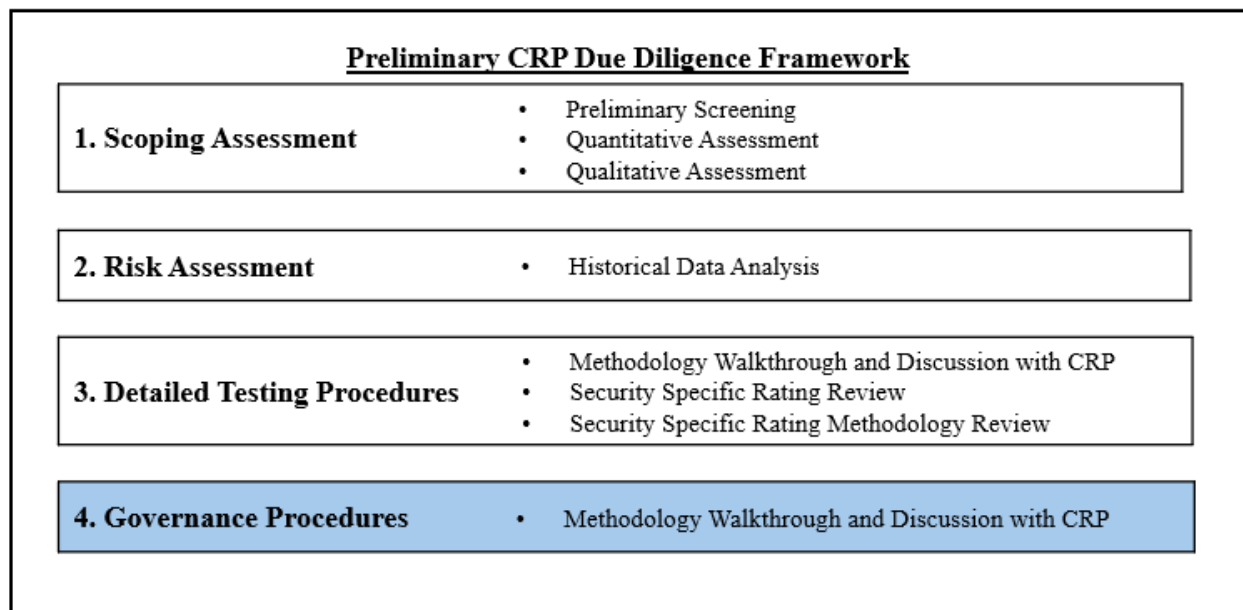
## PROPOSAL – For Discussion Purposes Only

- Moderate risk Test Segments are expected to be subject to moderate security specific Detailed Testing
- High risk Test Segments are expected to be subject to the highest level of security specific Detailed Testing

### 3.3 Expected Outcome

Detailed Testing Procedures develop an independent and well-documented view on the reasonableness of CRP asset class ratings to inform views on translation matrix equivalency or risk of a given CRP or asset class.

## 4. , Governance Procedures



### 4.1 Governance Overview

Governance ensures that the CRP Due Diligence Framework activities are successfully implemented, sustained and evolve as needed overtime via appropriate review processes and feedback loops. A well-defined governance structure will facilitate needed transparency and provide clearly defined roles and responsibilities for both NAIC stakeholders and CRPs. Lastly, a robust governance structure enables timely and effective risk mitigation via remediation actions, when appropriate.

#### 4.1.1 CRP Due Diligence Framework Activities

The below outlines the cadence of the CRP Due Diligence Framework procedures, beginning with data collection, followed by risk assessment and quantitative testing, and culminating with detailed testing and governance procedures.

## PROPOSAL – For Discussion Purposes Only

|  |
|--|
| <b>Activity</b>  |
| <b>Scoping Assessment</b>                                    |
| Data Receipt from InvAWG and IDA WGs                         |
| Quantitative and Qualitative Scoping Analysis                |
| <b>Risk Assessment</b>                                       |
| Defining Test Segments                                       |
| Conducting Quantitative Tests                                |
| Risk Classification Results                                  |
| <b>Detailed Testing Procedures</b>                           |
| CRP Methodology Walkthrough and Discussion with CRPs         |
| Sampling Procedures  |
| Security Specific Sample Reviews                             |
| <b>Governance Procedures</b>                                 |
| Produce Annual Report Summarizing CRP Due Diligence Findings |
| Review and Approval of Remediation Actions                   |
| Updates and Enhancements to CRP Due Diligence Framework      |

#### 4.1.2 Roles and Responsibilities<sup>6</sup>

The overall interaction model among the working groups that make up the IA TF in support of the CRP Due Diligence Framework will be defined in their annual charges and posted on their respective web pages on the NAIC's website.

The CRP WG is currently charged with primary responsibility for the oversight and execution of the CRP Due Diligence Framework activities including coordination with CRPs to obtain necessary data to execute the due diligence activities. The application of the framework—including data collection, analysis, testing activities, and preparation of materials – may be performed by a combination of CRP WG regulators, NAIC staff overseen by the CRP WG, and may leverage additional NAIC staff resources as appropriate.

