

SVO



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
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office
Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau

RE: Proposed P&P Manual Amendment to Remove References to Subscript-S and Update References to Investment Risk

DATE: September 18, 2024

Summary: At the 2024 Summer National Meeting the Valuation of Securities (E) Task Force adopted an updated definition of an NAIC Designation. The update included the removal of the concept “Other Non-Payment Risk” and the corresponding SVO administrative symbol “Subscript S”, and the replacement of the term “credit risk” with the newly defined term “investment risk.”

The attached technical amendment removes references to Other Non-payment Risk, “subscript S” and, where appropriate, “credit risk,” with “investment risk” or the or the corresponding meaning. This amendment does not introduce any new policies or procedures.

Recommendation – The SVO recommends a brief exposure period for the amendment with a request for technical changes or updates for references that may have been missed as there is no policy change being proposed.

Proposed Amendment –The proposed changes to the current P&P Manual are shown below with additions in red underline font color, and deletions in ~~red strikethrough~~.



PART ONE
POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE



ABOUT THE NAIC, THE VALUATION OF SECURITIES (E) TASK FORCE AND THE SVO

...

The VOS/TF and the SVO Staff

4. The NAIC has determined that ~~credit quality~~ the assessment of investment risk, which includes credit quality, of insurance company investments provide a sound empirical anchor for certain regulatory functions related to financial solvency regulation. The VOS/TF formulates and implements NAIC's ~~credit~~ investment risk assessment and related policies. The SVO is the professional staff assigned to support the VOS/TF. The SVO conducts ~~credit quality~~ investment risk assessments of securities owned by state-regulated insurance companies and performs such other duties specified by VOS/TF in this Manual or assigned by other NAIC regulator groups, from time to time.

...



POLICIES PERTAINING TO SVO AND SSG OPERATIONS

...

NAIC Designations Do Not Communicate Statutory Accounting or Reporting

32. The assessment of ~~investment 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 ~~investment risk~~ 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.

...

Impact on SVO Operations

34. Because SVO analytical determinations of ~~credit-quality investment risk~~ 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 investment risk~~ can be assessed consistently with the policies and methodologies specified in the P&P Manual.

SECURITIES VALUATION OFFICE (SVO)

Ongoing SVO Operations

36. The SVO shall conduct the following ongoing operations:

- Analysis of ~~investment credit~~ risk for purposes of assigning an NAIC Designation.
- ~~Identification and analysis of securities that contain other non-payment risk and communication of this information by assignment of the NAIC Designation subscript to such securities.~~

...



FILING SECURITIES WITH THE SVO

Filing Requirements

53. **Initial** – Insurers that file a security must provide the SVO with the information necessary to evaluate the ~~credit~~ investment risk for the security.
54. **Annual** – Insurers that file a security are also required to provide the SVO with the information necessary to evaluate the ~~credit~~ investment risk for the security on an annual basis.

...

APPLICATION OF THE FE PROCEDURE TO SPECIFIC POPULATIONS
--

...

85. **NAIC Designation is Capped to Highest NAIC CRP Rating** – The SVO shall not assign an NAIC Designation for a security that has a credit rating assigned by an NAIC CRP when the NAIC Designation would express an opinion of ~~credit quality~~ investment risk higher than that indicated by the rating assigned by the NAIC CRP, except that the SVO may assign the NAIC Designation it deems appropriate to Municipal bonds and Military housing bonds or securities.

...

87. **Unrated Transaction of Issuer with NAIC CRP-Rated Debt** – When an insurer files an unrated security of an issuer that has another issue rated by an NAIC CRP, SVO may consider the rated issue and its position in the capital structure of the issuer to arrive at an NAIC Designation for the unrated security, provided staff first consults with the rating agency and independently consider the terms of the unrated security and its impact on credit or investment ~~other non-payment~~ risk.

...



