Draft date: 7/21/25

Virtual Meeting

FINANCIAL CONDITION (E) COMMITTEE
Monday, July 28, 2025
1:30 – 2:30 p.m. ET / 12:30 – 1:30 p.m. CT / 11:30 a.m. – 12:30 p.m. MT / 10:30 – 11:30 a.m. PT

ROLL CALL

Nathan Houdek, Chair	Wisconsin	Vicki Schmidt	Kansas
Justin Zimmerman, Co-Vice Chair	New Jersey	Michael T. Caljouw	Massachusetts
Michael Wise, Co-Vice Chair	South Carolina	Mike Chaney	Mississippi
Mark Fowler	Alabama	Adrienne A. Harris	New York
Michael Conway	Colorado	Judith L. French	Ohio
Michael Yaworsky	Florida	Cassie Brown	Texas
Holly W. Lambert	Indiana	Scott A. White	Virginia
Doug Ommen	Iowa		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

AGENDA

1. Receive Comments on Restructure of the Valuation of Securities Task Force—*Commissioner Nathan Houdek (WI)* — Attachment A
    - American Academy of Actuaries — Attachment B
    - California Department of Insurance — Attachment C
    - Alternative Credit Council — Attachment D
    - S&P Global Ratings — Attachment E
    - Lease-Backed Securities Working Group — Attachment F
    - American Council of Life Insurers — Attachment G
    - Sullivan Strategy & Advisory Services — Attachment H

2. Discuss Any Other Matters Brought Before the Committee — *Commissioner Nathan Houdek (WI)*

3. Adjournment

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Financial Condition (E) Committee

From: Investment Framework Drafting Group of the Financial Condition (E) Committee

Date: June 6, 2025

Re: Proposed Reorganization of the Valuation of Securities (E) Task Force

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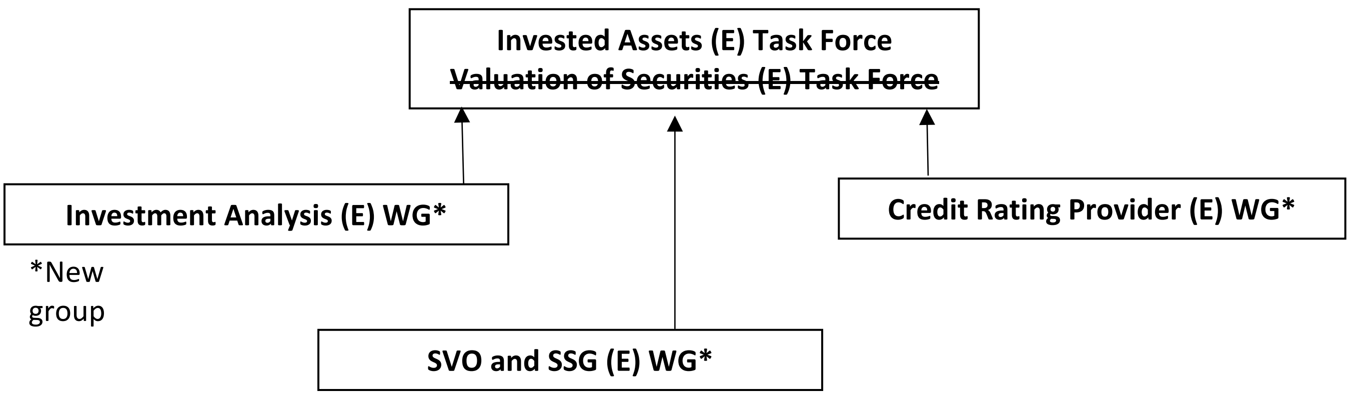
In accordance with the Investment Framework, the Investment Framework Drafting Group of the Financial Condition (E) Committee proposes to reorganize the Valuation of Securities (E) Task Force and form new subsidiary groups as follows:



<u>Proposed Revised Structural Change to the Task Force</u>

The Drafting Group proposes renaming the Valuation of Securities (E) Task Force to the Invested Assets (E) Task Force. The Task Force would be a commissioner-level group, chaired and vice chaired by two commissioners, with each of the member commissioners supported by members of three working groups, consisting of deputy-level financial, actuarial, and investment regulatory expertise. The Task Force charges would be as follows:

- Oversee the work of the Investment Analysis (E) Working Group, the Securities Valuation Office and Structured Securities (E) Working Group, and the Credit Rating Providers (E) Working Group.

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Kansas City 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
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- Provide a forum for education from various parties to regulators on investment products, their performance, and the financial risks for regulatory policy purposes, as well as how regulators may address such risks.
- Understand new or evolving investment products that may possess characteristics that pose unique risks to insurers and the industry and coordinate with different NAIC groups of the Financial Condition (E) Committee or other NAIC groups, if necessary, to develop, implement, or advise on investment-related solvency policy changes (e.g., accounting, risk-based capital [RBC], etc.) or procedures within their analysis and examination of insurers subject to such risks.

