Date: 9/30/2021

Virtual Meeting

Valuation of Securities (E) Task Force
Thursday, September 30, 2021
3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 p.m. PT

ROLL CALL

Dana Popish Severinghaus, Chair  Illinois  Gary Anderson  Massachusetts
Doug Ommen, Vice Chair  Iowa  Chlora Lindley-Myers  Missouri
Lori K. Wing-Heier  Alaska  Bruce R. Ramge  Nebraska
Ricardo Lara  California  Marlene Caride  New Jersey
Andrew N. Mais  Connecticut  Russell Toal  New Mexico
Trinidad Navarro  Delaware  Shirin Emami  New York
David Altmaier  Florida  Doug Slape  Texas
Dean L. Cameron  Idaho  Jonathan T Pike  Utah
Vicki Schmidt  Kansas  Scott A. White  Virginia
James J. Donelon  Louisiana  Mike Kreidler  Washington
Kathleen A Birrane  Maryland  Mark Afable  Wisconsin

NAIC Support Staff: Charles A. Therriault, Marc Perlman

AGENDA

1. Receive and Consider for Approval Corrected 2022 Charges (Doc. ID: 2021-038.02)
   —Kevin Fry (IL), Charles Therriault (NAIC)
   Attachment One

   —Kevin Fry (IL), Charles Therriault (NAIC), Marc Perlman (NAIC)
   Attachment Two

3. Receive and Discuss a Proposed Amendment to the P&P Manual to Add Spanish GAAP to the list of Countries and Associated National Financial Presentation Standards (Doc. ID: 2021-040.01, ID: 2021-040.02)
   —Kevin Fry (IL), Charles Therriault (NAIC), Marc Perlman (NAIC)
   Attachment Three

4. Receive and Discuss a Proposed Amendment to the P&P Manual to Add Bank Loans (Doc. ID: 2021-041.01)
   —Kevin Fry (IL), Charles Therriault (NAIC), Marc Perlman (NAIC)
   Attachment Four
5. Receive and Discuss a Proposed Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to Add Zero Loss Criteria for Legacy Modeled RMBS and CMBS  
(Doc. ID: 2021-042.01. ID: 2021-042.02)  
—Kevin Fry (IL), Eric Kolchinsky (NAIC), Charles Therriault (NAIC), Marc Perlman (NAIC)

6. Hear a report from the Structured Securities Group (SSG) on the Year-end Process  
— Eric Kolchinsky (NAIC)

7. Any other matters
VALUATION OF SECURITIES (E) TASK FORCE
PROPOSED 2022 CHARGES

The mission of the Valuation of Securities (E) Task Force is to provide regulatory leadership and expertise to establish and maintain all aspects of the NAIC’s credit assessment process for insurer-owned securities, as well as produce insightful and actionable research and analysis regarding insurer investments.

Ongoing Support of NAIC Programs, Products or Services

1. The Valuation of Securities (E) Task Force will:

   A. 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.

   B. Maintain and revise the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to provide solutions to investment-related regulatory issues for existing or anticipated investments.

   C. Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the Accounting Practices and Procedures Manual, as well as financial statement blanks and instructions, to ensure that the P&P Manual continues to reflect regulatory needs and objectives.

   D. Consider whether improvements should be suggested to the measurement, reporting and evaluation of invested assets by the NAIC as the result of: 1) newly identified types of invested assets; 2) newly identified investment risks within existing invested asset types; or 3) elevated concerns regarding previously identified investment risks.

   E. Identify potential improvements to the credit filing process, including formats and electronic system enhancements.

   F. Provide effective direction to the NAIC’s mortgage-backed securities modeling firms and consultants.

   G. Coordinate with other NAIC working groups and task forces—including, but not limited to, the Capital Adequacy (E) Task Force, the Investment Risk-Based Capital (E) Working Group, the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group—to formulate recommendations and to make referrals to such other NAIC regulator groups to ensure expertise relative to investments, or the purpose and objective of guidance in the P&P Manual, is reflective in the guidance of such other groups and that the expertise of such other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual.

   H. Identify potential improvements to the filing exempt process (the use of credit rating provider ratings to determine an NAIC designation) to ensure greater consistency, uniformity and appropriateness to achieve the NAIC’s financial solvency objectives.

   I. Implement policies to oversee the NAIC’s staff administration of rating agency ratings used in NAIC processes, including staff’s discretion over the applicability of their use in its administration of filing exemption.

NAIC Support Staff: Charles Therriault, Marc Perlman
TO:        Kevin Fry, Chair, Valuation of Securities (E) Task Force  
           Members of the Valuation of Securities (E) Task Force  
FROM:      Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)  
           Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)  
CC:        Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau  
RE:        Addition of United States International Development Finance Corporation to the Purposes and  
DATE:      September 3, 2021  


In October 2018 the Better Utilization of Investments Leading to Development (“BUILD”) Act was signed into law. The BUILD Act reorganized and merged existing United State government development finance and aid programs, the U.S. Overseas Private Investment Corporation (“OPIC”) and the Development Credit Authority of the United Stated Agency for International Development (“USAID”), into a new agency called the U.S. International Development Finance Corporation (“DFC”). The purposed of the DFC is to facilitate the participation of private sector capital and skills in the economic development of less developed countries and countries transitioning to market economies, while advancing U.S. foreign policy interests. It is authorized to do so by making loans or guaranties according to terms and conditions specified in the BUILD Act.

Pursuant to the BUILD Act, the support provided by the DFC shall, and existing support provided by OPIC and USAID shall continue, to constitute obligations of the United States, and the full faith and credit of the United States is thereby pledged for the full payment and performance of such obligations. The DFC is authorized to borrow from the U.S. Treasury to fulfill such obligations of the United States.

Based on this express full faith and credit, the SVO recommends adding the DFC to the “U.S. Government Full Faith and Credit – Filing Exempt” list in Part One of the P&P. We recommend maintaining OPIC and USAID on the list even though they have been subsumed by the DFC, because certain obligations of those agencies may still be outstanding.