SUBSIDIARY, CONTROLLED AND AFFILIATED (SCA) AND RELATED PARTY INVESTMENTS

110. SCA and related party bond and preferred stock investments (each, as defined in Part Three) in the form of a debt instrument purchased (or otherwise acquired) from an insurance or non-insurance entity and preferred stock issued by an insurance or non-insurance entity may be assessed by the SVO to determine eligibility for reporting as an Investment Security as defined in this Manual. The SVO is required to determine that a filed SCA and related party investment has terms, structure, complexity and purpose like those in transactions between unaffiliated parties so that ~~credit~~ investment risk assessment methodologies applied to transactions between unaffiliated parties can be meaningfully applied to transactions between affiliated parties; as a condition to assigning an NAIC Designation to the investment.

NOTE: See “Subsidiary, Controlled and Affiliated (SCA) and related party Bond or Preferred Stock” in Part Three for filing instructions, documentation requirements and methodology applicable to SCAs.

...

PRINCIPAL PROTECTED SECURITIES

Intent

116. Transactions meeting the criteria of a PPS as defined in Part Three of this Manual may possess investment risks not reflected in the otherwise Eligible CRP Rating ~~Other Non-Payment Risks~~ and must be submitted to the SVO for review ~~under its Subscript S authority~~.

...



PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO

...

SVO NOTCHING GUIDELINES

...

Definition and Purpose

40. Notching is defined as the process used to make distinctions between different liabilities in an issuer capital structure to reflect differences in credit or ~~other non-payment~~ investment risk smaller than a whole grade. Notching expresses differences in expected loss (i.e., severity) of an issuer's liabilities by their relative priority of claim in bankruptcy or the receipt of full and timely principal and expected interest.

...

Notching ~~for~~ NAIC Designation ~~Subscript~~ (to Reflect ~~Non-Payment~~ Investment Risks Unrelated to Credit Risk)

50. **Grant of Significant Discretion** – The SVO is granted significant discretion to determine the number of notches it will assign to a security to reflect ~~other non-payment~~ investment risk. This discretion is to be exercised in the context of the regulatory objective and purpose of this procedure. SVO determinations made under this subparagraph are subject to review in accordance with the procedures described of this Part, above.

Relevant Considerations

51. The name given to the security is not relevant to a determination whether this subparagraph should be applied. The relevant criterion is whether the risks in the security are clearly credit risks or whether they ~~are not clearly credit~~ include other investment risks.
52. Factors the SVO may deem relevant to the question of notching for ~~other non-payment~~ investment risk may include:



- Any security or financial instrument denominated with a term associated with fixed income investments must contain a clearly stated obligation to pay a return and to repay the amount of the principal repayment. Otherwise it is not rational or possible to assign an NAIC Designation.
- Any security or financial instrument denominated as fixed income that does not contain a legally binding obligation to pay shall not be assigned an NAIC Designation and instead will be reported to the VOS/TF and the Chief Examiner of the State of Domicile.
- Any security or financial instrument that is denominated as fixed income and that contains a promise to pay that is otherwise conditional may be notched either under this subparagraph to reflect ~~other non-payment~~ the investment risks posed by the conditions or under the notching procedure for credit risk to reflect the expected loss of that obligation in the issuer's specific capital structure, depending on which approach seems more appropriate to the SVO.

...

56. Notching differentials are expected to be wider for **NAIC 3, NAIC 4** and **NAIC 5** issuers because the issuer's credit or the issue's investment risk is deemed to increase the likelihood that the issuer will avail itself of contractually provided flexibility to not pay or increase the likelihood of a loss as a result of the insurer's participatory activity.
57. Deferral of dividends in a security denominated preferred stock is presumed to be subject to notching for credit risk subject to an SVO determination that the denomination is not truly reflective of the terms of the agreement in which case it may be more appropriately notched for ~~other than credit~~ investment risk.
58. In a given capital structure, the priority of payment due to an investor may be so subordinated as to require treatment under these guidelines that the insurers will not receive full and timely principal and expected interest ~~for other non-payment risk~~. This is especially true where deep subordination is combined with a right to defer interest.

...

TRANSACTIONS SUBJECT TO RSAT APPROVAL REVIEW

...

63. The documentation should demonstrate that the combined cash flows will achieve the economic performance sought to be produced by the insurer and, therefore, qualify the transaction as an Approved RSAT. If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.