On an annual basis the CRP WG will prepare a report to be presented to the IA TF that summarizes key findings, observed trends and adopted remediation actions as further detailed below in section 4.2.1 Annual Report, for the IA TF's consideration. The CRP WG will review and maintain key design decisions (e.g. thresholds, quantitative tests) that make up the CRP Due Diligence Framework and adjust the design as needed on an on-going basis.

---

<sup>6</sup> The roles and responsibilities of the working groups under the Invested Asset (E) Task Force have been established as of the January 1, 2026, reorganization date and may be revised in the future.

## PROPOSAL – For Discussion Purposes Only

The IA TF will review the annual report produced by the CRP WG. The CRP WG’s parent committees (IA TF, E Committee, Plenary) are responsible for final approval of all Tier 2 remediation actions, as defined below, to maintain independence and impartiality. The CRP WG shall have authority as it relates to Tier 1 remediation actions, as defined below.

### 4.2 Key Activities

#### 4.2.1 Annual Report

The CRP WG Annual Report may include, but is not limited to:

- **Scoping Assessment:** Summary of observations and trends: providing insights into– new or developing asset classes and CRP methodologies, insurer CRP and asset class insurance industry exposure and growth and SEC review findings by CRP.
- **Risk Assessment:** Identification and risk classification of Test Segment results to determine in scope population for detailed testing activities – a composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification that results in analytical insights into CRP rating reasonableness and equivalency.
- **Detailed Testing Procedures:** Summary of findings and trends observed through methodology walkthroughs and detailed security specific reviews and the implications on the translation matrix equivalency or risk of a given CRP or asset class.
- **Governance Procedures:**
  - Recommended remediation actions: providing remediation actions for approval based on the findings of the preceding CRP Due Diligence Framework procedures
  - Forward-looking Adjustments: providing insights into how findings impact future year activities and recommend changes (e.g. procedures, thresholds, etc.)

Aspects of the CRP WG Annual Report may include confidential information that will be provided to the IATF in a regulator-only meeting in accordance with the NAIC’s Open Meetings Policy on such issues.

#### 4.2.2 Remediation Actions

Remediation actions represent the critical enforcement mechanism within the NAIC CRP Due Diligence Framework - translating analytical findings into actionable outcomes. They ensure that any identified deficiencies, methodological inconsistencies, or rating outcome deviations are addressed promptly and proportionately. The goal of remediation actions is to address inconsistencies in rating practices or translation-matrix outcomes.

The application of remediation actions will reflect both the severity and persistence of issues observed during the Risk Assessment and Detailed Testing Procedures. Remediation may range from heightened monitoring and data clarification requests to more consequential interventions, such as translation matrix adjustments or removal of a CRP or asset class from FE/PL eligibility, or removal of ratings assigned under a specific CRP methodology. Possible remediation actions may include but are not limited to:

#### Tier1: Remediation Actions:

## PROPOSAL – For Discussion Purposes Only

1. **Watchlist / Enhanced Monitoring** – applied in cases for minor deviations or data limitations where further observation is warranted before taking further remediation actions.
2. **Additional Detailed Testing Scope** – additional testing assigned to specific CRPs or asset classes where data is limited or preliminary findings indicate emerging risk or inconsistency or lack of comparability.

Tier 2: Remediation Actions:

1. **Require more than one Rating** – In the event rating inconsistencies are identified and persist, the NAIC may require additional ratings to support PL and or FE submission(s).
2. **Translation Matrix Adjustment** – implemented when systemic rating inconsistencies are observed for a given CRP or asset class, indicating misalignment between CRP ratings and NAIC Designations
3. **Removal of Filing Exempt Status for an Asset Class** – triggered by repeated inconsistencies in CRP ratings for a given asset class.
4. **CRP De-admittance** – considered in cases of persistent inconsistencies with rating methodology or outcomes.

For CRP WG remediation action determinations that are materially adverse to a CRP, a confidential and detailed explanation of the decision shall be provided to the subject CRP, prior to any adverse decision being made public. The CRP shall be able to present its opposition to the CRP WG determinations in a regulator-only session, including explanatory context and any new materials. Recommended remediation actions, if any, by the CRP WG will then be subject to the CRP WG's parent committees (IA TF, E Committee, Plenary), as described above.

Once the remediation action is finalized, a defined notice period – generally expected to range from three to six months, depending on the materiality of impacted filings – may be provided prior to implementation to mitigate large market impact. This remediation adjusting period is intended to support timely implementation.

CRPs subject to de-admittance may be permitted to re-apply for CRP status at a later date, subject to applicable acceptance criteria.

All public communications related to CRP WG remediation action determinations shall be specific enough to relay the primary rationale for the decision while remaining sufficiently general to protect confidential information.

### 4.3 Expected Outcome

Governance and remediation activities are designed to support a transparent oversight framework that ensures due diligence findings translate into timely, transparent, and proportionate actions.

Expected outcomes include:

- Structured, scalable and pragmatic oversight to support the NAIC's reliance on CRP provided ratings including a process for identifying and escalating rating inconsistencies.