Form an Investment Analysis (E) Working Group

The Drafting Group proposes forming an Investment Analysis (E) Working Group, intended to be the primary group under which modernized investment services for the U.S. system are achieved. The Working Group will be limited in size to no more than 13, favoring a smaller size if possible so that other groups under the Task Force are served by other existing members of the Task Force, and holding most if not all of its meetings in a regulator-to regulator setting similar to the Financial Analysis (E) Working Group. The Working Group charges would be as follows:

- Monitor the risks associated with all types of invested assets, including collateral loans, mortgage loans, real estate, and Schedule BA investments.
- Analyze the details of new or evolving investment products or new investment characteristics that could pose unique risks to insurers and provide recommendations to the Task Force on investment-related solvency policy changes to be made in conjunction with other NAIC groups of the Financial Condition (E) Committee.
- Analyze insurers and groups that hold new, evolving, or riskier investments and advise the state of domicile on applicable risks, either directly or through coordination with the Financial Analysis (E) Working Group or Valuation Analysis (E) Working Group. Where applicable, utilize NAIC staff from the Securities Valuation Office and Structured Securities Group and Capital Markets Bureau to assist the Working Group with these deliverables.
- Oversee a revised portfolio analysis product from NAIC staff, the CMB Research agenda, and analytical investment reports produced by NAIC for the public.
- Oversee the NAIC's implementation of revised systems designed to improve the availability of various investment data points from existing NAIC databases while also identifying and providing NAIC staff who support this group with at least one investment software package that facilitates portfolio analysis and portfolio modeling.
- Monitor information technology and data resource needs to ensure data can be retrieved efficiently and effectively.
- Develop best practice examples of supervisory plans that monitor complex investments where the company and the regulator oversee company-designed risk dashboards on their riskier investment areas/or risk mitigation tracking.

Form a Securities Valuation Office and Structured Securities (E) Working Group

The Drafting Group proposes forming a Securities Valuation Office and Structured Securities (E) Working Group, intended to: 1) make recommendations to the Task Force regarding the scope of securities required to be filed with the Securities Valuation Office (SVO); 2) make recommendations regarding the scope of securities required to be modeled and/or filed with the Structured Securities Group (SSG) (e.g., collateralized loan obligations [CLOs], collateralized fund obligations [CFOs], mortgage-based securities [MBS]); 3) oversee private letter rating (PLR) submissions and review processes; and 4) monitor the technology and resources available to implement current and future initiatives efficiently and effectively. This Working Group would be similar to the current day Task Force and provide oversight, through periodic operational reports on categories of filings, Regulatory Treatment Analysis Service (RTAS) filings, designations, PLR statistics, etc. The Working Group charges would be as follows:

- Review and monitor the operations of the NAIC Securities Valuation Office (SVO) and the NAIC Structured Securities Group (SSG) to ensure they continue to reflect regulatory objectives.
- Maintain and revise *the Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to provide solutions for investment-related regulatory issues for existing or anticipated investments.
- Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the *Accounting Practices and Procedures Manual* (AP&P Manual), as well as financial statement blanks and instructions, to ensure that the P&P Manual reflects regulatory needs and objectives.
- Provide effective direction to the NAIC's mortgage-backed securities modeling firms and consultants.
- Identify potential improvements to the credit filing and designation processes, including formats and electronic system enhancements.
- Coordinate with the Invested Assets (E) Task Force, Investment Analysis (E) Working Group, and other NAIC working groups and task forces to formulate recommendations and make referrals to other NAIC regulator groups to ascertain that the purpose and objective of guidance in the P&P Manual is reflective in the guidance of other groups and that the expertise of other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual.Implement additional and alternative ways to measure and report investment risk.

Form a Credit Rating Provider (E) Working Group

The Drafting Group proposes forming a Credit Rating Provider (E) Working Group, intended to implement the due diligence framework once developed and approved by regulators and the discretion policy adopted in 2024. This Working Group will be staffed by two new dedicated staff members who have credit rating, analytical or quantitative backgrounds, as needed, to implement and manage the CRP framework. The Working Group charges could be expanded after the due diligence framework is adopted; however, the Working Group would initially have the following charges,most of which previously existed for the Valuation of Securities (E) Task Force:

- Identify potential improvements to the filing exempt (FE) process (i.e., using credit rating provider ratings to determine an NAIC designation) through ongoing implementation of the CRP due filigence framework to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives.
- Implement policies resulting from the CRP due dilligence framework related to NAIC's staff administration of rating agency ratings used in NAIC processes, including staff discretion over the applicability of their use in its administration of FE.
- Coordinate with the Securities Valuation Office and Structured Securities (E) Working Group on issues identified from the maintenance of the CRP due diligence framework.