- **Basket** – A composite of specific financial instruments that are determined by agreement between two parties to be used as a statistical benchmark.
- **Cash Component** – The instrument, or portfolio of instruments, owned by the insurance company that is identified by the insurer as the cash instrument component of the RSAT. In an RSAT, the credit quality of the Cash Component may differ from the credit quality of the reference securities.
- **Change in ~~Credit~~ Investment Profile** – An RSAT where the ~~credit~~ investment risk denoted by NAIC Designation and/or credit risk of the NAIC CRP rating, of the Cash Component is different from the ~~credit~~ investment risk of the replicated (synthetic) asset. Examples of transactions that constitute a change in credit profile may include:

...



THE REGULATORY TREATMENT ANALYSIS SERVICE – EMERGING INVESTMENT VEHICLE

...

Definition of Probable Regulatory Treatment

97. For purposes of this section, probable regulatory treatment means the professional opinion of the SVO as to the ~~credit-quality~~ investment risk designation; and/or asset classification for statutory reporting purposes; and/or the valuation that would be accorded to the EIV under this Manual if it were purchased by an insurance company and reported to the SVO.

...

Standing of EIV Application in the NAIC Financial Condition Framework

...

112. A preliminary NAIC Designation will not be published in the Database or the AVS+ Products and, therefore, cannot be used to report the investment risk ~~credit-quality~~ of the security to the NAIC or any state insurance department. Only NAIC Designations published in the AVS+ Products may be used to report an investment to an NAIC member's state insurance department.

...



SVO ORGANIZATION

...

SVO Administrative Symbols

153. SVO administrative symbols convey information about a security or an administrative procedure instead of an opinion of ~~credit quality~~ investment risk. The administrative symbols in use by the SVO and their meanings are described below.



APPEALS OF SVO DETERMINATIONS

APPEALS OF SVO ANALYTICAL DECISIONS

...

Procedure for Filing an Appeal

188. Filing an appeal with the SVO is accomplished through a computer linkup with the VISION computer system of the SVO. This appeal procedure applies only to situations where the SVO has expressed an analytical conclusion in the exercise of its quality assessment, ~~credit~~ investment risk assessment, classification, or valuation functions. The stated procedure encompasses initial filings, annual updates and securities not rated by an NAIC CRP. Securities rated by an NAIC CRP may be appealed only if the SVO designates securities differently than the NAIC CRP and the SVO retains responsibility for review of NAIC CRP-rated transactions.

....



MAINTENANCE AND MONITORING OF SVO DETERMINATIONS FOR SCHEDULE BA ASSETS

NOTE: See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity.

Maintaining and Publishing SVO Determinations

...

210. The SVO monitors improvement or deterioration of investment risk ~~credit quality~~ for Schedule BA assets entered into the VOS Process. On at least an annual basis, the SVO reviews the investment risk ~~credit quality~~ and value of the Schedule BA assets in the VOS Process.



PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION
OF NAIC DESIGNATIONS

...

FE SECURITIES

...

Specific Populations of Securities Not Eligible for Filing Exemption

4. The filing exemption procedure does not apply to:

...

- **SCA and Related Party Bond and Preferred Stock Investments** – SCA and related party bond and preferred stock investments are comprised of two types of transactions: (1) SCA and related party bond and SCA and related party preferred stock investments (each, as defined in this Part) that have direct or indirect **credit investment** risk exposure to the SCA or related party, whether as issuer or otherwise, which are not filing exempt; and (2) SCA and related party investments that do not have any direct or indirect **credit investment** risk exposure to the SCA or related party, whether as issuer or otherwise, which are filing exempt. Transactions under (1) are transactions between insurance company SCAs (as defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*) or other related parties (as defined in *SSAP No. 25 – Affiliates and Other Related Parties*) that are subject to special regulatory considerations identified in *SSAP No. 25-Affiliates and Other Related Parties*. This Manual specifies that such SCA and related party bond and preferred stock investments are not eligible for filing exemption and can only be assigned an NAIC Designation if the SVO has first concluded that the transaction is like those the SVO typically assesses for **credit investment** risk. See the SCA and Related Party section in this Part for further information about how the SVO determines whether an SCA and Related Party investment will be assigned an NAIC Designation and how a state insurance regulator can require an insurance company to file an otherwise filing exempt structure containing an SCA or related party with the SVO.



