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FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office  
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RE: Proposed P&P Manual Amendment to Require Annual Reviews of Regulatory Transactions

DATE: July 1, 2024

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**Summary:** The Regulatory Transactions instructions in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) in Part Three, paragraphs 301 – 312, do not specifically provide instructions for a periodic review by the Securities Valuation Office (SVO) or Structured Securities Group (SSG). All other assessments of investment risk by the SVO or SSG in the P&P Manual must be updated at least annually and the insurer is required to notify the SVO of any material changes. This proposed amendment would update the instructions for the production of SVO Analytical Values for Regulatory Transactions to require an annual review, require the relevant insurance company to notify to the SVO or SSG of any material changes and to clarify the an insurance company’s limited ability to self-assign an SVO Analytical Value with a ”Z”.

**Recommendation:** The SVO recommends adoption of this proposed amendment to require an annual review of Regulatory Transactions by the SVO or SSG and notification when there is a material change. The SVO believes this is a non-substantive change as it is otherwise assumed throughout the P&P Manual that SVO and SSG opinions are updated at least annually and the lack of this instruction was a drafting oversight. The proposed text changes to P&P Manual are shown below with additions in red underline, and deletions in ~~red strikethrough~~ as it would appear in the 2023 P&P Manual format.



**PART THREE**  
**SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION**  
**OF NAIC DESIGNATIONS**



## REGULATORY TRANSACTIONS

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**NOTE:** See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity, as well as “Specific Populations of Securities Not Eligible for Filing Exemption” in “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” above.

### Defined

301. **Regulatory Transaction** means a security or other instrument in a transaction submitted to one or more state insurance departments for review and approval under the regulatory framework of the state or states. The term Regulatory Transaction is more broadly defined as a transaction engineered to address a regulatory concern one or more insurers have or may have that should be submitted to a state insurance department for approval and that has as a component a security or other instrument which on a stand-alone version may be an Investment Security, as defined in this Manual, that is eligible for assignment of an NAIC Designation.

### Status of Regulatory Transactions

302. 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.



## Intent

303. This section provides guidance to the SVO and the SSG on how to manage requests for assistance made by a state insurance department as authorized in this Manual. Insurance companies shall not report a Regulatory Transaction as a Filing Exempt security, and the NAIC staff shall not assign an NAIC Designation to the security component of a Regulatory Transaction or to the Regulatory Transaction or add them to the Filing Exempt Securities Process of the SVO List of Investment Securities. See the instructions on Regulatory Transactions contained in the compilation instructions in this Manual. This does not preclude the SVO from working directly with a state insurance department and issuing an opinion to the department consistent with the instructions outlined in this Manual.

## The Security Component of a Regulatory Transaction

304. However, as discussed above, the security component of the broadly defined Regulatory Transaction—i.e, a transaction engineered to address a regulatory concern one or more insurers have or may have that should be submitted to a state insurance department for approval—may be an Investment Security that may be eligible for designation under filing exemption or by the SVO on a stand-alone basis. For example:

- An insurance company entered into a coinsurance reinsurance transactions that requires regulatory approval and as part of that transaction, received an IBM bond. The IBM bond, when owned by an insurance company as a stand-alone investment, would be considered eligible for Filing Exemption but the whole regulatory transaction would not be eligible for Filing Exemption. In this example, the IBM bond is assumed to be an Investment Security, as defined in this Manual.
- An IBM bond that was eligible for Filing Exemptions was sold/transferred from an insurance company to an affiliated insurance company that requires regulatory approval. Such an IBM bond would still be considered eligible for Filing Exemptions when owned by an insurance company as a stand-alone investment. In this example, the IBM bond is assumed to be an Investment Security, as defined in this Manual. Any other parts of the transaction requiring regulatory approvals, if any, would not be eligible for Filing Exemption.

## Procedure: Assessment of the Security Component of a Regulatory Transaction

305. If an insurance company files a Regulatory Transaction with the SVO via the ATF process or under the Regulatory Treatment Analysis Service (RTAS) process, the SVO shall first contact the state insurance department of the insurance company's state of domicile to disclose that a Regulatory Transaction has been submitted and inquire whether the state insurance department wants SVO analytical assistance.



306. The SVO or SSG is authorized to conduct an analytical assessment on behalf of any state insurance department that requests such assistance. If the state insurance department of the insurer's state of domicile requests such assistance, the SVO shall engage in the requested analytical assessments of the security component of the Regulatory Transaction. In its assessment, the SVO would make use of NAIC analytical benchmarks, such as those used to produce NAIC Designations, valuation or classification assessments, and such determinations may be given by the SVO or SSG to the state insurance department.
307. Determinations made by the SVO or SSG given to a state insurance department in connection with assessment of the security component of a Regulatory Transaction shall be referred to as an SVO Analytical Value (defined below) to prevent confusion in the reporting by an insurer of the Regulatory Transaction or the security component of a Regulatory Transaction to the domiciliary state insurance department and the reporting of a stand-alone Investment Security under the general procedures applicable to them.
308. SVO or SSG determinations given in connection with the assessment of a Regulatory Transaction given to the state insurance department may be adopted by the state insurance department as part of that state's internal determination of the regulatory issues presented by the Regulatory Transaction. However, SVO assessments for security component of a Regulatory Transaction will not be entered into NAIC computer systems reserved for Investment Securities or added to the SVO List of Investment Securities as defined in this Manual. The insurance department may give the SVO Analytical Value to the insurer and instruct the insurer to use the SVO Analytical Value to report the security component of the Regulatory Transaction to the state, as more fully discussed below.