As many of the functions split between working groups were previously under one task force, there may be some need to re-evaluate charges and appropriate ownership after implementation. We suggest that the Invested Assets (E) Task Force solicit feedback from the working groups, interested regulators, and interested parties after one year of implementation and report the results of that feedback and any applicable recommendations to the Financial Condition (E) Committee to assess whether adjustments are needed.

If you have any questions regarding this memorandum, please contact NAIC staff (Dan Daveline at ddaveline@naic.org) for further clarification.

AMERICAN ACADEMY of ACTUARIES

July 10, 2025

Commissioner Nathan Houdek
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners

Re: Proposed Reorganization of the Valuation of Securities (E) Task Force

Dear Commissioner Houdek:

On behalf of the Life Practice Council's Investment Analysis Subcommittee (Subcommittee) of the American Academy of Actuaries (Academy),[1] thank you for the opportunity to offer comments regarding reorganization of the Valuation of Securities (E) Task Force (VOSTF).

The Subcommittee supports this initiative. Having reviewed the proposed reorganization memo, we noted that the NAIC's approach is similar to the Academy's recent activity in this space. Our Subcommittee was formed in 2024 to monitor regulatory developments affecting investment activities of life insurers in collaboration with other committees within the Life Practice Council. The proposed reorganization, renaming VOSTF, and creating working groups with targeted expertise, promotes a deliberate shift toward the enhanced analysis of evolving investment products, as well as offers the opportunity for stronger collaboration across and between the existing NAIC groups that focus on solvency and investment risk.

The Subcommittee appreciates the ongoing public engagement with you and the Financial Condition (E) Committee. The Academy will continue to be an engaged partner with you, as well as with the new task force and working groups. If you have any questions or would like to discuss these comments further, please contact Amanda Barry-Moilanen, life policy project manager (barrymoilanen@actuary.org).

Sincerely,

David Bulin, MAAA, FSA
Vice Chairperson, LPC Investment Analysis Subcommittee
American Academy of Actuaries

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

From: Clements, Laura <Laura.Clements@insurance.ca.gov>
Sent: Friday, July 11, 2025 1:50 PM
To: Daveline, Dan <DDaveline@naic.org>
Cc: Lara, Ricardo <canaic@insurance.ca.gov>
Subject: RE: Exposure of Proposed Reorganization of the Valuation of Securities (E) Task Force

Dear Commissioner Houdek:

Thank you for the opportunity to provide comments regarding the proposed reorganization of the Valuations of Securities (E) Task Force.

The California Department of Insurance had the following questions/comments regarding the proposed reorganization?

1. Currently the Valuation of Securities (E) Task Force has 27 members. Is this the same number of members contemplated for the Invested Asset (E) Task Force?
2. Is it anticipated that SVO and SSG (E) Working Group as well or the Credit Rating Provider (E) Working Group be limited in size?
3. Given the proposed role of the Investment Analysis (E) WG the California Department of Insurance would recommend the membership size be similar to the membership size of the Financial Analysis Working Group and the Valuation Analysis Working Group.

If you have any questions, please do not hesitate to contact me. Thank you.

Laura Clements, CFE

Chief Examiner

Department of Insurance

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Los Angeles, CA 90013

213-346-6127

1100 15th Street, NW
Washington, DC 2005

July 19, 2025

aima.org

Chairman Nathan Houdek
Financial Condition (E) Committee
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Subject: Proposed Reorganization of Valuation of Securities (E) Task Force

Dear Chairman and members of the E Committee,

On behalf of the Alternative Credit Council (ACC)[1], I am writing to express our support for the Investment Framework Drafting Group's proposal to reorganize the Valuation of Securities (E) Task Force into a more modern and comprehensive structure: the Invested Assets (E) Task Force. We believe this thoughtful restructuring is a timely and necessary response to the continued evolution of investment markets and the growing complexity of the insurance industry's asset-liability management needs.

Over the past several years, insurers have increasingly turned to a broader range of

[1] The Alternative Credit Council is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, as well as the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

ALTERNATIVE CREDIT COUNCIL
LENDING FOR GROWTH

investment strategies, including private credit, asset-backed securities, infrastructure, and other alternative investments. These types of assets offer cash flow patterns, durations, and risk-return characteristics that are better suited to supporting the long-term obligations insurers have to policyholders. The proposed reorganization reflects this reality by creating three distinct working groups with deep subject-matter expertise: one focused on investment analysis, another on structured securities and the Securities Valuation Office, and a third on credit rating providers.

We believe this structure provides a more agile and risk-sensitive approach to regulatory oversight. Here are some specific comments on each of the three working groups:

Investment Analysis (E) Working Group (IAWG) – This group can play an important role in identifying emerging thematic trends in insurer investments and assessing how they align with liability profiles. While its discussions will primarily be regulator-only as they involve confidential data, some level of thematic transparency – focused on trends rather than company-specific insights – would help stakeholders better understand any policy-related developments. Given the focus on evolving products or markets, it is likely that the analysis will either apply current NAIC policy in new ways or perhaps effectively create new policies. In addition, emerging trends are often highly technical. As a result, the working group could benefit from informational sessions and technical input from industry specialists. This would improve the quality and context of any deliberations or referrals to other NAIC bodies for policy consideration.