- **Principal Protected Securities (PPS)** - Transactions meeting the criteria of a PPS as specified in this Manual may possess ~~Other Non-Payment Risks~~ investment risks not reflected in the otherwise Eligible CRP Rating and must be submitted to the SVO for review. ~~under its Subscriber S authority.~~ *(NOTE: This change is effective as of Jan. 1, 2021. PPS acquired prior to Jan. 1, 2021 must be filed with the SVO by Jul. 1, 2021.)*

...

LIMITATIONS ON USE OF NAIC CRP RATINGS

NAIC Designation is Capped to Highest NAIC CRP Rating

26. The SVO shall not assign an NAIC Designation for a rated security that reflects an opinion of investment risk ~~credit quality~~ greater than that indicated by the rating assigned by an NAIC CRP, except as provided below, and except that the SVO may assign the NAIC Designation it deems appropriate to:

- Municipal bonds.
- Military housing bonds or securities.

...



GENERAL CORPORATE AND MUNICIPAL METHODOLOGY FOR INDEPENDENT ~~CREDIT~~ ~~QUALITY INVESTMENT RISK~~ ASSESSMENT

...

<p>VALUATION AND CREDIT <u>INVESTMENT RISK</u> ASSESSMENT OF DEFAULTED SECURITIES AND ANALYTICAL CONVENTIONS</p>

General Instructions

71. Issuers of defaulted securities often emerge from reorganization or private restructuring and their pre-default liabilities may have been modified but remain viable as modified. When this is the case, and the insurance company can demonstrate that it has accounted for the loss of fair value consistently with *SSAP No. 36—Troubled Debt Restructuring*, the SVO will assign a ~~credit-quality~~ NAIC De designation to the defaulted security to reflect the issuer's post-default ~~credit~~ investment risk.

...

Required Documents for ~~Credit~~ Investment Risk Assessment

...

79. If amended, then:
- Breakdown and explanation of any write-off, realized loss or waiver of:
 - ...
 - Pricing rationale, including basis for current ~~credit~~ investment risk assessment and comps



SUBSIDIARY, CONTROLLED AND AFFILIATED (SCA) AND RELATED PARTY BOND OR PREFERRED STOCK INVESTMENTS

...

256. **Bonds** – An investment (except for those investments that fit the examples detailed in the “SCA and Related Party Filing Exempt Investments” section below), in the form of a bond (i) *issued* by an insurance or noninsurance SCA or related party of the reporting insurance company, or (ii) issued as part of a structure which would, pursuant to paragraph 4.a. of *SSAP No. 43 – Loan-Backed and Structured Securities*, qualify as a related party investment due to the reporting insurance company’s **credit investment** risk exposure to the SCA or related party (“SCA and related party bond”), is filed with the SVO. To file an SCA and related party bond investment, the reporting insurance company files an Audited Financial Statement for the subsidiary, a copy of the corporate resolution authorizing the issuance of the debt, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary and, if the subsidiary is an insurance company, the subsidiary’s most recent NAIC Financial Statement Blank, together with the reporting insurance company’s NAIC Financial Statement Blank, internal investment committee memorandum for the investment and loan documentation appropriate to the transaction.
257. **Preferred Stock** – An investment (except for those investments that fit the examples detailed in the “SCA and Related Party Filing Exempt Investments” section below), in the form of a preferred stock (i) *issued* by a noninsurance SCA or related party of the reporting insurance company, or (ii) issued as part of a structure which would, pursuant to paragraph 4.a. of *SSAP No. 43 – Loan-Backed and Structured Securities*, qualify as a related party investment due to the reporting insurance company’s **credit investment** risk exposure to the SCA or related party (“SCA and related party preferred stock”), is filed with the SVO. To file an SCA and related party preferred stock issued by a non-insurer, the reporting insurance company files an Audited Financial Statement for the issuer of the preferred stock, a copy of the corporate resolution authorizing the issuance of the preferred stock, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary, together with details of the terms of the preferred stock, as well as the NAIC Financial Statement Blank for the reporting insurance company.

