SVO

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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 "P&P Manual") to Update the Filing Exempt Treatment of CLOs
DATE:	July 6, 2026

Summary: The Valuation of Securities (E) Task Force adopted an amendment on Feb. 21, 2023, to include collateralized loan obligations (CLOs) as a Financially Modeled Security in Part Four of the P&P Manual. A CLO is a type of structured security backed by a pool of debt, typically corporate loans with low credit ratings. The Task Force assigned the Structured Securities Group (SSG) the responsibility of financially modeling CLO investments and evaluating all tranche level losses across all debt and equity tranches under a series of calibrated and weighted collateral stress scenarios to assign NAIC Designations. The amendment had an original effective date beginning with year-end 2024 but that effective date was deferred several times.

Subsequent to its adoption by the Task Force, the amendment was referred to the Capital Adequacy (E) Task Force. The Capital Adequacy (E) Task Force charged the Risk-based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE) with evaluating the amendment and the appropriateness of the risk-based capital (RBC) factors for CLOs. The RBCIRE engaged the American Academy of Actuaries (AAA) to study the Structured Securities Group SSG model and the appropriateness of the current RBC factors applies to CLOs. At the conclusion of the AAA study, the AAA proposed that the NAIC continue its reliance on credit rating provider (CRP) ratings instead of relying upon the SSG's financial modeling of CLO investments, as previously adopted. The AAA proposed new RBC factors for these investments, including an additional RBC factor adjustment for Broadly Syndicated Loan CLOs with an NAIC Designation Category of 2.C or below if the current tranche thickness is less than or equal to 4%. Current tranche thickness is defined as the difference between the attachment point (AP) and the detachment point (DP) of a CLO tranche. AP refers to a tranche's subordination percentage, and DP is the percentage of total par amount of the underlying portfolio including principal proceeds, that will completely write off the tranche. The current tranche thickness is to be measured using the most recent periodic report available, without being stale, as of the investment reporting date.

The AAA proposal was adopted by the RBCIRE on Jun. 23, adopted by the Capital Adequacy (E) Task Force on Jun. 30, and adopted by the Financial Condition (E) Committee on Jul. 8. It will be considered by the NAIC's Plenary during the 2026 Summer National Meeting.

Proposed Amendment – Given the policy directional changes described above, the SVO and SSG are proposing the following changes to align the P&P Manual to this new guidance, with additions in red underline and deletions in ~~red strikethrough~~. The revisions reflect that the NAIC Designation Categories for CLOs will not be based upon financial modeling by the SSG, as previously adopted, but will instead continue to be based upon Eligible NAIC CRP Ratings applied through the NAIC's Filing Exemption (FE) policy while still permitting SSG to assign NAIC Designations to CLOs which fall outside the scope of the FE policy, if the SSG is able to model or otherwise assess them.

The SSG has the ability to identify and publish a list of the Broadly Syndicated Loan CLOs with a NAIC Designation Category of 2.C or below, with or without a current tranche thickness of less than or equal to 4%, if the IDAWG or RBCIRE would like such a list to assist in the consistent identification of these securities. Producing this list would be consistent with the SVO's existing Compilation and Publication responsibilities in Part Two of the P&P Manual.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

…

FE SECURITIES

Filing Exemption

3. Bonds, within the scope of SSAP No. 26R and SSAP No. 43 (excluding ~~CLO,~~ RMBS and CMBS subject to financial modeling) and Preferred Stock within scope of SSAP No. 32, that have been assigned an Eligible NAIC CRP Rating, as described in this Manual, are exempt from filing with the SVO (FE securities) with the exception of Bonds and/or Preferred Stock explicitly excluded below.

...

PART FOUR
THE NAIC STRUCTURED SECURITIES GROUP

Administrative And Operational Matters

Certain Administrative Symbols

2. The following administrative symbols are used in the Valuation of Securities (VOS) Products to identify RMBS and CMBS that the NAIC vendor has confirmed will be subject to the financial modeling methodology and application of Price Grids described in this Part.

- **FMR** – Indicates that the specific CUSIP identifies a Legacy Security RMBS that is subject to the financial modeling methodology and the application of Price Grids to determine a NAIC Designation and Designation Category.
- **FMC** – Indicates that the specific CUSIP identifies a Legacy Security CMBS that is subject to the financial modeling methodology and the application of Price Grids to determine a NAIC Designation and Designation Category
- Non-Legacy RMBS and CMBS subject to the financial modeling methodology would be assigned an NAIC Designation and Designation Category by the SSG without an administrative symbol.
- CLO ~~subject to the~~ financially modeled~~ing~~ ~~methodology~~ , or otherwise assessed, by the SSG would be assigned an NAIC Designation and Designation Category ~~by the SSG~~ without an administrative symbol.

