



EMORANDUM

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, Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: Proposed Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Permit Supranational Entities Filed with the SVO to be Added to the Sovereign NAIC Designation Equivalent List

DATE: April 30, 2020

1. Summary – The SVO maintains the Sovereign NAIC Designation Equivalent list and publishes it on its webpage (<https://www.naic.org/svo.htm>). This list is used to cap the NAIC Designation that can be assigned by the SVO to an investment at the Sovereign Designation Equivalent. The SVO discussed this list with the Task Force at its February 4, 2020 meeting and received instructions from the Task Force to research and develop criteria for an acceptable sovereign rating exception methodology, the SVO is still working on that separate issue. Insurers have been using this list to assist them in their reporting of Sovereign NAIC Designation Equivalents on the Supplemental Investment Risks Interrogatories (SIRI). The SVO has received requests from insurers to include supranational organizations or entities on the Sovereign NAIC Designation Equivalent list to assist with this SIRI reporting. This amendment proposes adding supranational entities to the Sovereign NAIC Designation Equivalent list if an insurer files a request with the SVO and the SVO is able to determine an appropriate NAIC designation equivalent.

2. Description - A supranational organization is an international group or union in which the power and influence of member states transcend national boundaries or interests to share in decision making and vote on issues concerning the collective body. The European Union and the World Trade Organization are both supranational entities. In the EU, each member votes on policies that will affect all member nations. The benefits of this construct are the synergies derived from social and economic policies and a stronger presence on the international stage.

For an organization to be supranational, it must operate in multiple countries. While applicable to multinational corporations, the term in this context is being used only for government entities because they often have regulatory responsibilities within their standard operations. These responsibilities can include the creation of international treaties and standards for international trade. As an entity that operates in multiple countries, a supranational organization is not controlled by a single sovereign country.

3. Recommendation – The SVO staff recommends permitting it to include supranational entities on the Sovereign NAIC Designation Equivalent list if an insurer files the supranational entity with the SVO and the SVO can determine an appropriate NAIC designation equivalent.

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4. Proposed Amendment – The following shows the proposed revisions in Part Three with text in red identifying the changes.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION
OF NAIC DESIGNATIONS

GENERAL CORPORATE AND MUNICIPAL METHODOLOGY FOR INDEPENDENT CREDIT QUALITY ASSESSMENT

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FOREIGN SECURITIES**Foreign Sovereign Government and Supranational Entities**

34. A reporting insurance company that owns a security issued by a foreign sovereign government, an agency or political subdivision of a foreign sovereign government or a supranational entity (entities with more than one sovereign government as a member), or that is guaranteed directly or indirectly by such an entity, must file such security with the SVO accompanied by a prospectus and investment committee memorandum.
35. Insurance companies shall not file issues with the SVO if the issuer does not have a sovereign rating from an NAIC CRP. If the issuer is not rated by an NAIC CRP, proof of a guarantee from an NAIC CRP-rated foreign sovereign government may be submitted. Where a reporting insurance company has filed a foreign security accompanied by an Audited Financial Statement, in English, the SVO will assess the security in accordance with the applicable corporate methodology, but the NAIC Designation it may assign shall be limited by the sovereign rating of the issuer's country of origin, **or the issuing supranational entity, as applicable, as reflected in the Sovereign NAIC Designation Equivalent list**. This section should not be read as prohibiting the presentation of transactions structured to eliminate foreign sovereign risk.
36. The insurance company must file all foreign securities for which the information required by this Manual is available. For those foreign securities held by a "Sub-paragraph D Company" as defined in Part One, where the required information is not available for the SVO to value the security, the NAIC Designation may be determined by the reporting insurance company. This determination shall carry an F suffix. In no case shall the NAIC Designation exceed the sovereign rating of the issuer's country of origin, **or the issuing supranational entity, as applicable, as reflected in the Sovereign NAIC Designation Equivalent list**. The company shall provide its domestic regulator with a description of the procedure it used to evaluate and assign ratings to these foreign securities. In addition, the company shall retain the documentation supporting each designation assigned by it until the next domestic insurance department examination.
37. **The SVO shall maintain and publish a list of Sovereign NAIC Designation Equivalents on its webpage (<https://www.naic.org/svo.htm>) and may include on that list the NAIC Designation equivalent for supranational entities submitted to it for review by insurers if, in its sole discretion, it is able to determine an appropriate NAIC Designation equivalent.**

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