NOTE: Please see the section on preferred stock in this Part for additional analytical procedures applicable to that asset class.



258. **SCA and Related Party Filing Exempt Investments** – Certain investments might contain SCA or related party relationships without any direct or indirect ~~credit investment~~ risk exposure to such SCAs or related parties. For example, an investment could be (i) issued by an SCA or related party special purpose entity (SPE) which itself is not an obligor or party to whom the insurance reporting entity has direct or indirect ~~credit investment~~ risk exposure, or (ii) issued as part of a structure in which the originator, sponsor, manager, servicer, or other influential transaction party, is an affiliate or related party of the reporting insurance company but the investment does not have direct or indirect ~~credit investment~~ risk exposure to SCAs or related parties of the insurer. Such investments are eligible for filing exemption unless otherwise ineligible pursuant to guidance in this Manual unrelated to SCA or related party status. However, such investments may be in scope of *SSAP No. 25—Affiliates and Other Related Parties* and subject to reporting as an affiliate or related party transaction in the appropriate investment schedules. For the avoidance of doubt, nothing in this section prohibits a state insurance regulator, in accordance with Part One of this Manual, from requiring its domiciled insurance company to file an otherwise filing exempt investment with the SVO for analysis and/or assignment of an NAIC Designation, thereby making it ineligible for future filing exemption.

Purpose

259. This section applies to credit assessment of any SCA and related party investment in the form of a debt instrument purchased (or otherwise acquired) from an insurance or non-insurance entity (SCA and related party bond) and preferred stock issued by an insurance or non-insurance entity (SCA and related party preferred stock) where the insurer has ~~credit investment~~ risk exposure to the SCA or related party. This procedure is used to determine whether an SCA and related party bond or SCA and related party preferred stock transaction is eligible for reporting as an Investment Security pursuant to this Manual. The determination of “Investment Security” and credit assessment provided by the SVO shall not be construed to reflect assessments specific to SCA and related party transactions contained in *SSAP No. 25—Affiliates and Other Related Parties*. As such, an SVO-assigned NAIC Designation for SCA and related party transactions:

- Does not reflect collectability based on independent payment ability of a parent reporting entity.
- Does not reflect whether the transaction was conducted at arm’s-length.
- Does not reflect whether the transaction is considered “economic” under *SSAP No. 25*.

...



Procedure for Credit Assessment of Filed SCA Transaction

263. The procedure specified in this section applies to bonds and preferred stock whose terms, structure, complexity and purpose are like those in transactions between unaffiliated parties filed with the SVO so that credit investment risk assessment methodologies applied to transactions between unaffiliated parties can be meaningfully applied to transactions between affiliated parties.

...



NAIC FUND LISTS

...

REQUIRED DOCUMENTATION, ANALYTICAL PROCEDURES AND ELIGIBILITY CRITERIA

...

291. **Credit Investment Risk Assessment** – A calculation of the ~~credit~~ investment risk of a fund’s underlying investment portfolio using a weighted average rating factor methodology (WARF). The WARF factor for each portfolio security (issue/security specific) is determined by first translating its NAIC CRP rating into an NAIC Designation. For securities that are unrated but have an NAIC Designation, the Designation is used. The WARF factor for that NAIC Designation is then market value-weighted. The weighted factor for each investment is summed to determine the fund’s credit rating which is then translated into the equivalent NAIC Designation. For funds which use any *derivatives instrument* or *derivatives transaction*, the WARF analysis may incorporate each derivative counterparty and the ~~credit~~ investment risk assessment may include a determination of *derivatives exposure*.

...

298. **Speculative Characteristics Analysis** – Means: an assessment of the fund’s use of *derivatives transactions*, to examine the impact they may have on the fund’s portfolio cash flow as assessed under the ~~credit~~ investment *risk assessment* under normal and abnormal market conditions, the resulting *derivatives exposure* not to exceed 10% of the fund’s net assets in normal market conditions, excluding, for this purpose, currency or interest rate derivatives that hedge currency or interest rate risks associated with one or more specific (i) equity or fixed-income investments held by the fund (which must be foreign-currency-denominated in the case of currency derivatives), or (ii) the fund’s borrowings, provided that the currency or interest rate derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the value of the hedged investments (or the par value thereof, in the case of fixed-income investments, or the principal amount, in the case of borrowing) by more than 10 percent (each, an “*excluded derivatives transaction*”).