### **Reporting Regulatory Transactions on Investment Schedules**

309. A security component of a Regulatory Transaction is reported on an investment schedule. The security component of a Regulatory Transaction reported on Schedule D, Part 1, must be reported with one of the two codes described below, unless it would otherwise qualify as an Investment Security eligible for designation under filing exemption or by the SVO on a stand-alone basis absent the broadly defined Regulatory Transaction (as discussed above). The codes track the security component. Other investment schedules do not require that an NAIC Designation be reported. (For example, Schedule BA items are not required to be reported with an NAIC Designation.) The codes apply ONLY to the security component of the Regulatory Transaction. Each of the two codes identifies a different reporting paradigm and requires the reporting entity to report an SVO Analytical Value, defined below.



## Definition of SVO Analytical Value

310. An SVO Analytical Value produced by the SVO is an expression of the credit quality of the security component of a Regulatory Transaction which is expressed with the numerical symbols 1 through 6 in the case of a Regulatory Transaction within the reporting paradigm associated with the RTS code and can be expressed with the grade indicated by the letters A through G for Analytical Value of 1, and three delineations each for the Analytical Value 2, 3, 4 and 5 indicated by the letters A, B and C, and one delineation for Analytical Value 6. In the case of the security component of a Regulatory Transaction within the reporting paradigm associated with the RT code the SVO has not developed the SVO Analytical Value but in that case the Value is expressed with the numerical symbol 6.

## Codes and Their Meaning

311. **RTS** is reported for the security component of a Regulatory Transaction for which:
- A state insurance department requested SVO assistance in assessing the credit quality of the security component of the Regulatory Transaction; and
  - The SVO provided an SVO Analytical Value for the security to the department; and
  - The department thereafter directed its insurer to report the SVO Analytical Value.

For the security component of a Regulatory Transaction within the RTS reporting paradigm, the reporting entity reports the analytical value it received from the department, which is the same one the SVO provided to the department. The SVO Analytical Value associated with the RTS code is expressed as a numerical symbol from 1 through 6; e.g., 4RTS. The RTS SVO Analytical Value may be used in conjunction with the SVO Analytical Department Symbols and instructions defined in this manual and assigned by the SVO associated with IF, YE and Z (but only for RTS securities issued within 120 days of the reporting period end date, otherwise the reporting entity self-assigns and reports the SVO Analytical Value 6; e.g., 6 RT as described below); e.g., 1.G RTSYE, 4.B RTSIF, 3.A RTSZ, as detailed in the Annual Statement Instructions.

An SVO Analytical Value is **ONLY** assigned if the SVO determines the security component of the Regulatory Transaction would not qualify as an Investment Security eligible for designation under filing exemption or by the SVO if engaged on a stand-alone basis. An SVO Analytical Value is not a preliminary or an official NAIC Designation and cannot be entered into NAIC systems maintained to support the operations of the VOS/TF either by the SVO or anyone else.



312. **RT** is reported for the security component of a Regulatory Transaction for which:
- A state insurance department did not request assistance from the SVO in assessing the credit quality of the security component of the Regulatory Transaction; or
  - The department requested the assistance of the SVO but the SVO determined the security component of the Regulatory Transaction was not an Investment Security if engaged in on a stand-alone basis; or
  - The SVO was unable to provide an SVO Analytical Value for the security component of the Regulatory Transaction.

For the security component of Regulatory Transactions within the RT reporting paradigm, the reporting entity always self-assigns and reports the SVO Analytical Value 6; e.g., 6 RT.

### Annual Updates and Material Changes

313. SVO or SSG determinations of an SVO Analytic Value are only applicable for the calendar year of the request and do not represent a permanent assessment of the risk of the Regulatory Transaction. The SVO Analytic Value will be withdrawn by the SVO the calendar year after it was requested, consistent with all other Initial and Annual assessments of investment risk in this Manual. In the absence of an updated assessment, the insurance company, with the insurance department's approval, will need to self-assign and report the SVO Analytical Value 6; e.g., 6 RT.
314. If the insurance company and/or insurance department requests an updated SVO Analytic Value for a subsequent calendar year, the SVO or SSG will reassess the Regulatory Transaction consistent with other Annual assessments of investment risk in this Manual. The insurer is expected to provide the necessary information to the SVO or SSG for its review. Any missing information will be requested by the SVO or SSG and expected to be provided promptly by the insurance company consistent with the Informational Deficiencies instructions in this Manual. At the completion of its assessment the SVO or SSG will inform the insurance company and insurance department of the updated SVO Analytic Value.
315. If the insurer becomes aware of a material change to the Regulatory Transaction at any time, it is the responsibility of the insurance company to provide the SVO or SSG with the necessary information to update the SVO Analytic Value assessment to reflect the change consistent with the Material Credit Events Filing instructions in this manual.