For the avoidance of doubt, any security issued by an entity on the “U.S. Government Full Faith and Credit – Filing Exempt” list shall be filed with the SVO if the security is not fully guaranteed by the U.S. government. For certain entities on the list, statute may require parties other than the U.S. government
full faith and credit guarantor to bear a risk of loss equal to a specified percentage of the guaranteed support. For example, the BUILD Act requires parties to a project to bear the risk of loss in an amount of at least 20 percent of the guaranteed support of the DFC. If an insurance company, as investor, is the party bearing that risk of loss, meaning the securities it purchased are not fully guaranteed by the DFC or another entity on the list, it would need to file those securities with the SVO.

The P&P explains that the SVO has no compliance mechanism for these U.S. Government Obligations and encourages insurers which are uncertain about the Filing Exempt status of a security to either file it with the SVO or use the Regulatory Treatment Analysis Service (RTAS) – Emerging Investment Vehicle process. (P&P Part One, Paragraphs 75-76).

**Proposed Amendment** - The text changes to include the DFC on the “U.S. Government Full Faith and Credit – Filing Exempt” list is shown below with additions in red underline and deletions in red strikethrough, as it would appear in the 2021 P&P Manual format.
PART ONE

POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE
FILING EXEMPTION FOR U.S. GOVERNMENT SECURITIES

Initial Filing Conventions and Documentation

66. **U.S. Government Securities Required to Be Filed with the SVO** – U.S. Government debt that is not issued by, or guaranteed or insured by, those entities listed in below are subject to the filing exemption when rated by an NAIC CRP, otherwise, they must be filed with the SVO.

SVO Publishing Conventions for Filing Exempt U.S. Government Securities

67. **U.S. Treasury Obligations** – U.S. Treasury Obligations are added to the VOS Process automatically, and they appear in the VOS Product. The NAIC Designation is NAIC 1 and the NAIC Designation Category is **NAIC 1.A**.

Other Filing Exempt U.S. Government Securities

68. A single entry is in the AVS+ Products in its normal CUSIP sequence, followed by the description “All Issues” for the securities listed below.

69. Because these securities are Filing Exempt, CUSIP numbers are not published in the AVS+ Products. The securities should, however, be reported with a CUSIP in the appropriate section of Schedule D. The NAIC Designation is **NAIC 1** and the NAIC Designation Category is **NAIC 1.A**.

Filing Requirements for U.S. Government Securities

70. No filing is required for the securities deemed exempt from filing below unless a state insurance department has specifically requested the SVO to evaluate an exempt security.

71. For U.S. Government Securities required to be filed with the SVO, the reporting insurance company shall submit:

- A prospectus of the security that includes a description of the U.S. government program under which it is issued; and

- Appropriate evidence that the security or other obligation is backed by the U.S. government, an agency of the U.S. government or a U.S. government sponsored enterprise.

72. A variety of documents are acceptable as evidence that the issuer in question has some degree of support from the U.S. government. A copy of the legislation that created the entity or the program is acceptable as evidence of government support. Additionally, a copy of the guaranty or insurance policy for the transaction is also good evidence of government support. Another acceptable form of evidence is evidence of an NAIC CRP rating with a copy of the rating rationale memorandum discussing the role of U.S. government support. Oftentimes, the prospectus for the security describes in sufficient detail the role of the U.S. government in the security.
detail the relationship of the entity to the U.S. government, its agency or its government-sponsored enterprise.

73. It is not enough to merely establish a relationship between the U.S. government and the entity. It is necessary to provide materials that specifically describe all of the financial terms of the obligation and the manner in which the U.S. government will pay the obligation.

**Subsequent Filing**

74. No subsequent report (i.e., an annual update filing) is required for non-exempt U.S. government securities. However, a material credit events filing is required for nonexempt U.S. government securities if:

- The legislation authorizing the program has been rescinded;
- The transaction terms and/or the transaction documents have been waived, amended or modified; or
- If the legal commitment of the U.S. government, U.S. government agency or U.S. government sponsored entity has been allowed to lapse or has been withdrawn.

**Filing Exemption for Direct Claims on, or Backed by Full Faith and Credit of, the United States**

75. This section defines what the NAIC deems to be U.S. Government Obligations. They are not required to be filed with the SVO.

**NOTE**: Because these filing exemption provisions are set forth without any compliance mechanism, the SVO will not be able to verify whether insurers have filed all securities that are required to be filed with the SVO. State insurance department regulators may wish to create their own compliance mechanisms to protect any interests they may have relative to their domiciliary insurers.

76. The SVO does not have responsibility for determining whether specific securities should be filing exempt. An insurer who is uncertain whether a specific security qualifies for exemption should not contact the SVO for guidance, but should either file the security with the SVO or use the RTAS – Emerging Investment Vehicle Service process and obtain an opinion on exemption for that security.

**Definitions**

77. **U.S. Government Obligation** – All direct claims (including securities, loans, and leases) on, and the portions of claims that are directly and unconditionally issued, guaranteed or insured by the U.S. Government or its agencies.

78. **U.S. Government Agency** – An instrumentality of the U.S. Government the debt
Obligations of which are fully guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. Government. This category includes in addition to direct claims on, and the portions of claims that are directly and unconditionally guaranteed by, the U.S. Government agencies listed below, claims collateralized by securities issued or guaranteed by the U.S. Government agencies listed below for which a positive margin of collateral is maintained on a daily basis, fully taking into account any change in the insurance company’s exposure to the obligor or counterparty under a claim in relation to the market value of the collateral held in support of that claim.

