



TO: Carrie Mears, 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: Update to the Purposes and Procedures Manual of the NAIC Investment Analysis Office  
clarifying the SVO's role regarding accounting and reporting

DATE: May 23, 2022

---

**Summary** - Historically, the SVO has worked with our statutory accounting colleagues to make accounting and reporting determinations which guided whether the SVO could analyze and designate an insurer's investment. The Purposes and Procedures Manual of the Investment Analysis Office (the "P&P Manual"), however, currently provides conflicting guidance on whether the SVO should have a role interpreting accounting and reporting guidance. While many sections of the P&P Manual state that the SVO may assign NAIC Designations to any investment filed with it for which it has a methodology, it also specifies in Part One, Paragraph 40 that the SVO is assigned to assess investments reported on Schedules D and BA and shall communicate to insurers if an investment is not eligible for those schedules and can therefore not be assigned an NAIC Designation.

Part One, Paragraph 32 of the P&P Manual explains that the assessment of an investment's credit risk is distinct from the determination of statutory accounting or reporting under the Accounting Practices & Procedures Manual ("AP&P):

**NAIC Designations Do Not Communicate Statutory Accounting or Reporting** - The assessment of credit risk for an obligation or asset, as specified in the P&P Manual, is a separate and distinct process from the determination of statutory accounting or reporting under the AP&P Manual. The manner in which an NAIC Designation is used within statutory accounting guidance is limited to that, if any, specified in a Statement of Statutory Accounting Principles (SSAP) and cannot be derived or implied by language in the P&P Manual. Obtaining an NAIC Designation does not change an investment's applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to be an admitted asset. There are limited instances in which a SSAP specifically identifies, within its scope, the inclusion of specific SVO-Identified investments. The SVO review required for an investment to be included on an SVO listing is a separate evaluation process that focuses on the structure of the investment. This process is distinct from the SVO's assessment of an investment's credit risk, which results in a NAIC Designation. As stated in the Statutory Hierarchy, Section V of the Preamble, the AP&P Manual is the highest level of authoritative guidance.

Executive Office | 444 North Capitol Street NW | Suite 700 | Washington, DC 20001 | (202) 471-3990

Central Office | 1100 Walnut Street | Suite 1500 | Kansas City, MO 64106-2197 | (816) 842-3600

Capital Markets & Investment Analysis Office | One New York Plaza | Suite 4210 | New York, NY 10004 | (212) 398-9000

[www.naic.com](http://www.naic.com)

Part One, Paragraph 33 of the P&P Manual explains that accounting and reporting determinations for investments are the obligation of the insurance company but that the state regulators remain the final authority:

**Sources and Application of Statutory Accounting Guidance** - The authority to determine and interpret existing statutory accounting guidance in, or to develop new statutory accounting guidance for, the AP&P Manual, is a charge assigned by the Financial Condition (E) Committee through its Accounting Practices and Procedures (E) Task Force to the Statutory Accounting Principles (E) Working Group. The application of statutory accounting guidance to any specific obligation or asset to determine its status under the AP&P Manual is the obligation of the insurance company and its management. The state of domicile is the final authority with respect to statutory accounting and reporting guidance. Deviations from the authoritative guidance in the Statutory Accounting Hierarchy are reflected as a permitted or prescribed practice.

Part One, Paragraph 34 of the P&P Manual expressly states that the SVO can assess any investment filed with it, so long as it has the methodologies to do so:

**Impact on SVO Operations** - Because SVO analytical determinations of credit quality do not convey opinions, conclusions or informational content relative to statutory accounting status, the SVO may assign an NAIC Designation to any obligation or asset that is filed by an insurer, provided that its credit quality can be assessed consistently with the policies and methodologies specified in the P&P Manual.

Part One, Paragraph 40 of the P&P Manual, however, states that the SVO is assigned to assess investments reported on Schedules D and BA and that it may need to communicate to insurers that the investment is not eligible for reporting on Schedules D or BA and, therefore, cannot be assigned an NAIC Designation:

**Authority to Direct Insurers on Reporting** - The SVO is assigned to assess investment securities reported to state regulators on Schedule D and Schedule BA. To fulfill its function SVO must be able to communicate to an insurer that has filed a financial instrument or security that the financial instruments or security is not an investment security eligible for reporting on Schedule D and Schedule BA. SVO may be required to communicate to an insurer that it must refile a financial instrument or security to another schedule. SVO may also have to communicate to an insurer that an instrument the insurer has filed does not meet the definition of an Investment Security in this Manual and is therefore not eligible to be assessed or that the financial transaction or security is a Regulatory Transaction that can only be assessed by the SVO but only in accordance with the procedures discussed in this Manual if requested by a state insurance department. When situations occur that require the SVO to communicate reporting or related statutory guidance to an insurer, SVO consults with Financial Regulatory Services Division staff to ensure the communication to the insurer is accurate.

**Recommendation** – The SVO recommends the below changes to P&P Manual Part One, Paragraph 40 to provide for consistent instruction to the SVO regarding its authority regarding accounting and reporting guidance. The proposal would clarify, in accordance with Part One, Paragraph 34, that the SVO can assign NAIC Designations to investments which it does not think are eligible for Schedule D or BA reporting so long as it has the methodology to do so. The SVO, however, would have the authority, at its discretion, to notify the appropriate regulators of any investments which, in its opinion, would not or might not be

eligible for reporting on Schedules D or BA. The SVO would also maintain its authority to offer its accounting and reporting opinion, when requested to do so, as part of its Regulatory Treatment Analysis Service, it being understood that such opinions would not be authoritative and might not reflect the opinion of the relevant state regulator.

**Proposed Amendment** - The proposed text changes to P&P Manual are shown below with additions in red underline, deletions in ~~red strikethrough~~ as it would appear in the 2022 P&P Manual format.

**PART ONE**

**POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE**

**POLICIES PERTAINING TO SVO AND SSG OPERATIONS**

---

...

**Authority to Direct Insurers on Reporting**

40. The SVO is assigned to assess investment securities reported by insurers to state regulators on Schedule D and Schedule BA. For the avoidance of doubt, the SVO's opinion that an investment is ineligible for reporting on Schedule D or Schedule BA shall not prevent the SVO from assigning an NAIC Designation to that investment. The SVO may, but is not obligated to, notify appropriate state regulators of an insurer's investment which, in its opinion, would not or might not be eligible for reporting on Schedule D or Schedule BA, regardless of the investment's NAIC Designation status. The SVO shall give its statutory accounting and reporting opinion, if requested to do so, as part of its Regulatory Treatment Analysis Service, it being understood that such opinion is not authoritative and may not reflect the opinion of the relevant state regulator. To fulfill its function SVO must be able to communicate to an insurer that has filed a financial instrument or security that the financial instrument or security is not an investment security eligible for reporting on Schedule D and Schedule BA. SVO may be required to communicate to an insurer that it must refile a financial instrument or security to another schedule. SVO may also have to communicate to an insurer that an instrument the insurer has filed does not meet the definition of an Investment Security in this Manual and is therefore not eligible to be assessed or that the financial transaction or security is a Regulatory Transaction that can only be assessed by the SVO but only in accordance with the procedures discussed in this Manual if requested by a state insurance department. When situations occur that require the SVO to communicate reporting or related statutory guidance to an insurer, SVO consults with Financial Regulatory Services Division staff to ensure the communication to the insurer is accurate.

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2022/2022-06-09 - Interim Meeting/03 - SVO Role regarding accounting and reporting/2022-002.01 Task Force 2022 Amend SVO Accounting Reporting.docx>