PROPOSAL – For Discussion Purposes Only

## Appendices

### Appendix A – CRP Methodology Walkthrough Questionnaire

#### Methodology Walkthrough Questionnaire

This illustrative questionnaire is designed to guide the NAIC’s walkthrough with CRPs during detailed testing. It is understood that certain information about CRP methodologies is available publicly. The purpose of this questionnaire is to facilitate discussion between the CRPs and NAIC and to allow the NAIC an opportunity to ask questions about publicly available methodologies and gain a deeper understanding of CRP approaches.

The end objective is to validate that CRP methodologies used in rating securities are transparent, consistently applied, and conceptually aligned for purposes of determining NAIC designations based on the Translation Matrix.

#### 1. *Scope and Applicability*

- What asset classes does this methodology cover?
- When was the methodology last materially updated or recalibrated?
- What triggers a formal methodology review or updates internally (e.g., market change, data availability, regulatory feedback)?

#### 2. *Governance Oversight*

- Describe the internal governance process for methodology approval and change control.
- Which committees or governing bodies are responsible for approving updates?
- How are changes communicated to external stakeholders (e.g. issuers, investors, and regulators)?

#### A) Analytical Framework and Inputs

#### 3. *Model Structure*

- Please discuss the core model architecture (e.g., scorecard, regression, cash flow simulation, expert judgment).
- What are the primary input assumptions and drivers of rating outcomes (e.g., leverage, coverage, collateral type, tranche structure)?
- How are qualitative factors (management quality, governance, ESG considerations) incorporated or weighted?

#### 4. *Data and Assumptions*

- What data is used to determine the rating methodology approach? How is it sourced, how frequently is it updated and how is it reviewed or validated?

#### 5. *Sensitivity and Backtesting*

- How does the CRP validate the predictive performance of the model?
- Provide results from the most recent backtesting, calibration, or validation cycle.
- Describe how stress testing or scenario analysis is incorporated to assess model robustness.

## PROPOSAL – For Discussion Purposes Only

**B) Rating Process and Application***6. Analyst Judgment and Overrides*

- Under what conditions may an analyst override a model outcome?
- How are overrides documented, reviewed, and approved internally?
- What percentage of ratings historically involved an override?

*7. Consistency and Transparency*

- How does the CRP ensure consistency in ratings across analysts, geographies, or time periods?
- Are internal audits, peer reviews, internal challenge, etc. conducted on rating application consistency?

**C) Performance Monitoring and Review***8. Ongoing Monitoring*

- How frequently is rating performance monitored against realized outcomes (defaults, transitions)?
- What performance metrics are tracked (e.g., accuracy ratio, Gini, drift metrics)?
- If applicable, how are outcomes used to refine methodologies?

*9. Weakness Identification and Remediation*

- How are methodology weaknesses or data gaps identified internally?
- What internal escalation or remediation protocols exist?

**D) NAIC-Specific Alignment and Transparency***10. Data Provision and Accessibility*

- Can you meet the data requirements requested by the NAIC to support on-going due diligence on a go forward basis? Identify any confidentiality or intellectual property constraints that may limit full transparency.

**E) Summary and Supporting Materials***11. Supporting Documentation*

- Attach the most recent methodology document, and evidence of internal review and challenge, as available.
- Feedback from SEC Office of Credit Ratings examinations.

*12. Attestation*

- Confirm that the responses provided herein are complete and accurate to the best of the CRP's knowledge.
- Provide name, title, and contact information for the responsible officer.

## PROPOSAL – For Discussion Purposes Only

**Appendix B - Preliminary Asset Class Segmentation**

The following section outlines potential approaches for identifying the asset class of individual securities for purposes of segmentation. The approaches are not mutually exclusive and may be applied on a standalone basis or in combination, depending on data availability / quality. Collectively, these options are intended to provide a pragmatic basis for consistent asset class identification across insurer holdings while allowing flexibility in implementation.

1. **Option 1** - Leverage existing Insurer Statutory Filingsa. *Pre-2024 Data*

## i. Current data segmentation

| <b>Current Data Segmentation</b>    |
|-------------------------------------|
| Commercial Paper                    |
| Corporate Bonds / Notes             |
| Credit Facilities                   |
| Term Loans                          |
| Depository Receipts                 |
| Municipal Debt                      |
| Sovereign or Government Agency Debt |
| MBS*                                |
| Structured Products                 |
| Syndicated Loan Deals               |

\*-Limitation – Current state information is not detailed enough to segment out of scope RMBS and CMBS that are not filing exempt.