Securities Valuation Office and Structured Securities (E) Working Group (SVO/SSG) – Enhancing expertise in complex structured assets is critical. It would be helpful to clarify how the ratings discretion policy adopted in 2024 will be implemented in practice, particularly in cases where there are disagreements between an insurer and the SVO on credit quality. Clear escalation procedures – such as when disputes should be referred to the SVO/SSG group, and whether commissioner-level appointees or other working group members will play a role in decisions – would improve governance. This will be especially important for novel asset classes or unique rating methodologies.

Credit Rating Provider (E) Working Group (CRPWG) – Maintaining a strong degree of independence between this group, which oversees the credit rating provider due diligence framework and discretion policy, and the SVO/SSG, which produces NAIC designations, is essential to avoid conflicts of interest. It would also be helpful to clarify how the ongoing review of rating agency governance and the 2024 discretion policy will align with the CRPWG's responsibilities, ensuring consistent and transparent standards across the framework.

Beyond the organizational design, the emphasis on enhancing analytical capabilities and modernizing data tools is critical. As insurers increasingly rely on sophisticated portfolio strategies, regulators need robust systems and dashboards to assess how these investments impact solvency and policyholder protection. Careful coordination across related workstreams – particularly between the Academy of Actuaries and SVO CLO modeling initiatives – will be essential to ensure consistency, avoid duplication, and promote coherent outcomes. Clear governance for how these workstreams interact, including transparent feedback loops, would further strengthen confidence in the new framework.

More broadly, governance and transparency will be key to building confidence in this reorganization. Establishing clear protocols for stakeholder engagement – particularly when emerging themes are referred from the IAWG to policy-setting groups – would ensure that industry expertise can be leveraged without compromising confidentiality. Providing periodic public summaries of key trends or lessons learned at a high level could also improve trust and understanding. We also encourage consideration of formal mechanisms for stakeholder input into the one-year implementation review process so that the NAIC can benefit from both regulatory and market perspectives when evaluating the new structure.

Importantly, the proposal's commitment to a formal one-year review after implementation reflects an adaptive and responsive approach. This will allow regulators and stakeholders to identify gaps, refine processes, and ensure that the working groups remain aligned with the evolving investment landscape.

In sum, we believe the reorganization positions the NAIC to stay ahead of financial market developments, enabling a more informed and coordinated regulatory response that ultimately strengthens the insurance system's ability to serve policyholders. At the same time, incorporating governance and transparency refinements – such as clear escalation processes, stakeholder engagement protocols, and high-level thematic reporting – will enhance confidence and facilitate effective collaboration.

We commend the Financial Condition Committee for this initiative and urge it to adopt the proposed structure with these clarifications.

If you have any questions or would like to discuss further, please do not hesitate to contact me at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org.

Sincerely,

Jiří Król
Global Head of Alternative Credit Council

S&P Global Ratings
55 Water Street
New York, NY 10041

James Wiemken
Global Head of Rating Services
S&P Global Ratings

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July 21, 2025

Via Email

Mr. Dan Daveline (ddaveline@naic.org)
Director-Financial Regulatory Services
Financial Regulatory Affairs
National Association of Insurance Commissioners

Re: Proposed Reorganization of the Valuation of Securities (E) Task Force

Dear Mr. Daveline,

S&P Global Ratings appreciates the opportunity to provide comments on the National Association of Insurance Commissioners' ("NAIC") memorandum of June 6, 2025, regarding the proposed reorganization of the Valuation of Securities (E) Task Force.

We understand the proposed creation of a new Credit Rating Provider (E) Working Group is part of the NAIC's broader review of the use of and reliance on credit ratings.

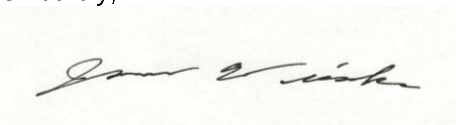
As a leading provider of credit ratings, we have long supported global efforts to reduce over-reliance on credit ratings in the financial system. We believe that markets are best served by a diversity of credit views and the availability of sufficient high-quality information, to help enable users of credit ratings to make informed decisions regarding investments and choices regarding credit ratings. This includes transparency regarding a credit rating provider's ratings definitions, methodologies and performance.

S&P Global Ratings recognizes the NAIC's efforts in this respect and welcomes its proposal to create a dedicated team of credit rating experts. We believe this team can play a valuable role in the NAIC's broader mission.