**U.S. Government Full Faith and Credit – Filing Exempt**

<table>
<thead>
<tr>
<th>Agency/Corporation</th>
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<tbody>
<tr>
<td>Army and Air Force Exchange Service (AAFES)</td>
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<tr>
<td>Commodity Credit Corporation (CCC)</td>
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<tr>
<td>Export–Import Bank of the United States (EXIM Bank)</td>
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<tr>
<td>Farmers Home Administration (FmHA) – Certificates of Beneficial Ownership</td>
</tr>
<tr>
<td>Federal Deposit Insurance Corporation (FDIC)</td>
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<tr>
<td>Federal Housing Administration (FHA)</td>
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<tr>
<td>General Services Administration (GSA)</td>
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<tr>
<td>Government National Mortgage Association (GNMA)</td>
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<tr>
<td>National Credit Union Administration (NCUA)</td>
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<tr>
<td>Overseas Private Investment Corp (OPIC)</td>
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<tr>
<td>Small Business Administration (SBA)</td>
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</tbody>
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<thead>
<tr>
<th>Agency/Corporation</th>
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<tbody>
<tr>
<td>U.S. Agency for International Development (USAID)</td>
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<tr>
<td>U.S. Department of Agriculture (USDA)</td>
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<tr>
<td>U.S. Department of Health and Human Services (HHS)</td>
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<td>U.S. Department of Housing and Urban Development (HUD)</td>
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<tr>
<td>U.S. Department of the Treasury</td>
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<td>U.S. Department of Veterans Affairs (VA)</td>
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<tr>
<td><strong>U.S. International Development Finance Corporation (DFC)</strong></td>
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<tr>
<td>U.S. Maritime Administration (MARAD)</td>
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<tr>
<td>Washington Metropolitan Area Transit Authority</td>
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</tbody>
</table>

**Filing Exemption for Other U.S. Government Obligations**

79. Obligations issued and either guaranteed or insured, as to the timely payment of principal and interest, by the government agencies or government-sponsored enterprises listed below are filing exempt. They are not backed by the full faith and credit of the U.S. Government. The filing exemption here is based on an analytical judgment that the combined creditworthiness of the entity itself and U.S. government support for that entity provides confidence that the issuer will be able to pay its obligation on a full and timely basis at the level of an **NAIC 1** quality designation and an NAIC Designation Category of **NAIC 1A**. For the avoidance of doubt, preferred stock or similar securities of the government agencies or government-sponsored enterprises listed below are not considered guaranteed or insured and hence are not subject of this section.
**Filing Exempt Other U.S. Government Obligations**  
if issued and either fully guaranteed or insured by:

<table>
<thead>
<tr>
<th>Organization</th>
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<tbody>
<tr>
<td>Federal Agricultural Mortgage Corporation (Farmer Mac)</td>
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<tr>
<td>Federal Farm Credit Banks (FFCB)</td>
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<tr>
<td>Federal Financing Bank (FFB)</td>
</tr>
<tr>
<td>Federal Home Loan Banks (FHLB)</td>
</tr>
<tr>
<td>Federal Home Loan Mortgage Corporation (Freddie Mac)</td>
</tr>
<tr>
<td>Federal National Mortgage Association (Fannie Mac)</td>
</tr>
<tr>
<td>Financing Corporation (FICO)</td>
</tr>
<tr>
<td>Resolution Funding Corporation (REFCorp)</td>
</tr>
<tr>
<td>Tennessee Valley Authority (TVA)</td>
</tr>
</tbody>
</table>

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TO: Kevin Fry, Chair, Valuation of Securities (E) Task Force
    Members of the Valuation of Securities (E) Task Force

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

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau
    Rosemarie Kalinowski, Sr. Analyst, NAIC Securities Valuation Office (SVO)
    Catherine Cosentino, Analyst III, NAIC Securities Valuation Office (SVO)

RE: Addition of Spanish GAAP in the list of Countries and Associated National Financial Presentation
    Standards (the List) in the Purposes and Procedures Manual of the NAIC Investment Analysis
    Office (the "P&P Manual")

DATE: September 1, 2021

Summary - At present, financial statements submitted to the Security Valuations Office (SVO) for analysis
must be audited and prepared in accordance with either a Global Financial Presentation Standard (US
Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS)
or a Reconciled Financial Presentation Standard (local GAAP reconciled to US GAAP or IFRS) unless the
SVO has been specifically authorized to use a National Financial Presentation Standard.

Currently, the SVO is authorized to accept audited financial statements prepared in accordance with the
following National Financial Presentation Standards:

- Canadian Accounting Standards for Private Enterprises but only for non-financial institutions.
- UK Financial Reporting Standard (FRS) 102 (which encompasses Irish companies reporting
  under FRS 102).
- Australian GAAP.
- German GAAP.
- French GAAP but subject to the presentation of additional documentation as specified above
  and annually thereafter as specified below.
- Dutch (Netherlands) GAAP.
- Italian GAAP but subject to the presentation of additional documentation as specified above
  and annually thereafter as specified below.
- Belgian GAAP.
Swiss GAAP FER presented on the basis of the whole body of rules and regulations of Swiss GAAP FER ("Core FER" and other Swiss GAAP FER Standards), but subject to the presentation of additional documentation as specified in this Manual.

In 2013, the Valuation of Securities (E) Task Force adopted a procedure, as outlined in Part Two, paragraph 174 of the Purposes and Procedures Manual (P&P Manual) of the NAIC Investment Analysis Office, to submit requests to consider other National Financial Presentation Standard as follows:

A national insurance association (but not individual insurers or other persons) may, by written request, ask the SVO to study the feasibility of adding a country and the associated National GAAP or National IFRS. The SVO is authorized, but not required, to hold discussions with representatives of the national insurance association to evaluate whether the criteria specified below has been met and to formulate a recommendation to the VOS/TF. The SVO may not assign an NAIC Designation to or otherwise assess a security under the proposed national standard until the VOS/TF has, by amendment to this Manual, added the proposed country and the associated National GAAP or National IFRS.

In March 2021, the SVO received a letter from the American Council of Life Insurers (ACLI) requesting the SVO to consider the National GAAP/National IFRS of Spain for addition to the National Financial Presentation Standards. This letter included information supporting the request as required in Part Two, paragraph 175, of the P&P Manual, including evidence that certain companies in the targeted country are not required to use a Global Financial Presentation Standard, and that investment opportunities exist in the targeted country.

Having received the industry request and required information, Part Two, paragraphs 177-181 of the P&P Manual further establishes a process that the SVO must follow in order to have a National GAAP or National IFRS accepted as a National Financial Presentation Standards. The steps in this process are as follows:

177. The national insurance association will, as necessary, identify an accounting firm that is an expert in the national accounting system of the country proposed for inclusion on the List of Countries and associated National Financial Presentation Standard.