b. *Post-2025*

## i. Enhanced Insurer Schedule D1.1 (ICOs) and D1.2 (ABS) Filing Segmentation

| <b>D1.1 (ICOs)</b>   | <b>D1.2 (ABS)</b>  |
|--|--|
| U.S. Government Obligations (Exempt from RBC)                      | Agency Residential Mortgage-Backed Securities - Guaranteed (Exempt from RBC)               |
| Other U.S. Government Securities Obligations (Not Exempt from RBC) | Agency Commercial Mortgage-Backed Securities - Guaranteed (Exempt from RBC)                |
| Non-U.S. Sovereign Jurisdiction Securities                         | Agency Residential Mortgage-Backed Securities - Not/Partially Guaranteed (Exempt from RBC) |
| Municipal Bonds - General Obligations (Direct and Guaranteed)      | Agency Commercial Mortgage-Backed Securities - Not/Partially Guaranteed (Exempt from RBC)  |
| Municipal Bonds - Special Revenue                                  | Non-Agency Residential Mortgage-Backed Securities (Unaffiliated)                           |
| Project Finance Bonds Issued by Operating Entities (Unaffiliated)  | Non-Agency Residential Mortgage-Backed Securities (Affiliated)                             |
| Project Finance Bonds Issued by Operating Entities (Affiliated)    | Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated)                            |
| Corporate Bonds (Unaffiliated)                                     | Non-Agency Commercial Mortgage-Backed Securities (Affiliated)                              |
| Corporate Bonds (Affiliated)                                       | Non-Agency - CLOs/CBOs/CDOs (Unaffiliated)   |
| Mandatory Convertible Bonds (Unaffiliated)                         | Non-Agency - CLOs/CBOs/CDOs (Affiliated)   |
| Mandatory Convertible Bonds (Affiliated)                           | Other Financial Asset-Backed Securities - Self-Liquidating (Unaffiliated)                  |

## PROPOSAL – For Discussion Purposes Only

|   |  |
|---|--|
| Single Entity Backed Obligations (Unaffiliated)                                   | Other Financial Asset-Backed Securities - Self-Liquidating (Affiliated)          |
| Single Entity Backed Obligations (Affiliated)                                     | Subtotals - Financial Asset-Backed Securities - Self Liquidating                 |
| SVO-Identified Bond Exchange Traded Funds - Fair Value                            | Equity Backed Securities (Unaffiliated)  |
| SVO-Identified Bond Exchange Traded Funds - Systematic Value                      | Equity Backed Securities (Affiliated)  |
| Bonds Issued by Funds Representing Operating Entities (Unaffiliated)              | Other Financial Asset Backed Securities – Not Self-Liquidating (Unaffiliated)    |
| Bonds Issued by Funds Representing Operating Entities (Affiliated)                | Other Financial Asset Backed Securities – Not Self-Liquidating (Affiliated)      |
| Bank Loans - Issued (Unaffiliated)  | Subtotals – Financial asset Backed Securities – Not Self-Liquidating             |
| Bank Loans - Issued (Affiliated)  | Lease-Backed Securities - Practical Expedient (Unaffiliated)                     |
| Bank Loans - Acquired (Unaffiliated)  | Lease-Backed Securities - Practical Expedient (Affiliated)                       |
| Bank Loans - Acquired (Affiliated)  | Other Non-Financial Asset-Backed Securities - Practical Expedient (Unaffiliated) |
| Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated) | Other Non-Financial Asset-Backed Securities - Practical Expedient (Affiliated)   |
| Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)   | Lease-Backed Securities - Full Analysis (Unaffiliated)                           |
| Certificates of Deposit (Unaffiliated)  | Lease-Backed Securities - Full Analysis (Affiliated)                             |
| Certificates of Deposit (Affiliated)  | Other Non-Financial Asset-Backed Securities - Full Analysis (Unaffiliated)       |
| Other Issuer Credit Obligations (Unaffiliated)                                    | Other Non-Financial Asset-Backed Securities - Full Analysis (Affiliated)         |
| Other Issuer Credit Obligations (Affiliated)                                      |  |

2. **Option 2** - Supplement Insurer Statutory Filing with CRP Data
  - a. CRP identified methodology applied (pending information available upon receipt of CRP data)
    - i. Will require asset class mapping across CRP methodologies given known differences in naming conventions
  - b. SIC Code for corporate filings
3. **Option 3** - Supplement Insurer Statutory Filings and CRP Data with external market subscriptions

[https://naiconline.sharepoint.com/teams/CRPWorkingGroup/Shared Documents/Meetings/2026/2-May04/Materials/NAIC - CRP Due Dilligence Framework \\_\(For 5\\_4\\_2026Meeting\)\\_v4.docx](https://naiconline.sharepoint.com/teams/CRPWorkingGroup/Shared Documents/Meetings/2026/2-May04/Materials/NAIC - CRP Due Dilligence Framework _(For 5_4_2026Meeting)_v4.docx)

