



TO: Ken Cotrone, Chair, Investment Designation Analysis (E) Working Group
Members of the Investment Designation Analysis (E) Working Group

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office
Marc Perlman, Assistant Director-Investment Counsel, NAIC Securities Valuation Office
Hankook Lee, Assistant Director, NAIC Structured Securities Group

RE: Proposed Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “Purposes and Procedures Manual”) to Clarify Assessment of Parent-Subsidiary Situations

DATE: July 6, 2026

Summary: The “Parent-Subsidiary Situations” section of the Purposes and Procedures Manual (Part Three, Paragraph 38) provides specific guidelines for assessing a subsidiary issuer based on the audited financial statements of its parent holding company. The SVO has become aware that these guidelines are often read in isolation as the only way to rely on an issuer’s parent’s financial statements when more analytic latitude is permitted.

At the 2026 Spring National Meeting, the SVO proposed updates to Paragraph 38 to clarify that while the Purposes and Procedures Manual currently delineates certain prescribed guidelines for use of the financial statements of an issuing subsidiary’s parent, the SVO can also rely on other information which it deems satisfactory to support such use.

The ACLI submitted the only comment letter. In its letter, the ACLI proposed a minor structural change to the initially proposed amendment, to clarify that each condition for reliance on a parent’s financial statements is sufficient on a standalone basis, while still preserving the SVO’s discretion to rely on satisfactory information. The SVO is comfortable with the ACLI’s suggested edits and recommends their adoption.

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

FINANCIAL ANALYSIS

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Parent-Subsidiary Situations

38. In the case of transactions involving a parent holding company with an Audited Financial Statement and an issuing subsidiary without a separate Audited Financial Statement, the SVO may use the financial statements of the parent holding company as if they were prepared for the issuing subsidiary when **any of the following exists:**

- (i) ~~The~~ the consolidating work papers relating to the issuing subsidiary are provided;
- (ii) ~~or when The~~ the operations of the parent:
 - (a) are limited solely to owning the issuing subsidiary; and
 - (b) the issuing subsidiary constitutes at least 97% of the parent's pre-tax income and assets on a consolidated basis; ~~or~~
- ~~(iii) The SVO has determined there is other satisfactory support for such use.~~

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2026 IDAWG/2026-03 Spring National Meeting/04 Parent_Sub subsidiary Situations/2026-0003.01 PP_Manual_ParentSubsidiary_v3.docx