



MEMORANDUM

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: Non-substantive technical amendment to the Purposes and Procedures Manual clarifying the corresponding NAIC Designation Category for NAIC 5GI

DATE: November 15, 2022

Summary – At the 2021 Fall National Meeting the Task Force adopted a non-substantive technical amendment to the PL Securities section in Part Three of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (Purposes and Procedures Manual)* which clarified that an NAIC 5GI Designation is the equivalent of an NAIC 5.B Designation Category. The SVO has identified other places in the *Purposes and Procedures Manual* where the 5GI.B Designation Category is not currently specified and proposes a non-substantive technical amendment to make the changes shown below in **red** (additions **underlined** and deletions with **~~striketrough~~**).

PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO

COMPILATION AND PUBLICATION OF THE SVO LIST OF INVESTMENT SECURITIES

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RMBS/CMBS Modeled Securities Process

7. RMBS and CMBS that are deemed to be subject to financial modeling are retained in the RMBS/CMBS Modeled Process. RMBS and CMBS that are deemed ineligible for financial modeling but that have been assigned credit ratings by NAIC CRPs migrate to the Filing Exempt Securities Process. RMBS and CMBS that are deemed ineligible for financial modeling and that have also not been assigned credit ratings by NAIC CRPs may be reported by the insurer in the **5GI NAIC General Interrogatory** with an NAIC 5GI and an NAIC Designation Category of 5.B GI.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION
OF NAIC DESIGNATIONS

PRODUCTION OF NAIC DESIGNATIONS

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NAIC DESIGNATIONS RELATED TO SPECIAL REPORTING INSTRUCTION

27. An insurance company that self-assigns a 5.B GI must attest that securities receiving this designation meet all required qualifications by completing the appropriate general interrogatory in the statutory financial statements. If documentation necessary for the SVO to perform a full credit analysis for a security does not exist or if an NAIC CRP credit rating for an FE or PL security is not available, but the issuer is not current on contractual interest and principal payments, and/or if the insurer does not have an actual expectation of ultimate payment of all contracted interest and principal, the insurance company is required to self-assign this security an NAIC 6*.
28. NAIC 6* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met.
29. Securities with NAIC 5.B GI Designations Categories are deemed to possess the credit characteristics of securities assigned an NAIC 5.B Designation Category. A security assigned an NAIC 5.B GI Designation Category incurs the regulatory treatment associated with an NAIC 5.B Designation Category.
30. Securities an insurance company previously assigned as NAIC 5.B GI are permitted to subsequently receive this NAIC 4D Designation Category if the requirements for an NAIC 5.B GI 4D Designation Category continue to be met.
31. Securities with NAIC 6* Designations are deemed to possess the credit characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.
32. Securities that are residual tranches or interests, as defined in *SSAP 43R – Loan Backed and Structured Securities*, shall be reported on Schedule BA - Other Long-Term Invested Assets, without an NAIC Designation and are ineligible to be assigned an NAIC 5.B GI Designation Category or NAIC 6* Designation.

NOTE REGARDING RESIDUAL TRanches OR INTERESTS: For 2021 year-end reporting only, residual tranches or interests previously reported on Schedule D-1: Long-Term Bonds shall be permitted to be reported on Schedule D-1 with an NAIC 6* Designation, however an NAIC 5GI is not permitted.

NOTE: The GI after the quality indicator 5.B refers to General Interrogatory and distinguishes NAIC 5.B GI from an NAIC 5.B Designation Category. The asterisk (*) after the quality indicator 6 distinguishes the NAIC 6* Designation from an NAIC 6 Designation.

REGULATORY TRANSACTIONS

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Status of Regulatory Transactions

290. A Regulatory Transaction is not eligible for:
- Assignment of an NAIC Designation by the SVO;
 - The filing exemption process for publicly rated securities;
 - The private letter rating component of the filing exemption or for use of the PLGI designation symbol;
 - Self-assignment by an insurer of the administrative symbol Z under the 120-rule;
 - Self-reporting by an insurer on the general interrogatory for securities eligible for filing exemption but for which no NAIC CRP credit rating is available (i.e., 5.B GI) and
 - Inclusion in the SVO List of Investment Securities or any other NAIC electronic system or processes maintained for operations for the VOS/TF

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