



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 Purposes and Procedures Manual Amendment to Require Private Rating Letter Rationale Reports to Contain Analytical Substance

DATE: May 16, 2025

Summary: Since January 1, 2024, all PL securities (other than waived submission PLR securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the “P&P Manual”)) have required a corresponding “private rating letter rationale report” to be eligible for the Filing Exemption process. Based on ongoing discussions with the Task Force chairs and industry, the SVO proposes the following amendment to the P&P Manual to clarify what is expected for a private rating letter rationale reports filed with the SVO.

As defined in the P&P Manual in Part Three, paragraph 13, “*The phrase “private rating letter rationale report” means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP.*” Unfortunately, the SVO has received rationale report filings, like the following anonymized example of a real report, that do not meet this minimum expectation:

The confirmation by CPR XYZ is based on the following rating rationale and analytical considerations: 1) The transaction assumptions consider CRP XYZ’s baseline macroeconomic scenarios for rated sovereign economies, available in its published commentary. These baseline macroeconomic scenarios replace CRP XYZ’s moderate and adverse COVID-19 pandemic scenarios, which were first published in 2020. 2) Transaction capital structure and credit enhancement level are sufficient for the current rating. 3) Credit enhancement is in the form of overcollateralization, reserve account, and excess spread. 4) Credit enhancement level is sufficient to support the CRP XYZ’s expected default and loss severity assumptions under various stress scenarios. 5) Collateral performance is within expectations and cumulative defaults remain low.



Recommendation – Private rating letter rationale reports should possess sufficient analytical content that an independent party can form their own opinion as to a NAIC credit rating providers’ (“CRPs”) assessment of investment risk. To enable the SVO to better monitor CRP analysis for privately rated securities, which are otherwise opaque, the SVO recommends requiring insurers to file a full private rating letter rationale report that contains sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP’s assessment of investment risk, for any rating change or annual rating review, even if the CRP’s own policies do not require a full analysis.

If the SVO determines that a private rating letter rationale report does not satisfy minimum expectations, the SVO will file an information request to the filer, in accordance with the process outlined in the P&P Manual for information deficiencies. The information request will provide a reason for the information request to help the filer understand where the private rating letter rationale report lacks sufficient substance. Only if the information request is not fulfilled (e.g. is not timely, fails to provide sufficient substance) will the SVO reject the filing.

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~~. Updates are highlighted in yellow.



PART THREE

SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

PL SECURITIES

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Definitions

13. For purposes of this section:

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- The phrase “private rating letter rationale report” means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP. A private rating letter rationale report ~~should mirror~~ shall be no less comprehensive than the work product that a CRP would produce for a similar publicly rated security and always include sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP’s assessment of investment risk.

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Producing NAIC Designations for PL Securities

21. The SVO shall produce NAIC Designations for securities subject to private letter ratings as follows:



- The insurance company shall file a copy of the private rating letter with the SVO if not included in the applicable NAIC CRP Rating feed(s) (or other form of direct delivery from the CRP) noted above in Conditions to Filing Exemption for PL Securities and the supporting private rating letter rationale report, if the SVO has not received it directly from the CRP, within the initial filing deadline for newly acquired securities or securities in transition (as explained in “SVO Analytical Department Symbols” in Part Two of this Manual) and each calendar year thereafter ~~(so long as such rationale update would normally be produced by the CRP for a comparable publicly rated security)~~ along with any changes in PL Securities rating. In instances where the PL security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure for Filing Exempt (FE) securities only after the SVO receives both the private rating letter and private letter rationale report either directly or through a NAIC CRP Rating feed(s), and the SVO deems the privately rated security eligible to receive an NAIC Designation with an NAIC CRP Credit Rating.
- If the SVO determines that a private rating letter rationale report does not satisfy minimum expectations, the SVO will file an information request to the filer, in accordance with the process outlined in this Manual for information deficiencies. The information request will provide a reason for the information request to help the filer understand where the private rating letter rationale report lacks sufficient substance. Only if the information request is not fulfilled (e.g. is not responded to in a timely manner, fails to provide a report with sufficient substance) will the SVO reject the filing.

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https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/03-PLR RationaleReportSubstance/2025-002.02 PP_Manual_PLRationaleSubstanceV2.docx