We look forward to continuing to work with the NAIC on this, including the development of a due diligence framework on credit rating providers by the NAIC's appointed third-party expert, PwC, and to provide the NAIC and PwC with comments on relevant proposals. We believe the NAIC's due diligence should complement rather than duplicate the oversight activities carried out by the SEC's Office of Credit Ratings to further serve the market.

S&P Global Ratings is committed to providing transparency to the market through high-quality independent opinions on creditworthiness and welcomes the opportunity to continue to be part of the ongoing dialogue on these important issues.

Sincerely,



James Wiemken
Global Head of Rating Services

S&P Global
Ratings

Lease-Backed Securities Working Group

To: NAIC Valuation of Securities (E) Task Force

Re: **June 6, 2025 Memorandum: Proposed Reorganization of the Valuation of Securities Task Force**

The members of the Lease-Backed Securities Working Group support the framework for a proposed reorganization of the Valuation of Securities Task Force laid out in the June 6th Memo referenced above. If implemented carefully and thoroughly, we believe the new structure will greatly facilitate the NAIC's primary goal of monitoring the solvency of the insurance industry, and also lead to greater accountability and transparency – and importantly, predictability for investors – in the regulators' oversight of insurance company investment portfolios.

These goals, accountability, transparency – and especially predictability for investors – are crucial because of the recent history of the NAIC casting doubt on private-placement securities, and rating agency ratings, as described below:

Background:

Our group, The Lease-Backed Securities Working Group, represents a group of insurance company investors, securities dealers, and attorneys working primarily in the private-placement markets. Our focus is on long-term securities which combine credit lending with additional security in the form of a mortgage on a property. These transactions are individually tailored to meet the investment needs of insurance company investors, and to fill their need for long-term assets of high credit quality to match their long-term liabilities.

These investments, which are backed by a long-term lease with a credit tenant, finance large mission-critical major government, infrastructure, and health-care transactions, as well as private industry. Since these securities combine a highly rated credit with additional security through a lien on a hard asset, they represent what we consider to be a "belt and suspenders" form of investing: providing additional safety for the long-term investor. Because of their unique and somewhat hybrid nature, these transactions tend to be rated by the "smaller" rating agencies who specialize in these products.

> [While these transactions can range in size from tens of millions to several hundred million dollars, they are smaller in size than the large multi-billion-dollar transactions typically rated by the large rating agencies. They also come to market less frequently than transactions in the public markets and require specialized analysis. They are therefore less attractive to the "big three" agencies. Their pricing reflects this.]

The Problem:

Over the past few years, the SVO has repeatedly called into question the reliability of rating agency ratings: particularly those produced by the "smaller" rating agencies in rating private-placement securities. There have been several "anonymized" reports issued by the SVO highlighting a small number of securities out of the many thousands held by insurers where the

Lease-Backed Securities Working Group

SVO's internal credit opinion (issued in the form of an NAIC "designation") differed from the rating agency rating. They have also publicly and repeatedly questioned the quality of the ratings issued by these "smaller" agencies.

These published reports have not named the specific securities in question or the rating agency or agencies that provided the ratings. There has been no detailed discussion of how the SVO arrived at their "designations" or how their analysis differed from that of the rating agency in question.

> [For all private placement securities, the SVO requires investors to provide them with a copy of the full "Ratings Rationale Report" submitted to them by the rating agency. These reports contain a detailed discussion of the agency's analysis of the investment, including financial metrics, legal framework, critical factors considered and future events that might impact the rating either positively or negatively, etc. etc. These reports all refer to publicly-available methodologies put out by each of the agencies spelling out the steps they go through in analyzing each specific type of investment.]

In spite of the SVO's access to these reports and the agencies' published methodologies, when questioning a rating, the staff has not cited any specific shortcomings or errors in the rating agency's analysis of the credit, but have merely stated their disagreement with their conclusions.

This lack of transparency is somewhat understandable, due to the confidentiality restrictions placed on the NAIC. However, the inevitable but unfortunate result of this for the investment community has been a campaign of "innuendo": reports which are based on information that cannot be confirmed through other sources, and without "naming names", or explaining the SVO's methodologies or analysis – or the specific securities or even types of securities being questioned.

The uncertainty this has created with investors has placed a cloud over the entire private-placement market – estimated at $100 billion annually – and over the rating agencies that rate them. Most importantly, it has effectively shut down the market for several types of investments that are extremely beneficial for insurers as they manage their assets and liabilities, ultimately harming both them and their policyholders.

Rating Agency Ratings vs. NAIC Designations:

Investors have the option of submitting transactions to the SVO with a rating from an approved Credit Ratings Provider ("CRP") through the Filing-Exemption ("FE") process or submitting transactions directly to the SVO for an NAIC Designation. Those transactions submitted with a rating from an approved CRP through the FE process have historically been entitled to the presumption of a direct translation to the equivalent NAIC Designation – creating a degree of certainty for investors.

