

**TO:** Elizabeth Kelleher Dwyer, Chair, Financial Conditions (E) Committee  
Marlene Caride, Chair, Financial Stability (E) Task Force  
Bob Kasinow, Chair, Macroprudential (E) Working Group  
Thomas Botsko, Chair, Capital Adequacy (E) Task Force  
Phillip Barlow, Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group  
Cassie Brown, Chair, Life Actuarial (A) Task Force  
Judy Weaver, Chair, Financial Analysis (E) Working Group  
Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group  
Fred Andersen, Chair, Valuation Analysis (E) Working Group

**FROM:** Carrie Mears, Chair, Valuation of Securities (E) Task Force

**CC:** Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)  
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau  
Dan Daveline, Director, NAIC Financial Regulatory Services  
Todd Sells, Director, NAIC Financial Regulatory Policy & Data  
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)  
Julie Gann, Assistant Director, NAIC Solvency Policy  
Bruce Jenson, Assistant Director, NAIC Solvency Monitoring  
Pat Allison, Managing Life Actuary, NAIC Financial Regulatory Affairs  
Jane Koenigsman, Sr. Manager II, NAIC L/H Financial Analysis  
Andy Daleo, Sr. Manager I, NAIC P/C Domestic and International Analysis  
Dave Fleming, Sr. Life RBC Analyst, NAIC Financial Regulatory Affairs  
Jennifer Frasier, Life Examination Actuary, NAIC Financial Regulatory Affairs  
Scott O'Neal, Life Actuary, NAIC Financial Regulatory Affairs  
Eva Yeung, Sr. P/C RBC Analyst/Technical Lead, NAIC Financial Regulatory Affairs

**RE:** Referral on Additional Market and Analytical Information for Bond Investments

**DATE:** February 13, 2023

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**Summary** – The Investment Analysis Office (IAO) staff recommended in its Feb. 25, 2022, memorandum to the Valuation of Securities (E) Task Force (VOSTF) (attached hereto, Blanks Market Data Disclosure v2.pdf) that it would like additional market-data fields added to the annual statement instructions for bond investments. This was, in part, based upon the NAIC's adoption in 2010 of the recommendations of

the Rating Agency (E) Working Group (RAWG), which was formed following the Great Financial Crisis of 2007-2008 to study the NAIC's reliance on rating agencies, and the IAO staff's recent findings in its Nov. 2021 memo regarding disparities between rating agencies. RAWG recommended that: 1) regulators explore how reliance on rating agencies can be reduced when evaluating new, structured, or alternative asset classes, particularly by introducing additional or alternative ways to measure risk; and 2) consider alternatives for regulators' assessment of insurers' investment risk, including expanding the role of the NAIC Securities Valuation Office ("SVO"); and 3) VOSTF should continue to develop independent analytical processes to assess investment risks. These mechanisms can be tailored to address unique regulatory concerns and should be developed for use either as supplements or alternatives to ratings, depending on the specific regulatory process under consideration.

The NAIC's need for alternative measures of investment risk has only increased since RAWG made its recommendations, as privately issued and rated complex structured finance transactions have become commonplace without adequate ways of identifying them. The SVO recommended the following market data fields to be added to the annual statement instructions: Market Yield, Market Price, Purchase Yield, Weighted Average Life, Spread to Average Life UST, Option Adjusted Spread, Effective Duration, Convexity and VISION Issue ID. Please refer to the attached memo for more detail on each data field.

In comments received from industry there were question as to how the SVO, VOSTF and/or other regulators who would receive the analytic data included in the proposal would utilize that information and why it is of value to them. The SVO was also asked to consider industry's recommendation that the NAIC be responsible for calculating this analytical information by utilizing commercially available data sources and investment models instead of having each individual insurance company incur the costs to implement system changes. The SVO shared their thoughts on the alternatives in the Jul. 14, 2022, memorandum to the VOSTF (attached, Blanks\_Market\_Data\_Options\_v3.pdf).

Capabilities like this within the SVO would permit it to calculate for regulators all the analytic values previously mentioned for any Schedule D investment along with additional measures such as key rate duration (a measure of interest rate sensitivity to maturity points along the yield curve), sensitivity to interest rate volatility, principal and interest cash flow projections for any security or portfolio for any given interest rate projection, loss estimates for any security for any given scenario and many others measures.

**Referral** – VOSTF refers this matter to the above referenced Committees, Task Forces and Working Groups for consideration and requests a response from you by May 15<sup>th</sup> outlining:

1. Indicate if your group is supportive of creating this capability within the SVO.
2. List the investment analytical measures and projections that would be most helpful to support the work performed by your respective group.
3. Describe how your group would utilize the data and why it would be of value.
4. Are there other investment data or projection capabilities that would be useful to your group that could be provided by commercially available data sources or investment models? And if so, please list them.
5. Any other thoughts you may have on this initiative.

Please contact Charles Therriault or Marc Perlman with any questions.

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