The requirement of this step has been fulfilled. The ACLI identified Deloitte of Spain as an expert in the national accounting system of Spain.

178. The national insurance association will work with the SVO to create an educational session on those aspects of financial presentation relevant to the SVO for purposes of its credit risk assessment.

This requirement has been fulfilled. On June 22, 2021, Joaquin Sánchez-Horneros, Director and member of the IFRS Centre of Excellence of Deloitte Spain, along with Pablo Castillo Lekuona, Senior Manager in the Department of Global Capital Markets and Accounting IFRS, gave a presentation to SVO analysts.
179. The educational session will focus on the material differences between accounting methods for the income statement and balance sheet, and shall include such further or additional areas as the SVO shall deem necessary in view of the specific country and national accounting system proposed.

The June 22, 2021 presentation by Deloitte included detailed differences between Spanish GAAP and IFRS including a case study demonstrating the financial statement impact on a company over three years, comparing IFRS to Spanish GAAP. The case study demonstrated the adjustments required to bridge from one standard to another, although no one given example is necessarily representative of the absolute magnitude of difference on financial measures for any other company.

180. At the conclusion of such educational session, the SVO shall assess whether the educational session provides a sufficient basis for it to make needed adjustments to the financial information presented under the national accounting standard.

Based on the Deloitte presentation, including the reconciliation case study, it appears that most differences between Spanish GAAP and IFRS can be identified with additional disclosure sufficient to allow an analyst to make any necessary adjustments to an analysis. As noted below, the SVO will request additional information if the footnotes to the financial statements prepared in accordance with Spanish GAAP fail to provide adequate information.

181. The SVO shall then assess whether the application of the adjustments in one or more transactions confirms that the use of the national accounting standard leads to the creation of NAIC Designations analogous (in the information they convey about credit risk) to those created by the use of a Global Financial Presentation Standard.

The presentation of the Spanish GAAP review by Deloitte was sufficient for the SVO to draw conclusions as to the ability to analyze credits presented under these accounting guidelines.

The principal differences between Spanish GAAP and IFRS focus on several categories:

- **Operating Leases**
  - **Spanish GAAP**: Not brought on to the balance sheet; accounted for as operating leases. Operating lease income and expense corresponding to the lessor and lessee are considered respectively, to be income and expenses of the year in which they accrue.
  - **IFRS**: Brought on to the balance sheet. Recorded as an asset (right of use) and a corresponding lease liability by the lessee.
  - **Impact**: Lessor: income is higher / Lessee: income is lower than that reported for IFRS and debt is lower than that of IFRS.

- **Government Grants**
  - **Spanish GAAP**: Initially accounted for as equity and subsequently charged to the income statement as amortization over time.
o **IFRS:** Prohibits recognizing them immediately as equity. In the case of capital grants, it is allowed to record them by reducing assets. Grants related to expenses can be presented in the income statement as income or netting the corresponding expenses.

o **Impact:** Equity will be inflated for capital grants and related debt to cap will be lower than that calculated under IFRS. Net income will be lower in each subsequent year than that under IFRS calculation but should be reconcilable if footnotes provide disclosure.

- **Intangible Assets**
  o **Spanish GAAP:** Research & development costs can be capitalized. Presumption of a useful life limit of 5 years in the amortization of these costs and computer programs, unless proven otherwise.
  o **IFRS:** Research costs are not capitalized. Only development costs can be capitalized under certain requirements, which will be amortized over their useful life (no time limit).
  o **Impact:** Assets are higher than under IFRS since research is capitalized; net income will be lower than under IFRS in each subsequent year due to amortization of research. However, this should be reconcilable if footnotes provide disclosure.

- **Goodwill**
  o **Spanish GAAP:** Amortizable over 10 years.
  o **IFRS:** Not amortizable. If fair value goes below historical cost, an impairment must be recorded.
  o **Impact:** Net income is lower than under IFRS due to ongoing goodwill amortization; assets and equity will be undervalued relative to IFRS due to the amortization. Debt to cap calculations will be higher than under IFRS due to the lower equity. However, this should be reconcilable if footnotes provide disclosure.

- **Financial instrument-valuation**
  o **Spanish GAAP:**
    - Financial assets: lower of acquisition cost and market
    - Financial liabilities: repayment value
    - Financial liabilities: all changes in fair value are recognized in the income statement
  o **IFRS:**
    - Financial assets: fair value
    - Financial liabilities: amortized cost
    - Financial liabilities: changes in fair value are recognized in equity
  o **Impact:**
    - Financial assets: Asset value will be understated relative to IFRS if fair value and cost are different.
    - Financial liabilities: Changes in fair value will impact the income statement under Spanish GAAP, which could affect financial ratio calculations involving net income, such as net income/revenues, as well as the calculation of EBITDA if these adjustments cannot be clearly identified in the footnote disclosure.

- **Financial instruments (available for sale): Impairment/reorganization**
  o **Spanish GAAP:** Fresh start in certain situations
• IFRS: Fresh start is not recognized.
  • Impact: reported assets under Spanish GAAP may be overstated, but this is an item that is likely to occur infrequently and can be identified by footnote disclosure.

- Joint ventures
  • Spanish GAAP: Proportionate consolidation, if 50/50 joint venture can use equity method.
  • IFRS: Uses equity method.
  • Impact: Revenue and operating income will be higher than under IFRS if proportionate consolidation is used. This may significantly distort results if a company has large joint venture holdings. Footnote disclosures would be needed outlining information on the holdings that would enable the analyst to adjust the results to carve out joint ventures as equity holdings.