NOTE: For the avoidance of doubt, Funds on the NAIC U.S. Government Money Market Fund List are not permitted to use any *derivatives transaction* or other *derivatives instrument*.

Methodology*

299. The SVO shall:



- Conduct a *look-through assessment*
- Conduct an credit investment-risk assessment to determine the credit investment risk of the fund's cash flows.
- Conduct a *speculative characteristics analysis*.
- Determine whether the fund's cash flow can or cannot be appropriately characterized as *fixed income like* for regulatory purposes.
- If the SVO determines that the fund's cash flow can be appropriately characterized as fixed income for regulatory purposes, it assigns an NAIC Designation to reflect the credit investment risk associated with the fund's cash flow and includes the name of the fund on the appropriate NAIC List.**
- If the SVO determines that the fund's cash flow cannot be appropriately characterized as fixed income for regulatory purposes it shall communicate the determination to the insurance company or fund sponsor in writing.

* **NOTE:** *Italicized text* indicates that the term used is a defined term. Please refer to the definition of the term for a description of SVO criteria associated with the methodology component being described.

** **NOTE:** The NAIC Designation does not address the fund's ability to meet payment obligations because the insurer/shareholder does not own the bonds in the portfolio; the NAIC Designation instead conveys the credit investment risk/quality of the fixed income like cash flow generated by the ETF.

Documentation

300. An insurance company or the sponsor of a bond or preferred stock fund that request that the SVO conduct the look through and credit assessment submits the following required documentation to the SVO:

- A completed RTAS Application (Information about the RTAS process is contained here: www.naic.org/documents/svo_rtas_app.pdf). A fund with *derivatives transactions* or other *derivative instruments* may be considered a Highly Customized Transaction if the SVO determines it necessary to review a derivative's operative legal documentation.
- For all funds subject to look-through and credit investment risk assessment and to speculative characteristics analysis: the Prospectus and Statement of Additional Information (SAI) for the fund.

...



MUNICIPAL BONDS

...

Industrial Development Revenue Bonds; Pollution Control Bonds

315. In the case of an industrial development revenue bond or a pollution control bond, the methodology applied by the SVO to assess ~~credit~~ investment risk may derive from any appropriate corporate methodology or from a municipal methodology, whether associated with the revenue or the general obligation approach.



PRINCIPAL PROTECTED SECURITIES

Definition

325. Principal Protected Securities (PPSs) typically have both a principal protected component and a performance component whose payments originate from, or are determined by, non-fixed income like sources and, therefore, pose the risk of non-fixed income like cashflows. PPS do not include the exclusions listed below in this section.
326. The following transaction examples are included for demonstrative purposes only, to highlight the intent behind the principle-based PPS definition and the core regulatory concern (that there are investment risks ~~Other Non-payments Risks~~ associated with PPSs beyond the contractually promised payments that may not be reflected in a CRP rating) but are not intended to encompass all possible PPS variants. Each of these examples meets the definition of a PPS. Any design that circumvents the definition, and related examples, through technical means but which in substance achieves the same ends or poses the same risk, shall be deemed a PPS.

...

Filing Requirements

333. Investments in PPSs must be submitted to the SVO for review because they may possess ~~Other Non-Payment Risks~~ investment risks not otherwise reflected in the Eligible CRP Rating. ~~that the SVO must assess under its Subscript S authority.~~ If the SVO determines in its judgement that there are ~~not any~~ no investment risks which are not already reflected in the Eligible CRP Rating. ~~Other Non-Payment Risks,~~ the SVO will permit the security to benefit from Filing Exemption, if it is otherwise eligible.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-10-01 VOSTF Interim Meeting/01-Subscript S References/2024-016.01 PP_Manual_Amendment_Subscript-S_References_v4.docx