Lease-Backed Securities Working Group

Given the doubt that has been placed in investors' minds about how the SVO views the ratings of private transactions – particularly those rated by the "smaller" agencies – most investors would prefer to bypass the FE process and submit their transaction directly to the SVO for a confirmed Designation.

However, there are two problems with this: timing, and process.

Timing: Investors are trying to place investments in rapidly-moving markets where investment opportunities can vanish quickly, and pricing is a key factor in determining the viability of an investment. When rates move, an investment that was attractive at a certain price may not remain viable for the investor. Timing is crucial, and a delay in obtaining timely determinations from the SVO or the SSG often means the difference between an attractive investment and a lost opportunity.

While advanced indications of NAIC Designations are available through the RTAS process, our experience has been that the turn-around time in obtaining even these preliminary indications is not responsive to the needs of the investors – often taking many weeks or *even months* to obtain an answer.

Process: A second problem with submitting transactions directly for an NAIC Designation has been the lack of transparency as to how the SVO arrives at its Designations. In stark contrast to what is required of rating agencies, staff has repeatedly refused to share its internal analysis, providing only the resulting Designation, with little-to-no explanation. This leaves investors with a great deal of uncertainty as to how the SVO might respond to any given security. A fuller understanding of the SVO's process and methods of analysis would lead to greater reliance on direct filing of transactions with the NAIC.

We believe the framework described in the June 6th memo – depending on how it is implemented – could go a long way towards addressing some of the issues outlined above.

Specifically:

1.) A Credit Rating Provider Working Group

A robust – and transparent -- due diligence process for credit rating agencies, overseen by a special working group, would help to eliminate the investor uncertainty that has been the result of the current process. It would also assist rating agencies in "upping their game" if necessary.

We would suggest a two-pronged attack: the first, a thorough audit of all rating agencies methodologies, analyses, staffing, and credit-review processes. However, we believe that the reliability of a rating agency's rating can best be assessed by looking at its historical track record. The second and equally important component would be comparing the actual default and loss performance of the various agencies over time. The SEC already collects and publishes voluminous statistics on rating agency performance and has detailed staffing and process requirements for any agency which obtains NRSRO status.

2.) A Securities Valuation Office and Structured Securities Working Group:
We support the formation of an extra layer of oversight for the SVO and the SSG and to serve as a liaison between these groups and the new Invested Assets (E) Task Force. The work performed by these two groups is complex in nature – covering thousands of securities and many constantly-evolving types of investments. A fresh review of staffing levels and experience, systems resources, and internal processes would be crucial.

These groups are also the most frequent and direct point of contact between the regulatory regime and the insurance industry (where "the rubber meets the road"). As such, they need not only to ensure the accuracy of investment portfolio ratings and alert regulators to potential problems, but also to be sensitive to the investment needs of the industry and responsive to existing and evolving investment market dynamics – as discussed above.

2.) An Investment Analysis Working Group:
The creation of a 13-member staff to oversee risk at a more macro level, rather than security-by-security, would greatly facilitate the NAIC's main objective of protecting insurance company solvency – whether that macro was at the company portfolio level, or more broadly in an ongoing monitoring of evolving market risks.

We understand that when it comes to individual company oversight, portfolio analysis and solvency questions, these inquiries must necessarily take place at the regulator-only level. However, to the extent that the work of the Investment Analysis Working Group is to analyze new investment products and evolving market risks, it is vital that this work be undertaken in cooperation with insurance company investors, attorneys, and other experts familiar with these new products and markets. The process can only benefit from the input of the most knowledgeable market participants.

Finally, we seriously question whether the NAIC would ever have the staffing and actuarial expertise to oversee asset/liability matching – the key risk factor for solvency – broadly for the many insurance companies in the market or even very large, targeted, subsets of insurers.

3.) The Invested Assets Task Force:
Finally, we support reconstituting the VOS Task Force as a commissioner-level "Invested Assets" Task Force. This would both tie the work of the Task Force more closely with the regulators at the State level, and also allow this group to benefit from the areas of expertise offered by the new sub-groups reporting to them.

In conclusion, we applaud the members of the E Committee and the VOS Task Force for re-thinking the existing structure from the top down, so to speak. We hope you find our comments helpful in that effort.

<u>Lease-Backed Securities Working Group</u>

While we understand that the implementation of the new structural changes will largely occur at the “regulator-only” level, we encourage the NAIC members to communicate frequently with industry and seek feedback and suggestions from insurers as the work progresses. The end result can only benefit from the ideas and input of industry market participants.