The conclusion is that there are several important differences between Spanish GAAP and IFRS. The items referenced above will require additional disclosures in the notes or audited supplement to the financial statements, thereby allowing the SVO to adjust the financial statements so that the use of Spanish GAAP financial statements will have no impact on the ultimate designation. Some of these disclosures may not be contained in the notes to Spanish GAAP financial statements, so the following items, certified by the auditor, should be submitted along with the Spanish GAAP statements:

- A complete set of audited financial statements (for at least three years, if available) comprising: balance sheet, income statement and consolidated statement of cash flows;
- Disclosure of operating lease commitments in a manner similar to that required by IFRS or US GAAP;
- Disclosure of Government Grants, initial amount and year-to-date and cumulative amortization;
- Disclosure of gross capitalized research costs and cumulative amortization;
- Disclosure of gross goodwill and cumulative amortization, including goodwill created by fresh-start accounting;
- Disclosure of the change in fair value for financial assets and liabilities;
- Disclosure on joint ventures not using the equity method including full financial results;

Proposed Amendment - The text changes to include Spanish GAAP on the list of Countries and Associated National Financial Presentation Standards is shown below with additions in red underline and deletions in red strikethrough, as it would appear in the 2020 P&P Manual format.
PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO
Information Requirements Associated with the Use of a National Financial Presentation Standard

182. Insurance companies who file securities whose issuers present financial information in accordance with a National Financial Presentation Standard shall:

- Where materially different from Global Financial Presentation Standards, identify how local accounting standards treat specific issues relevant to assessment of credit risk.
- Provide written descriptions of the accounting difference the insurer considered, and of how it resolved concerns about the accounting differences during the investment decision making process.
- Be prepared to provide the SVO with access to the issuer’s management or to convey questions and retrieve information from the issuer’s management.
- Include a consolidated statement of cash flows for the past three years. See the definition of Audited Financial Statement for additional guidance pertaining to this requirement.
- For filings presented on the basis of French generally accepted auditing standards GAAP, the following additional documentation is required:
  - Disclosure of finance lease obligations;
  - Disclosure of operating lease commitments in a manner similar to that required by IFRS or US GAAP;
  - Disclosure of pension assets and liabilities as well as any other post-employment plan obligations (key is disclosure of any unfunded amount);
  - Disclosure of the amount of treasury stock, if any, and how it is accounted for; and
  - Segment reporting of sales, assets, income and depreciation.
- For filings presented on the basis of Italian GAAP, the following additional documentation is required:
  - A consolidated statement of cash flows for three years;
  - Disclosure of finance lease obligations;
Disclosure of operating lease commitments in a manner similar to that required by IFRS or U.S. GAAP;
Disclosure of pension assets and liabilities, as well as any other post-employment plan obligations, especially of any unfunded amounts; and
Disclosure of the amount of Treasury stock, if any, and how it is accounted for.

For filings presented on the basis of the whole body of rules and regulations of Swiss GAAP FER (“Core FER” and other Swiss GAAP FER Standards), the insurer always provides the following information:

- Full set of audited financial statements, including a statement of cash flows;
- Disclosure of finance lease and operating lease commitments in a manner similar to that required by IFRS or US GAAP;
- Disclosure of pension assets and liabilities as well as any other post-employment plan obligations, especially any unfunded amount;
- Disclosure of the amount of treasury stock, if any, and how it is accounted for;
- Segment reporting of sales, assets, income and depreciation;
- Signed Auditor’s Opinion; and
- Consolidation information and consolidated financial statements where relevant.

For filings presented on the basis of Spanish GAAP, the following additional documentation is required:

- A complete set of audited financial statements (for at least three years, if available) comprising: balance sheet, income statement and consolidated statement of cash flows;
- Disclosure of operating lease commitments in a manner similar to that required by IFRS or US GAAP;
- Disclosure of Government Grants, initial amount and year-to-date and cumulative amortization;
- Disclosure of gross capitalized research costs and cumulative amortization;
- Disclosure of gross goodwill and cumulative amortization, including goodwill created by fresh-start accounting;
Disclosure in the change in fair value for financial assets and liabilities;
Disclosure of joint ventures recorded not using the equity method, including full financial results;

Countries and Associated National Financial Presentation Standards

183. The SVO is authorized to accept Audited Financial Statements prepared in accordance with the following National Financial Presentation Standards:

- Canadian Accounting Standards for Private Enterprises but only for non-financial institutions.
- UK Financial Reporting Standard (FRS) 102 (which encompasses Irish companies reporting under FRS 102).
- Australian GAAP.
- German GAAP.
- French GAAP but subject to the presentation of additional documentation as specified above and annually thereafter as specified below in this Manual.
- Dutch (Netherlands) GAAP.
- Italian GAAP but subject to the presentation of additional documentation as specified above and annually thereafter as specified below in this Manual.
- Belgian Belgium GAAP.
- Swiss GAAP FER presented on the basis of the whole body of rules and regulations of Swiss GAAP FER (“Core FER” and other Swiss GAAP FER Standards), but subject to the presentation of additional documentation as specified in this Manual.
- Spanish GAAP but subject to the presentation of additional documentation as specified above and annually thereafter as specified in this Manual.
March 1, 2021

Mr. Charles Therriault
Director, NAIC Securities Valuation Office
One New York Plaza, Suite 4200
New York, NY 10004

Re: Request to Consider National GAAP/National IFRS of Spain for Addition to Permitted Financial Performance Presentation Standards Country List

Dear Mr. Therriault:

The American Council of Life Insurers (ACLI) respectfully requests that the Securities Valuation Office ("SVO") study the feasibility of adding the National GAAP of Spain to Part Two Section 10(c)(i)(D) of the Purposes and Procedures Manual of the NAIC Securities Valuation Office (the "Manual").

In 2013, a Procedure to Authorize SVO Use of a National Financial Presentation Standard was adopted by the SVO. This procedure provides that a national insurance association may, by written request, ask the SVO to study the feasibility of adding a country and the associated National GAAP or National IFRS to Part Two Section 10(c)(i)(D) of the Manual. The SVO is authorized, but not required, to hold discussions with representatives of the national insurance association to evaluate whether the criteria specified below has been met and to formulate a recommendation to the Valuation of Securities Task Force ("VOSTF").

Information Supporting the Request – As part of its request the national insurance association shall:

(i) Demonstrate that the request to add a National GAAP or National IFRS standard reflects that the borrower population the insurance industry would target is not required to use a Global Financial Presentation Standard or the Reconciled Financial Presentation Standard to obtain financing in its local market and otherwise lacks the economic or market incentive to use a Global Financial Presentation Standard or the Reconciled Financial Presentation Standard in the absence of a requirement.