# NAIC CRP Due Diligence Framework

April 2026

# Agenda

**Framework Overview & Principles**

---

**Scoping Assessment**

---

**Risk Assessment**

---

**Detailed Testing Procedures**

---

**Governance Procedures**

---

**Illustrative Example**

---

**Provisional Acceptance**

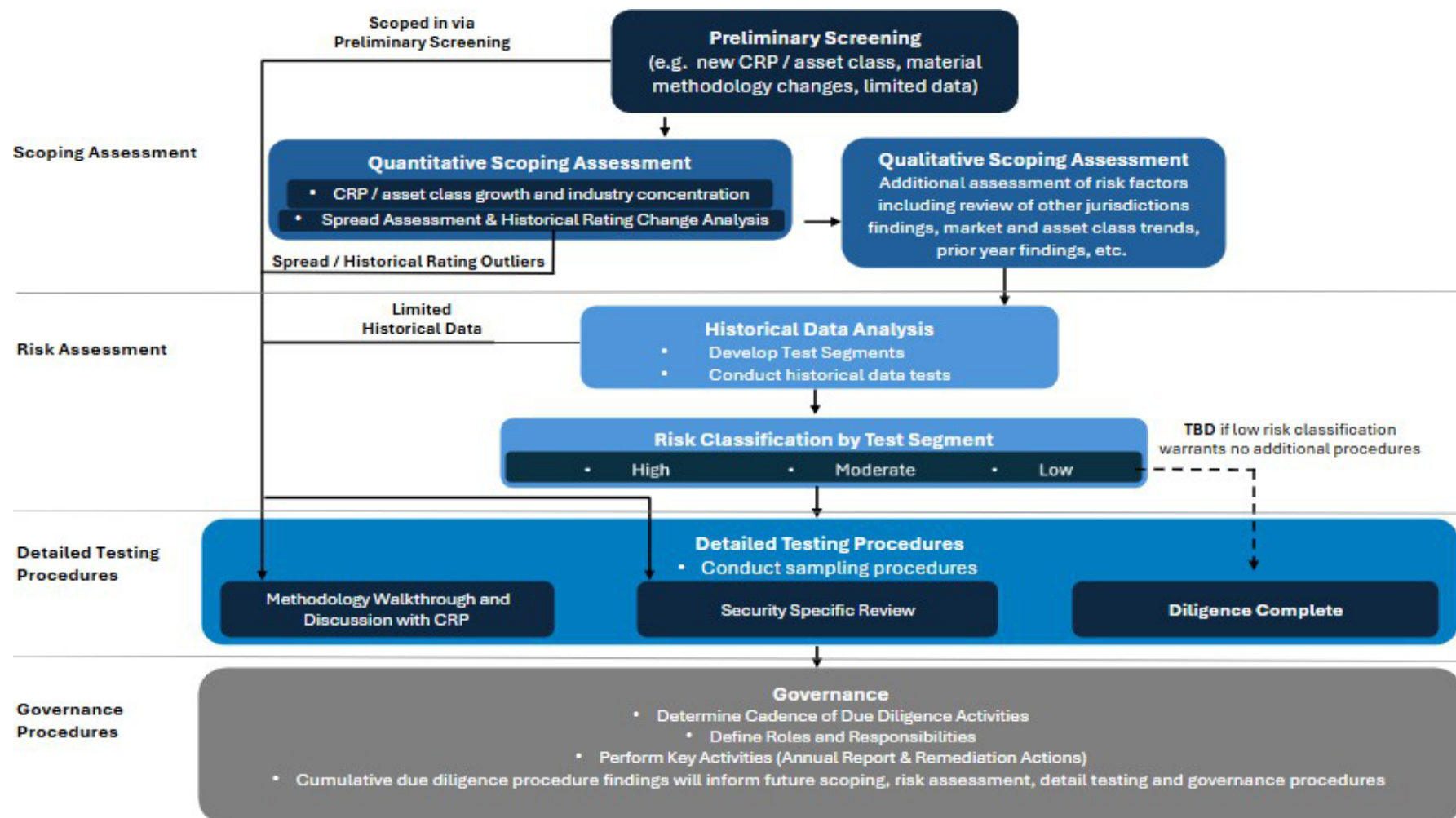
---

# Framework Overview

The CRP Due Diligence Framework aims to establish a structured, risk-based approach for the NAIC's oversight of Credit Rating Provider ratings used in Filing-Exempt and Private Letter designations. The framework is designed to be pragmatic, scalable, and transparent, ensuring proportional oversight aligned to insurer exposure and observed risk.

## Framework Objectives

- Corroborate CRP **ratings reasonableness and equivalency** as translated into NAIC Designations
- **Reduce blind reliance** on CRP-provided translation matrices
- Apply a **risk-based, proportionate approach** that focuses enhanced processes on asset classes and CRPs with the greatest solvency impact or elevated risk
- **Identify, assess, and remediate inconsistencies** in CRP rating outcomes in a disciplined and governed manner



# 1. Scoping Assessment Overview

## Objective

The Scoping Assessment establishes a structured, risk-based process to determine where deeper due diligence is warranted across CRPs, asset classes, and individual securities. It prioritizes review based on insurer exposure, growth, data sufficiency, security-level spread analysis, historical rating change indicators, and other quantitative and qualitative risk signals, ensuring subsequent review efforts are proportionate and focused.

## Scoping Activities Overview

### Preliminary Scoping Activities

- Identify new CRPs, new asset classes or material changes to existing CRP methodologies
- Assess availability and sufficiency of historical data available to support data analysis
- Automatically designate CRPs or asset classes as In Scope for Detailed Testing Procedures that have:
  - New methodologies, or
  - Less than two years of historical data

### Quantitative Scoping Activities

#### **Quantitative Attribute Analysis**

- Evaluate CRP and asset class level concentration and growth to identify segments where insurer exposure or rapid expansion may indicate elevated risk.

#### **Outlier Identification, including but not limited to:**

##### ***Spread Comparison***

- Compare security-level origination spreads within rating bands to identify outliers that may signal potential rating misalignment.

