



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) with Update to the General Mapping of Credit Rating Provider Ratings, Long and Short-term, to NAIC Designations and NAIC Designation Categories

DATE: April 30, 2020

1. Summary – On the Task Force call of May 14, 2020 the North American Securities Valuation Association (NASVA) requested that the table mapping Credit Rating Provider (CRP) ratings for short-term instruments be updated to also map them to NAIC Designation Categories. The Task Force directed the SVO to draft an update to this general mapping table. Unlike long term ratings, there is not a direct one-for-one set of rating symbols for short-term investments that map to every NAIC Designation Category. Because there is not a direct one-for-one mapping, SVO staff have used their judgement to map the NAIC Designation Category to the mid-point of the range of long term ratings covered by each short-term rating. As an example, Moody’s Prime-1 or P1 short-term rating covers the long-term rating range consisting of Aaa, Aa1, Aa2, Aa3, A1, A2 and A3 (*Moody’s - Rating Symbols and Definitions, June 2018*). The SVO staff has recommended mapping the Moody’s short-term P1 rating symbol to the mid-point of this range or an NAIC Designation Category 1.D. The SVO staff applied this mid-point approach to each short-term rating mapping.

The SVO staff also updated the description of the mappings for both long-term and short-term rating symbols to reflect that these are “Generic Rating Symbols.” CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP’s documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (<https://www.naic.org/svo.htm>) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations.

The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities to produce the NAIC designations incorporated into the NAIC’s AVS+ product. If the Task Force would like the SVO to also produce, compile and publish translations for the short-term securities, a separate project will need to be initiated.

2. Recommendation – The SVO staff recommends mapping the short-term CRP rating symbols to the NAIC Designation Category which is equivalent to the mid-point of the range of long term ratings covered by the short term rating. The SVO staff also recommends updating the title of the mapping tables to reflect that these are

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509

p | 202 471 3990 f | 816 460 7493

CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197

p | 816 842 3600 f | 816 783 8175

CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004

p | 212 398 9000 f | 212 382 4207

www.naic.org

“generic” rating symbols, referencing additional sections of the P&P Manual pertinent to the use of CRP ratings and Filing Exemption and adding a footnote describing where to locate the master list of Credit Ratings Eligible for Translation to NAIC Designations on the SVO webpage.

3. Proposed Amendment – The following shows the proposed revisions in Part Three with *drafting notes* identifying the changes.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION
OF NAIC DESIGNATIONS

LIST OF NAIC CREDIT RATING PROVIDERS

... (Table orientation changed for display in this amendment. The two tables below would be deleted.)

			Credit Rating Providers (Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities")									
NAIC Designation	NAIC Designation Modifier	NAIC Designation Category	Moody's Investor's Service	Standard and Poor's	Fitch Ratings	Dominion Bond Rating Service	A.M. Best Company	Morningstar Credit Ratings, LLC	Kroll Bond Rating Agency	Egan Jones Rating Company	HR Ratings de Mexico, S.A. de C.V.	
1	A	1.A	Aaa	AAA	AAApr, AAA	AAA, Pfd-1 (high)	aaa	AAA	AAA	AAA	HR AAA (G)	
1	B	1.B	Aa1	AA+	AA+	AA (high), Pfd-1	aa+	AA+	AA+	AA+	HR AA+ (G)	
1	C	1.C	Aa2	AA	AA	AA, Pfd-1 (low)	aa	AA	AA	AA	HR AA (G)	
1	D	1.D	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	AA-	HR AA- (G)	
1	E	1.E	A1	A+	A+	A (high)	a+	A+	A+	A+	HR A+ (G)	
1	F	1.F	A2	A	A	A	a	A	A	A	HR A (G)	
1	G	1.G	A3	A-	A-	A (low)	a-	A-	A-	A-	HR A- (G)	
2	A	2.A	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high)	bbb+	BBB+	BBB+	BBB+	HR BBB+ (G)	
2	B	2.B	Baa2	BBB	BBB	BBB, Pfd-2	bbb	BBB	BBB	BBB	HR BBB (G)	
2	C	2.C	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	BBB-	HR BBB- (G)	
3	A	3.A	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	BB+	HR BB+ (G)	
3	B	3.B	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	BB	HR BB (G)	
3	C	3.C	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	BB-	HR BB- (G)	
4	A	4.A	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	B+	HR B+ (G)	
4	B	4.B	B2	B	B	B, Pfd-4	b	B	B	B	HR B (G)	
4	C	4.C	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	B-	HR B- (G)	
5	A	5.A	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	CCC+	HR C+ (G)	
5	B	5.B	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	CCC	HR C (G)	
5	C	5.C	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	CCC-	HR C- (G)	
6	6	6	Ca	CC	CC	CC (high)	cc	CC	CC	CC	HR D (G)	
6	6	6	C	C	C	CC	c	C	C	C		
6	6	6		D	DDD	CC (low)	d	D	D	D		
6	6	6			DD	C (high)						
6	6	6			D	C						
6	6	6				C (low)						
6	6	6				D						

			Credit Rating Providers (Pursuant to the terms of Section 4 of Part One and as specifically noted in Part Three, Section One, (vi) List of NAIC CRPs.)									
NAIC Designation	NAIC Designation Modifier	NAIC Designation Category	Moody's Investor's Service	Standard and Poor's	Fitch Ratings	Dominion Bond Rating Service	A.M. Best Company	Morningstar Credit Ratings, LLC	Kroll Bond Rating Agency	Egan Jones Rating Company	HR Ratings de Mexico, S.A. de C.V.	
			Commercial Paper and Short Term Counterparty Ratings	Commercial Paper	Commercial Paper	Commercial Paper and Short Term Debt	Commercial Paper and Short Term Debt	N/A	Short-Term and Commercial Paper Ratings	Commercial Paper	N/A	
1			P1	A-1+, A-1	F1+, F1	R1 (high), R-1 (middle), R-1 (low)	AMB-1+, AMB-1		K1+, K1	A1+, A1, A		
2			P2	A-2, A-3	F2, F3	R-2 (high), R-2 (middle), R-2 (low)	AMB-2		K2	A2, A3		
3			P3			R-3	AMB-3		K3			
4				B	B				B	B		
5				C	C	R-4			C	C		
6			NP	SD, D	D	R-5, D	AMB-4		D	D		