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

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 280 member companies represent 94 percent of industry assets in the United States.

acl.com
Spain (A/Baa1/A-) is a highly developed and mature economy with a GDP of c. $1.3 trillion, making it the 4th largest country in the EU after Germany, France and Italy (and 14th largest country globally). National GAAP issuers in Spain have access to a strong core of local Spanish banks as well as international banks, the European private placement market, private placements under EMTN documents, the public Eurobond market and the growing local alternative fixed income bond market “MARF” – all of which accept local GAAP.

(ii) Provide evidence of both investment opportunity and insurance industry interest to make investments in the country;

From the late 1990s to 2010, companies in Spain tapped the USPP market opportunistically, with major multinationals including companies like Iberdrola, Grifols, Uralita and Campofrio (amongst others) issuing in the USPP market. There was limited issuance from 2010-2017 as the Spanish banks remained very aggressive and issuers had the opportunity to tap the European PP or local MARF market which accepted both Spanish GAAP and Spanish Law. Since 2018, Spanish issuance (totaling USD 2.3 billion) increased significantly and we believe Spain can be a key source for the U.S. Private Placement market among countries whose National GAAP is not included in Part Two Section 10(c)(i)(D). To date, most if not all investment flows have been from issuers that report under IFRS. Based on a CapIQ screen, there are approximately 1,250 companies in Spain between €200 million and €3 billion in revenues that presumably could consider obtaining financing from the U.S. Private Placement market. Although the number of companies using Spanish GAAP (vs. IFRS) is difficult to ascertain, given the fact that Spanish companies are required by law to file for their taxes using Spanish GAAP, the IFRS standard is mainly used by listed companies and, even then, it is in conjunction with Spanish GAAP (and only for the Consolidated Financial Statements). Given broad access to alternative sources of capital for these potential issuers, the cost and time consumption of the current reconciliation requirement serves as a barrier to their interest in the U.S. Private Placement market.

(iii) Explain the relationship of the proposed National GAAP or National IFRS financial presentation standard within the larger context of the country’s economic, financial, regulatory and legal traditions; and

- See Exhibit 1 for further details on Spanish GAAP.

(iv) Explain how the proposed National GAAP or National IFRS financial presentation standard, viewed from the perspective of an investor and from that of the SVO as a risk assessor, is of a quality and of a transparency sufficient to enable the creation of NAIC Designations analogous to those prepared using a Global Financial Presentation Standard.

- National GAAP of Spain:
  - Is broadly accepted in local and European bank markets and capital markets
  - Benefits from long-standing National accounting standards Boards
  - Issuers are regularly subject to audits on their reported Spanish GAAP Financial Statements which are conducted by independent accounting firms, including the Big Four
Is considered broadly similar to IFRS and other European National GAAPs
- Only the National Spanish GAAP can be used to file the Company Taxes

- ACLI is prepared to expand on these factors as part of an education process for the SVO on the Spanish National GAAP standard.

In summary, we believe adding the National GAAP of Spain to Part Two Section 10(c)(i)(D) of the Manual will create access for U.S insurance companies to attractive investment flows, from strong companies in a highly developed economy.

Sincerely,

[Signature]

Mike Monahan
Senior Director, Accounting Policy

cc: Marc Perlman, Investment Counsel
Spain – National GAAP Accounting Context

- The Spain Generally Accepted Accounting Principles ("Spanish GAAP") are regulated by law and are mainly based on EU directives. The Code of Commerce establishes the obligation for companies to keep books of accounts and provides the basic legal framework for accounting. As stipulated in the Code of Commerce, all companies must prepare financial statements in accordance with the Spanish General Accounting Plan (Spanish GAAP) and file these with the Mercantile Register.

- In accordance with the Royal Decree 302/1989, the Instituto de Contabilidad y Auditoría de Cuentas (ICAC), an agency within the Ministry of Economy, Industry and Competitiveness (MoEIC), is responsible for proposing a Spanish GAAP adapted to EU Regulations and harmonized with EU-endorsed standards. Throughout the 2000s, Spanish accounting legislation was amended in order to adapt to international standards and the EU accounting requirements. Since 2005, publicly traded companies have been required to prepare their consolidated financial statements in accordance with EU-endorsed IFRS following the EU Regulation (EC) No 1606/2002. In 2007, Royal Decree 1514/2007 approved the revised Spanish GAAP for separate statements of all companies and in 2010 the Royal Decree 1159/2010 approved the Spanish GAAP for consolidated annual statements. In addition, Royal Decree 1515/2007 approved the Spanish GAAP for SMEs and a Spanish GAAP for micro-entities for eligible companies. The above-mentioned decrees were amended by the Royal Decree 602/2016, to transpose the EU Audit Directive 2013/34. There are some differences between the IFRS and Spanish GAAP.¹

- A recent reform was approved with the main objective to adapt and not adopt Spanish Accounting Standards to the relevant differences introduced by the Financial Reporting Standards issued by the IASB and adopted by the European Union in 2018; that is, IFRS 9 on Financial Instruments, IFRS 13 Fair Value Measurement and IFRS 15 on Revenue from Contracts with Customers.

- Like other EU countries, listed companies in Spain are required to report under IFRS (effective 2005).

- National professional organizations in Spain include:
  - ICAC, Accounting and Auditing Institute
  - ICJCE, Institute of Certified Public Accountants of Spain
  - AECE, Professional Association of Certified Public Accountants and Certified Tax Experts of Spain

- The accounting principles set out in the IFRS framework, which include understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness, and achieving a balance between benefit and cost, apply to

¹ Source: IFAC (International Federation of Accountants)
Spanish GAAP in practice. Financial statements shall give a true and fair view of the company’s assets, liabilities, financial position and results.
TO: Kevin Fry, Chair, Valuation of Securities (E) Task Force  
Members of the Valuation of Securities (E) Task Force

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

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

RE: Addition of a Bank Loans section to the Purposes Procedures Manual of the NAIC Investment Analysis Office

DATE: September 3, 2021

Summary – Since 2018 the Accounting Practices and Procedures Manual has included bank loans issued directly by a reporting entity or acquired through a participation, syndication or assignment in SSAP No. 26R – Bonds. Pursuant to SSAP No. 26R, bank loans means fixed-income instruments, representing indebtedness of a borrower, made by a financial institution.