##### ***Historical Rating Change Analysis***

- Assess material increase in rating from the prior rating or designation provider over time, to identify potential inconsistencies in rating outcomes.

### Qualitative Scoping Activities

#### **SEC Assessment and Monitoring Over Rating Agencies**

- Leverage findings from SEC Office of Credit Ratings examinations, to identify governance, methodology, or control issues that may indicate material risk to rating outcomes and warrant broader scoping.

#### **Additional Qualitative Assessment**

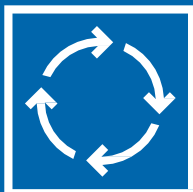
- Incorporate non-quantitative risk indicators—including methodology transparency, reliance on qualitative judgment, market-driven events, emerging asset class risks, and prior due diligence findings—to determine whether a CRP or asset class should be designated In Scope.

## Expected Outcome

The Scoping Assessment results in a documented, risk-based determination of which CRP and asset class segments warrant further due diligence. It classifies segments as In Scope or Out of Scope based on predefined quantitative and qualitative risk indicators and directs higher-risk populations to Risk Assessment or Detailed Testing Procedures.

## 2. Risk Assessment Overview

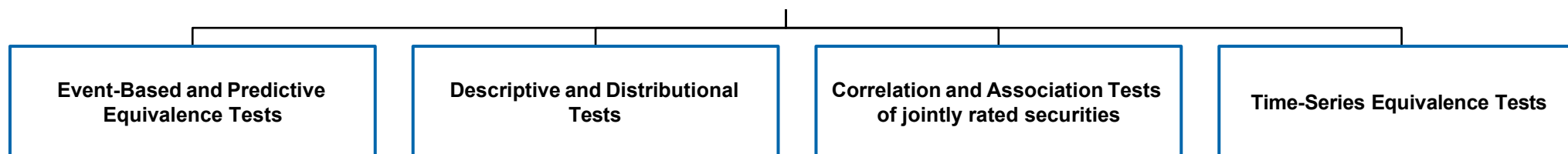
The Risk Assessment evaluates the equivalency and consistency of CRP ratings through quantitative methods, acting as the analytical bridge between Scoping and Detailed Testing Procedures.



### Objectives

- Assess the equivalency of CRP ratings implied by the CRP-to-NAIC Designation translation matrix across comparable populations of securities
- Identify systematic differences or inconsistencies in rating outcomes across CRPs within defined Test Segments
- Apply quantitative, data-driven analysis to distinguish higher-risk rating segments from those exhibiting alignment and stability
- Classify Test Segments into risk tiers (High, Moderate, Low) to determine the nature and extent of subsequent Detailed Testing
- Provide an analytical bridge between scoping outcomes and targeted Detailed Testing Procedures, ensuring proportional oversight

### Risk Assessment Activities



### Expected Outcome

- A clear High / Moderate / Low risk rating, by Test Segment.
- Identification of Test Segments requiring Detailed Testing.
- Analytical insights into CRP rating equivalency and consistency.
- Composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification.

# 3. Detailed Testing Procedures Overview

Detailed Testing Procedures are critical for verifying the reasonableness and consistency of CRP ratings, focusing on methodology walkthroughs and security-specific rating reviews.



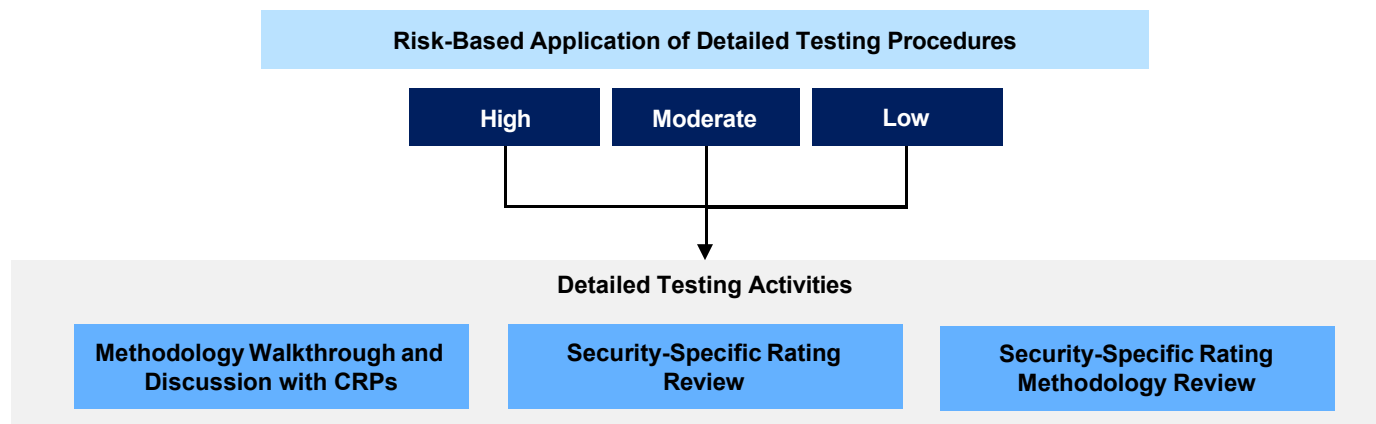
## Objective and Purpose

- Validate the reasonableness and consistency of CRP ratings through detailed due diligence activities.
- Focus on detailed examination when Scoping and Risk Assessment indicate elevated risk areas.
- Support regulatory decisions by substantiating the equivalency of CRP ratings to NAIC Designations.
- Inform ongoing due diligence activities and potential remediation actions based on findings.



