



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 Technical Amendment to Caps on NAIC Designations of CRP Rated Securities

DATE: July 9, 2025

Summary and Recommendation: In November 2024 the Valuation of Securities (E) Task Force adopted an amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the “P&P Manual”) to replace the concept of credit risk and related terms, including “credit quality”, with the concept of investment risk. In two sections concerning a cap on allowable NAIC Designations, replacing “credit quality” with “investment risk” reversed the meaning of those sections.

The sections in Parts One and Three of the P&P Manual, each titled “NAIC Designation is Capped to Highest NAIC CRP Rating” are intended to limit an SVO assigned NAIC Designation of a CRP rated security to no higher than the CRP rating equivalent. The November 2024 amendment is shown below:

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.

However, higher investment risk is the inverse of higher credit quality:

- higher investment risk = lower NAIC Designation, whereas
- higher credit quality = higher NAIC Designation.

Therefore, the November 2024 amendment effectively created a floor in place of the intended cap.

Proposed Amendment – The SVO proposes the following revised amendment to clarify that in the specified circumstances, the CRP rating would function as a cap on the SVO assigned NAIC Designation, as originally intended. There was a request in the submitted comment to clarify that this



Task Force instruction to the SVO is specific to when the SVO assigns an NAIC Designation and that it does not apply to the Filing Exemption or the Structured Securities group through the financial modeling processes. The revised amendment includes that clarifying language. 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 ONE

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

APPLICATION OF THE FE PROCEDURE TO SPECIFIC POPULATIONS

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Limitations on the Use of NAIC CRP Ratings

8582. **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 investment risk ~~higher than~~ lower than (i.e. higher NAIC Designation) 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

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PART THREE

SVO PROCEDURES AND METHODOLOGIES FOR PRODUCTION OF NAIC DESIGNATIONS

LIMITATIONS ON USE OF NAIC CRP RATINGS

NAIC Designation is Capped to Highest NAIC CRP Rating

8526. The SVO shall not assign an NAIC Designation for a rated security that reflects an opinion of investment risk ~~greater than~~ lower than (i.e. higher NAIC Designation) 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.

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https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2028-08-12 - NAIC Summer NM/04-InvestmentRiskTechnicalAmendment/2025-005.02 PP_Manual_InvestmentRisk_Cap_v2.docx