In order to maintain consistency with the bond definition in SSAP No. 26R - Bonds, the SVO proposes amending the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “P&P Manual”) to clarify that the SVO can assess and assign NAIC Designations to bank loans and the relevant filing instructions and methodology. The filing instructions and methodology would follow that of other corporate obligations.

Proposed Amendment - The text changes to add bank loans to the SVO’s credit assessment responsibilities is shown below with additions in red underline and deletions in red strikethrough, as it would appear in the 2021 P&P Manual format.
PART THREE

SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS
GENERAL CORPORATE AND MUNICIPAL METHODOLOGY FOR INDEPENDENT CREDIT QUALITY ASSESSMENT

NOTE: See “Special Instructions” (discussing Short-Term Investments, Circular Transactions, Mandatory Convertible Securities, Unrated Hybrid Securities and Sub-Paragraph D Companies) in Part One for policies that impact assignment of NAIC Designations.

27. Corporate bonds defined as the Obligations\(^2\) of domestic and foreign corporations, and preferred stock shall be distinguished on the basis of the categories discussed below. The creditworthiness of the issuer of any particular category of Obligation shall be assessed by reference to the general, and any special, rating methodology discussed in this Part, unless the context of the analysis requires a different approach.

\(^2\)Obligation means bonds, notes, debentures, certificates, including equipment trust certificates, production payments, bank certificates of deposit, bankers’ acceptances, credit tenant loans, loans secured by financing net leases, bank loans made by a financial institution (issued directly by a reporting entity or acquired through a participation, syndication or assignment (each, as defined in SSAP No. 26R – Bonds)), and other evidences of indebtedness for the payment of money (or a participation, certificates or other evidences of an interest in any of the foregoing), whether constituting general obligations of the issuer or payable only out of certain revenues or certain funds pledged or otherwise dedicated for payment.
BANK LOANS
TO: Kevin Fry, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

RE: Add Zero Loss Criteria for Legacy Modeled RMBS and CMBS

DATE: August 31, 2021

Summary – The SVO and SSG staff drafted the attached amendment to the Purposes and Procedures Manual for the NAIC Investment Analysis Office (P&P Manual) at the request of the American Council of Life Insurers (ACLI) and North American Securities Valuation Association (NASVA) in their memorandum to the Task Force dated July 9, 2021 commenting on the implementation of the March 22 adopted amendment to Update the Financial Modeling Instructions for RMBS/CMBS Securities and Direct IAO Staff to Produce NAIC Designation and NAIC Designations Categories for Non-Legacy Securities. The ACLI and NASVA were supportive of the adopted amendment referenced above and the change to a “through the cycle” modeling approach that the Structured Securities Group (SSG) is planning to implement. With the adoption of the new bond risk-based capital (RBC) factors, the ACLI and NASVA requested a phased implementation to minimize operational and reporting issues. SSG is planning such a phased approach and will continue for 2021 with the existing six price breakpoints to determine an NAIC Designation with the result mapped to an NAIC Designation Category as was done for year-end 2020. SSG plans to introduce twenty price breakpoints for 2022 and at that time the mapping instructions to an NAIC Designation Category will be deleted from the P&P Manual.

Requested Changes - The ACLI and NASVA requested four changes, identified in underline-italics, with a staff recommended action identified in bold.

1. **NAIC designation mapping of non-modeled structured securities follows the same filing-exempt (FE) process as all other FE bond investments that are currently granted filing exemption under the P&P manual of the IAO.**

The P&P Manual already permits non-modeled RMBS and CMBS securities that cannot be financially modeled but are rated by a credit rating provider to rely upon the filing exemption process (Part Four, paragraph 5). No change or update is necessary at this time.
2. **NAIC designation mapping of non-legacy modeled securities should follow the below outlined process:**
   
a. **Price breakpoints for non-legacy modeled securities are eliminated this year and the SSG follows the adopted intrinsic price approach.**

b. **Companies receive a file from the SSG with CUSIP-level designations that can be directly consumed by vendors.**

c. **In the absence of a more detailed methodology for mapping under the 20 NAIC designations, SSG will map “zero-loss” securities to 1A, and all other securities to the middle designation of their category.**

SSG will be producing NAIC Designation Categories for all non-legacy modeled securities consistent with the methodology already published for mortgage reference securities.

3. **NAIC designation mapping of legacy modeled securities should follow the below outlined process:**

   a. **Companies receive a file from the SSG with CUSIP-level price points that can be directly consumed by vendors (one set for Life and one set for PC). This file will have the exact same layout as in 2020. To that end, the SSG will derive the CUSIP-level price breakpoints from the new RBC factor of the middle designation of each designation category.**

   b. **In the absence of a more detailed methodology for mapping under the 20 NAIC designations, companies will map “zero-loss” securities to 1A, and all other securities to the middle designation of their category.**

SSG will be producing five price breakpoints for legacy modeled securities in the same data layout as the 2020 file but deriving the price breakpoints from the RBC factors assigned to the middle NAIC Designation Category for each NAIC Designation. Legacy securities that exhibit “zero-loss” under any scenario will be mapped to an NAIC Designation Category 1.A.

4. **Implementation of “through the cycle” modeling for CMBS is postponed to 2022, provided that if 2021 modeling results lead to visibly distorted NAIC designations as in 2020, the SSG retains flexibility to calibrate results in a way that alleviates such distortions.**

SSG plans to use “through the cycle” for modeling RMBS in 2021 and CMBS in 2022.

**Recommendation** – The SVO and SSG staff recommends that only the action steps for request item 3 be considered at this time as the other requested changes have a process in place to address the concern or will be a future change.