## Key Sampling Principles

- Risk-based and aligned to High, Moderate, and Low Risk classifications for each Test Segment.
- Higher-risk Test Segments require larger sample sizes and lower tolerance thresholds
- Sampling approaches may be statistical or judgmental, based on Test Segment characteristics, data availability, and feasibility.



## Expected Outcome

- Independent assessment of CRP asset class rating reasonableness and consistency.
- Verification of translation matrix equivalency or identification of risk areas within CRPs or asset classes.
- Documentation of findings to support transparent and evidence-based regulatory decisions.
- Insight into potential deviations exceeding the NAIC's three sub-notch materiality tolerance.
- Identification of areas requiring remediation or further monitoring based on detailed testing results.

# 4.2 Governance Procedures: Activities, Roles, and Responsibilities

Governance Procedures translate due diligence findings into oversight and action through the Annual Report and a graduated set of Remediation Actions.

| Key Activities   |
|--|
| <b>Scoping Assessment</b>                                    |
| Data Receipt from InvAWG and IDA WGs                         |
| Quantitative and Qualitative Scoping Analysis                |
| <b>Risk Assessment</b>                                       |
| Defining Test Segments                                       |
| Conducting Quantitative Tests                                |
| Risk Classification Results                                  |
| <b>Detailed Testing Procedures</b>                           |
| CRP Methodology Walkthrough and Discussion with CRPs         |
| Sampling Procedures  |
| Security Specific Sample Reviews                             |
| <b>Governance Procedures</b>                                 |
| Produce Annual Report summarizing CRP Due Diligence findings |
| Review and Approval of Remediation Actions                   |
| Updates and Enhancements to CRP Due Diligence Framework      |



## Annual Report

- **Scoping Assessment Summary:** Observations and trends related to emerging asset classes and CRP methodologies, insurer concentration and growth, summary outlier observations and CRP-specific SEC review findings.
- **Risk Assessment Results:** Identification and risk classification of Test Segments defining the population in scope for Detailed Testing, supported by a Risk Assessment Report summarizing tests performed, thresholds applied, and rationale for conclusions on rating reasonableness and equivalency.
- **Detailed Testing Findings:** Summary of walkthrough and security-level testing results, including trends and implications for translation matrix equivalency or elevated risk by CRP or asset class.
- **Governance Outputs:** Recommended remediation actions for IA TF approval and forward-looking adjustments informing future-year procedures, thresholds, or framework design.



## Remediation Actions

CRP WG recommends Remediation Actions for IA TF, E Committee Plenary review which are applied based on the severity and persistence of issues identified through the Risk Assessment and Detailed Testing Procedures, ranging from enhanced monitoring to more consequential interventions.

### Tier 1:

- **Watchlist / Enhanced Monitoring**
- **Additional Detailed Testing Scope**

### Tier 2:

- **Additional Private Letter Ratings**
- **Translation Matrix Adjustment**
- **Removal of Filing Exempt Status**
- **CRP De-admittance**

# Illustrative Example – Corporate Debt

The following illustrative example demonstrates how the CRP Due Diligence Framework operates in practice by tracing a public corporate debt security rated by CRP 2 through the scoping assessment, risk assessment, and detailed testing stages. The red arrows depict one representative path through the framework based on observed risk indicators and escalation logic.