Sincerely,

JM Garrison

John M. Garrison
On behalf of *<u>the Lease-Backed Securities Working Group</u>*

Cc: Carrie Mears
Nathan Houdek
Charles Therriault
Elizabeth Dwyer

Shannon Jones
Senior Director, Financial Reporting Policy
(202) 624-2029 t
shannonjones@acli.com

July 21, 2025

Commissioner Nathan Houdek, Chair
Financial Condition (E) Committee
National Association of Insurance Commissioners
Via email ddaveline@naic.org

Re: Request for Comments on Proposed Reorganization of the Valuation of Securities (E) Task Force

Submitted Electronically

Dear Mr. Houdek:

The American Council of Life Insurers (ACLI) would like to thank you for the opportunity to comment on the proposed reorganization of the Valuation of Securities (E) Task Force (VOSTF) and the formation of the Invested Assets (E) Task Force and its associated working groups, as outlined in the June 6, 2025, memorandum.

At a high level, ACLI supports the NAIC's efforts to modernize its structure to better align with the evolving nature of insurer investment portfolios and the broader capital markets. The proposed framework appears to be a thoughtful step toward enhancing regulatory oversight and analytical capabilities.

We respectfully offer the following comments and questions for your consideration:

1. **Structure and Coordination of the Credit Rating Provider Working Group (CRPWG)**
   ACLI understands the CRPWG, with the related proposed NAIC staff additions, will primarily be involved with implementing the CRP due diligence framework and the discretion policy adopted in 2024. We also understand that the intent is to provide some level of separation (i.e., to help avoid potential conflicts of interest) from the Securities and Valuation Office and Structured Securities Group (SVO & SSG), who often produce NAIC designations and the due diligence over the CRPs, whose ratings are also often used as NAIC designations. We support this in concept and look forward to understanding the details of how this will ultimately be implemented, including how PwC's work for the Financial Condition Committee on rating agency governance, and the discretion policy adopted in 2024, will specifically fit into this proposed framework.

2. Transparency and Stakeholder Engagement related to the Investment Analysis Working Group (IAWG)

ACLI understands the intent is for the IAWG to primarily have regulator-to-regulator meetings, as it will primarily be looking at individual company data and/or information that is otherwise confidential. We also understand the IAWG will not be a policy-setting body but will likely refer emerging thematic issues or trends to other NAIC working groups or task forces. To make this as effective as possible, we believe some level of public transparency related to these issues is warranted, as a best practice, without sharing any company-specific or otherwise confidential information. Since these emerging and/or thematic trends are often expected to be complex and at the forefront of market trends that are related to industry more broadly, we stand ready to assist the IAWG by providing information and/or education. There may be times when access to specialized industry expertise would be extremely beneficial to help the IAWG gain more insights on new investment strategies and their potential implications. We believe this would especially be of value for any significant initiatives that are referred to other groups, so that such referrals are as informative and comprehensive as possible.

3. Clarification on Ratings Discretion Process

As the CRP due diligence framework and discretion policy are implemented, we request additional clarity on how rating disagreements will be handled. Specifically, industry assumes that if an insurer and the SVO are unable to agree on a rating, the matter could be escalated to the SVO & SSG Working Group, allowing commissioner-level appointees to opine on the process and review outcomes. It's less clear whether or how members of the IAWG and CRPWG might be involved in the Ratings Discretion process, particularly in cases involving new asset classes or concerns about a CRP's rating methodology. These nuances can be addressed later as the new organizational structure evolves, but Industry is highlighting, as Ratings Discretion was not discussed in detail in the exposure, and we view Regulators' involvement in the process as important and beneficial.

ACLI appreciates the Committee's leadership in advancing this important initiative and thank you for considering our comments. We look forward to continuing collaboration as the framework is implemented.

Sincerely,

Shannon Jones
Shannon Jones
ACLI

Tracey Lindsey
Tracey Lindsey
NASVA

John Petchler
John Petchler
on behalf of PPiA Board of Directors

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

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July 21, 2025

Commissioner Nathan Houdek, Chair

Financial Condition (E) Committee

National Association of Insurance Commissioners

via email to: ddaveline@naic.org

RE: Proposed Reorganization of the Valuation of Securities (E) Task Force

Dear Commissioner Houdek and members the Financial Condition (E) Committee:

I appreciate the opportunity to submit comments on the NAIC's proposed reorganization of the Valuation of Securities (E) Task Force (VOSTF). The effort to modernize the oversight framework for insurer investments demonstrates the NAIC's commitment to undergo continuous improvement in ensuring the efficacy of its regulatory regime.

I support the intent behind the proposed reorganization—namely, to increase efficiency, reduce duplicative processes, and clarify the roles and responsibilities of the Securities Valuation Office (SVO) and other investment-related working groups. That said, I believe the proposal would benefit from further refinement to ensure that it strengthens—not weakens—the integrity, transparency, and accountability of insurer investment regulation.

1. Support for Modernization and Streamlining

The migration of insurer investment portfolios toward assets new to regulators justifies a more agile and technically proficient oversight structure that does not impede constructive or forward-looking market activity. In this regard, the proposal's vision of consolidating analytical expertise and aligning operational responsibilities is potentially beneficial.