**Proposed Amendment** - The text impacting Part Four is shown below, addition edits in red underline and deletions in red strikethrough, as it would appear in the 2021 P&P Manual format given interim adopted changes through July 15th.
PART FOUR
THE NAIC STRUCTURED SECURITIES GROUP
Use of Financial Modeling for Year-End Reporting for RMBS and CMBS

27. The NAIC Designation and NAIC Designation Category for a given modeled Legacy Security RMBS or CMBS CUSIP owned by a given insurance company depends on the insurer’s book/adjusted carrying value of each RMBS or CMBS, whether that carrying value, in accordance with SSAP No. 43R—Loan-Backed and Structured Securities, paragraphs 25 through 26a, is the amortized cost or fair value, and where the book/adjusted carrying value matches the price ranges provided in the model output for each NAIC Designation and the mapped NAIC Designation Category, reflected in the table below, to be used for reporting an NAIC Designation Category until new prices ranges are developed to reflect the full range of new Risk Based Capital factors adopted for each NAIC Designation Category; until new Risk Based Capital factors are adopted for each NAIC Designation Category and new prices ranges developed except that a modeled Legacy Security RMBS or CMBS tranche that has no expected loss under any of the selected modeling scenarios would be assigned an NAIC 1 Designation and NAIC 1.A Designation Category regardless of the insurer’s book/adjusted carrying value.

Note: Please refer to the detailed instructions provided in SSAP No. 43R.

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...
July 9, 2021

Mr. Kevin Fry, Chair  
Ms. Carrie Mears, Vice Chair  
NAIC Valuation of Securities Task Force  
1100 Walnut Street  
Suite 1500  
Kansas City, MO 64106-2197

Dear Mr. Fry and Ms. Mears:

The American Council of Life Insurers (ACLI)1 and the North American Securities Valuation Association (NASVA)2 (“the undersigned”) appreciate the opportunity to comment on the implementation of the amendment to the Purposes and Procedures (P&P) Manual of the NAIC Investment Analysis Office (IAO) adopted on March 22, 2021.

The ACLI and NASVA (and their respective members) are supportive of the adopted amendment referenced above and the change to a “through the cycle” modeling approach that the Structured Securities Group (SSG) of the Securities Valuation Office had informed us was planning to also implement this year. As we expressed in our March 20, 2021 letter to you, we believe that the combination of these changes would largely revert distortions in NAIC designations where securities of high credit quality received designations typically reserved for speculative quality securities.

Notwithstanding the above, we also understand that there are additional circumstances like the implementation of the new bond risk-based capital (RBC) factors that may increase the complexity of all these changes. Given that we are into the second half of the year and ACLI and NASVA member companies have not received detailed implementation instructions for all these changes that would allow member company vendors to adapt their systems, we fear that a rushed implementation may introduce undue operational and reporting risks.

In this context, the undersigned would be supportive of phased implementation of the announced changes if that helps protect the operational soundness of member companies reporting processes.

__________________________

1 The American Council of Life Insurers (“ACLI”) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI’s 280 member companies represent 94 percent of industry assets in the United States.

2 The North American Securities Valuation Association (“NASVA”) is an association of insurance company representatives who interact with the National Association of Insurance Commissioners Securities Valuation Office to provide important input, and to exchange information, in order to improve the interaction between the SVO and its users. In the past, NASVA committees have worked on issues such as improving filing procedures, suggesting enhancements to the NAIC’s ISIS electronic security filing system, and commenting on year-end processes. Find more information here.
At the same time, we would recommend that sufficient changes be introduced this year to avoid distortions in the assignment of NAIC designations to modeled securities, and more broadly ensure consistency in RBC treatment between structured products and other bond investments.

ACLI and NASVA would respectfully recommend the following approach to ensure the goals outlined above are attained:

1. NAIC designation mapping of non-modeled structured securities follows the same filing-exempt (FE) process as all other FE bond investments that are currently granted filing exemption under the P&P manual of the IAO.

2. NAIC designation mapping of non-legacy modeled securities should follow the below outlined process:
   a. Price breakpoints for non-legacy modeled securities are eliminated this year and the SSG follows the adopted intrinsic price approach.
   b. Companies receive a file from the SSG with CUSIP-level designations that can be directly consumed by vendors.
   c. In the absence of a more detailed methodology for mapping under the 20 NAIC designations, SSG will map “zero-loss” securities to 1A, and all other securities to the middle designation of their category.

3. NAIC designation mapping of legacy modeled securities should follow the below outlined process:
   a. Companies receive a file from the SSG with CUSIP-level price points that can be directly consumed by vendors (one set for Life and one set for PC). This file will have the exact same layout as in 2020. To that end, the SSG will derive the CUSIP-level price breakpoints from the new RBC factor of the middle designation of each designation category.
   b. In the absence of a more detailed methodology for mapping under the 20 NAIC designations, companies will map “zero-loss” securities to 1A, and all other securities to the middle designation of their category.

4. Implementation of “through the cycle” modeling for CMBS is postponed to 2022, provided that if 2021 modeling results lead to visibly distorted NAIC designations as in 2020, the SSG retains flexibility to calibrate results in a way that alleviates such distortions.

The ACLI and NASVA understand that the SSG will need to develop a more detailed approach to apply the new 20 NAIC designations to modeled securities than the process recommended above. However, we ask that such more detailed approach be developed for 2022 so that the process can be fully vetted and analyzed by all interested parties. Investment software vendors require testing and implementation time to upgrade their software, and insurance companies also need enough lead time to perform their requisite due diligence before implementing software upgrades to their accounting and reporting systems. Beginning this type of technology upgrade so late in the year puts unnecessary operational burdens on insurance companies and may result in inconsistent application of the 20-designation approach if system upgrades cannot be put into production in 2021.

We believe that the changes and timing outlined above would help produce NAIC designations for 2021 that are adequately aligned with the credit risk of structured securities, while also helping
ensure that the year-end reporting processes do not encounter unnecessary operational complexities and risks. Also, the recommended process helps ensure that all structured securities can fit into the new 20 RBC factors alongside all other bond types – an important outcome given all the changes to RBC that are taking place this year. Finally, we would kindly ask that once the details around the changes to be implemented for year-end 2021 are decided on, the SSG works with its modeling vendor to expeditiously produce interim results for modeled securities that may help regulators and insurers ascertain the soundness of the changes and take timely corrective action if need be.

We are grateful for the opportunity to provide these comments, and for the continued engagement of regulators and staff with industry participants throughout the development and implementation of these changes.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy
American Council of Life Insurers

Tracey Lindsey
President
North American Securities Valuation Association