## Quantitative Scoping Assessment Outcome Corporate Debt

- Growth - Low
- Concentration - High

### CRP 2

- Growth - Low
- Concentration - Low

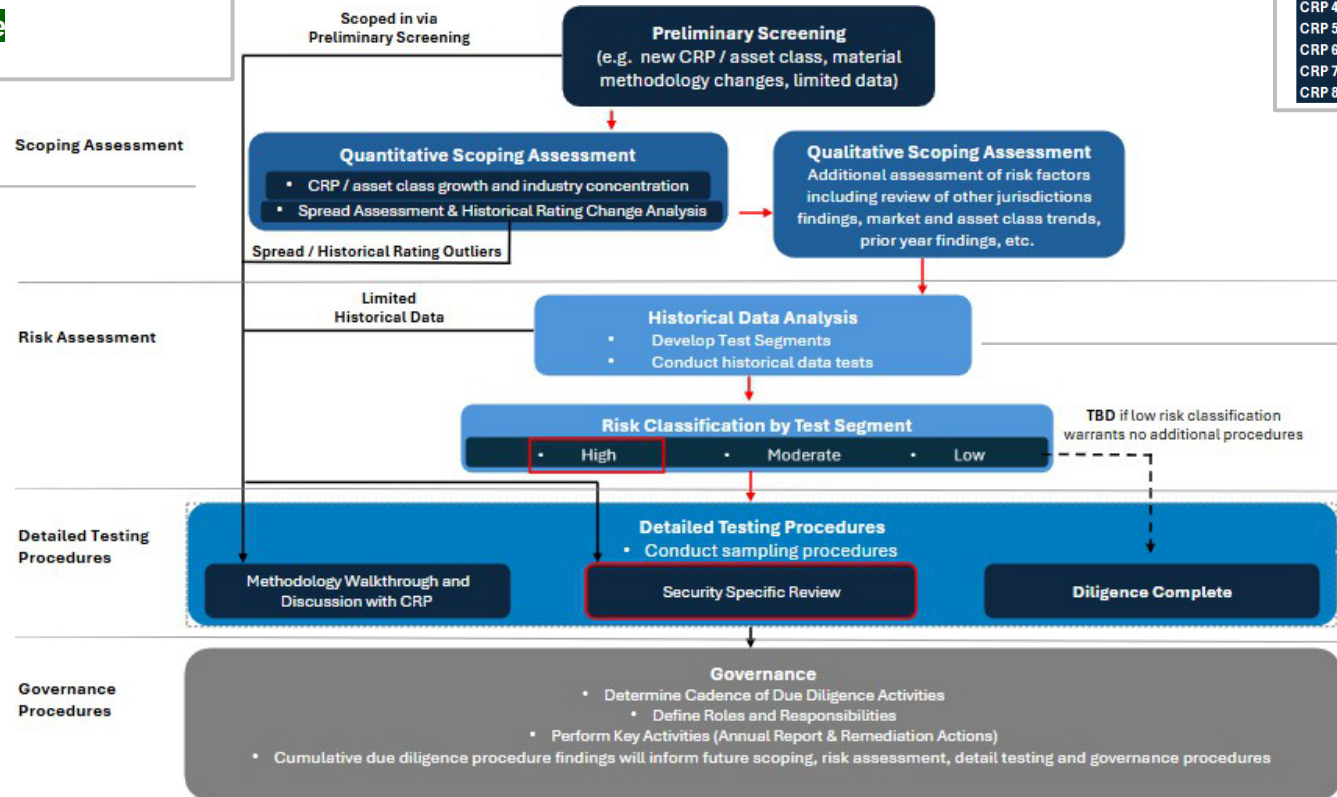
### Conclusion

CRP 2 Corporate Debt: **In Scope**

Cohen's Kappa Test is a statistical measure used to evaluate the level of agreement between two or more raters who classify items into categorical ratings. The test quantifies the degree of consistency or agreement among those agencies, beyond what would be expected by chance.

|       | Public - Corporate - IG |       |       |       |       |       |       |       |
|-------|-------------------------|-------|-------|-------|-------|-------|-------|-------|
|       | CRP 1                   | CRP 2 | CRP 3 | CRP 4 | CRP 5 | CRP 6 | CRP 7 | CRP 8 |
| CRP 1 | 1.00                    |       |       |       |       |       |       |       |
| CRP 2 | n/a                     | 1.00  |       |       |       |       |       |       |
| CRP 3 | 0.59                    | 0.34  | 1.00  |       |       |       |       |       |
| CRP 4 | 0.96                    | 0.89  | 0.53  | 1.00  |       |       |       |       |
| CRP 5 | n/a                     | n/a   | n/a   | n/a   | 1.00  |       |       |       |
| CRP 6 | n/a                     | 0.96  | n/a   | 0.88  | n/a   | 1.00  |       |       |
| CRP 7 | 0.88                    | 0.82  | 0.60  | 0.91  | n/a   | 0.92  | 1.00  |       |
| CRP 8 | 0.83                    | 0.64  | 0.61  | 0.80  | n/a   | 0.81  | 0.88  | 1.00  |

Illustrative Threshold: Material - < 0.75



| CRP Derived Rating                          | NAIC Derived Rating | Variance           |
|---|---------------------|--------------------|
| BB+   | BB                  | 1 Notch Difference |
| <b>Outcome</b>                              |                     |                    |
| Variance Immaterial: No Remediation Actions |                     |                    |

# Provisional Acceptance of CRPs

## Overview

Provisional acceptance provides a structured interim framework to transition from the current blind reliance on CRP ratings to a fully implemented due diligence framework.

## Scope

- Applies to historically accepted Credit Rating Providers at the time of framework implementation
- Acceptance is conditional and provisional, not a presumption of rating equivalency
- CRPs remain subject to full due diligence, governance, and remediation processes during the provisional period

## Timeline

- Provisional acceptance is time-limited to a maximum of 36 months
- Implemented through two defined phases:
  - Phase 1 (Months 0–6): Organizational walkthroughs focused on governance, controls, and rating processes
  - Phase 2 (Months 7–36): Methodology walkthroughs and discussions focused on FE and PL asset classes
- Sequencing of CRP reviews is risk-informed, based on insurer exposure, growth, and asset class risk

## Acceptance Criteria

- The CRP continues to meet acceptance criteria established in the P&P Manual
- There are no materially adverse findings in the most recent SEC or other applicable jurisdictional examinations
- The CRP agrees to provide required data to support implementation and ongoing operation of the framework