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Improved consistency in classifications and filings could reduce regulatory uncertainty and foster more effective supervision. The reorganization, if implemented with the right safeguards, could enhance the NAIC's ability to respond to market innovations, without stifling insurers' ability to respond to consumer demand for affordable risk transfer and protection products.

2. Transparency and Governance

However, centralizing more authority within the SVO—particularly around asset designation decisions and the development of methodologies—raises legitimate concerns about transparency and due process. The SVO plays a pivotal role in shaping the regulatory treatment of trillions of dollars in insurer assets. However, decisions made without sufficient visibility or public deliberation can erode trust among stakeholders and limit the ability of regulators to weigh the broader implications for solvency and risk-based capital.

This proposed realignment must not come at the expense of openness or accountability. The NAIC proposes that the Investment Analysis (E) Working Group be a regulator only meeting group. However, the group's proposed goals seem inconsistent with the NAIC's open meeting policy, which stipulate when/why meetings can be held in regulator only session.

- In particular, the goals to "monitor risks associated with all types of invested assets" and "analyze new or evolving investment types" do not seem to warrant regulator only sessions and should be held in an open forum. These topics are broad matters of policy, and are not company/solvency specific and should be deliberated in the light of day, in an open forum to foster transparency, stakeholder engagement while staying true to the NAICs own values.
- Additionally, this group will "oversee a revised portfolio analysis product from NAIC staff." Here again, there is concern that there will be no public input for the development of a portfolio analysis product, which is of a broad policy nature.

The NAIC already has two "Regulator Only" sub-committees in the E Committee structure (FAWG & VAWG) which never meet in an open transparent manner, nor do they report out in a meaningful manner. Is there a discernable need to create a third "Regulator Only" committee? Before creating a third closed forum, it would be helpful to delineate specifically what topics justify another "Regulator Only" forum.

With respect to the formation of a Credit Rating Provider (E) Working Group there are structural and governance details which need to be better enumerated and exposed. For instance, what will be the makeup of the CRP (E) Working Group? Will this be Commissioner-level or Commissioner-staff level WG? How many members will make up the WG?

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From the proposal, it seems that the CRP Working Group will oversee the SVO discretion amendment. How will this be operationalized? Does the NAIC anticipate any necessitated changes to the discretion amendment given this proposed reorganization? Under that amendment, any time the SVO challenges a rating, a VOSTF subgroup is to oversee a credit committee. From which group will that subgroup now be comprised?

Under the CRP Working Group, two new staff members will be hired. How will the NAIC ensure that the background/experience of these two individuals have sufficient depth, expertise, and a knowledge base/familiarity with CRP processes without being bias towards one rating agency or another? What specific measures will be put in place to ensure objectivity in these key personnel additions and how will the NAIC assess whether those measures are effective?

Furthermore, to ensure independence and objectivity, I would propose that with respect to its rating activity, the SVO be subject to the same level of review and assessment as the CRP's.

More broadly, there is a perception that the current processes may reinforce reliance on the largest CRP's. The NAIC has fostered a culture of preference towards the big three rating agencies. The proposed changes offer an opportunity to foster broader participation and innovation. How will the changes advanced in this proposal create and encourage more competition and innovation among rating agencies, or at the very least, not undermine it?

3. Need for Regulatory Checks and Public Input

To balance technical efficiency with proper oversight, I encourage the NAIC to ensure that any reorganization includes:
- Clear mechanisms for regulator review and checkpoints of key changes. The NAIC needs to ensure it is a regulator led organization. Changes need to be made by regulators and for regulators without undue bias or influence of staff;
- The earliest and soonest public access to methodologies and material changes in asset classification standards. Too often, exposure drafts reveal deliberations and staff or regulator thinking which has clearly been formed or is formulating. Stakeholders should be brought in much earlier. I would recommend conventions such as stakeholder workshops and other exchange forums before the ink hits the paper;
- Opportunities for industry input, especially on evolving or novel asset structures to regulators wherein stakeholders have years and decades of experience;

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The above measures will help ensure alignment with state insurance commissioners' statutory mandates.

4. Recommendation for Phased Implementation and Oversight Review

I further recommend that the reorganization be implemented in phases, with formal evaluation checkpoints. A working group of Commissioner level E Committee regulators could be tasked with reviewing the outcomes of the structural changes after one year, soliciting stakeholder input, and reporting publicly on their effectiveness of the changes and any unintended consequences which come to the fore.

Conclusion

The proposed reorganization reflects forward-thinking goals that, with appropriate refinements, could enhance the quality and responsiveness of insurer investment oversight. However, success will depend on maintaining a strong framework of oversight of these changes, transparency, and stakeholder engagement. I urge the NAIC to proceed thoughtfully, incorporating safeguards that preserve public confidence in the system and ensure the SVO operates in service to—not in lieu of—state regulators.

Thank you for your attention to this important matter.

Sincerely,

Tom Sullivan