Note: The administrative symbols **FMR** and **FMC** are related to symbols that insurers are required to use in the financial statement reporting process. Under applicable financial statement reporting rules, an insurer uses the symbol **FM** as a suffix to identify Legacy Security modeled RMBS and CMBS CUSIPs. The symbol **FM** is inserted by the insurer in the financial statement as a suffix following the NAIC Designation Category for Legacy Security RMBS and CMBS; (e.g., **2.B FM**), and for CLO and Non-Legacy RMBS and CMBS it would be left blank (e.g. **3.C**).

The use of these administrative symbols in the VOS Product means the insurer should not use the filing exempt process for the security so identified.

Quarterly Reporting of ~~CLO,~~ RMBS and CMBS

3. To determine the NAIC Designation to be used for quarterly financial statement reporting for a ~~CLO,~~ RMBS or CMBS purchased subsequent to the annual surveillance described in this Part, the insurer uses the prior year-end modeling data for that CUSIP (which can be obtained from the NAIC) and follows the instructions in contained under the heading "Use of Net Present Value and Carrying Value for Financially Modelled Legacy Security RMBS and CMBS" or "Use of Intrinsic Price for Financially Modelled non-Legacy Security RMBS and CMBS" below, subject to, and in accordance with, *SSAP No. 43—Asset-Backed Securities*..

FILING EXEMPTIONS

Limited Filing Exemption for ~~CLO,~~ RMBS and CMBS

4. **~~CLO,~~ RMBS and CMBS that Can be Financially Modeled** – ~~CLO,~~ RMBS and CMBS that can be financially modeled are exempt from filing with the SVO. NAIC Designations for ~~CLO,~~ RMBS and CMBS that can be financially modeled are determined by application of the methodology discussed in this Part, not by the use of credit ratings of CRPs.

5. **~~CLO,~~ RMBS and CMBS securities that Cannot be Financially Modeled**

- **But Are Rated by a CRP** – ~~CLO,~~ RMBS and CMBS that cannot be financially modeled but that are rated by a CRP are exempt from filing with the SSG. The NAIC Designations for these ~~CLO,~~ RMBS and CMBS are determined by application of the filing exemption procedures discussed in this Manual.
- **But Are Not Rated by a CRP** – ~~CLO,~~ RMBS and CMBS that cannot be financially modeled and that are not rated by a CRP are not filing exempt and must be filed with the SSG or follow the procedures, as discussed below in this Part.

Filing Exemption for ABS

6. ABS, including CLOs, ~~rated by a CRP~~ with an Eligible NAIC CRP Rating are exempt from filing with the SSG.

…

ANALYTICAL PROCEDURES APPLICABLE TO ~~CLO,~~ RMBS AND CMBS SECURITIZATIONS SUBJECT TO FINANCIAL MODELING METHODOLOGY

Filing Exemption Status of ~~CLO,~~ RMBS and CMBS

22. ~~CLO,~~ RMBS and CMBS are not eligible for filing exemption because credit ratings of CRPs are no longer used to set risk-based capital (RBC) for ~~CLO,~~ RMBS or CMBS. ~~However, CLO, RMBS and CMBS are not submitted to the SSG.~~

Use of Financial Modeling for Year-End Reporting for ~~CLO,~~ RMBS and CMBS

23. Beginning with year-end 2009 for RMBS and 2010 for CMBS, probability weighted net present values will be produced under NAIC staff supervision by an NAIC-selected vendor using its financial model with defined analytical inputs selected by the SSG. The vendor will provide the SSG with a Intrinsic Price and/or a range of net present values for each RMBS or CMBS corresponding to each NAIC Designation and Designation Category. The NAIC Designation and Designation Category for a specific Legacy Security RMBS or CMBS is determined by the insurance company, based on book/adjusted carrying value ranges, and the NAIC Designation and Designation Category for a specific non-Legacy Security RMBS or CMBS is determined by the NAIC Designation Intrinsic Price Mapping by SSG.

ANALYTICAL PROCEDURES APPLICABLE TO FINANCIALLY MODELED CLO

24. ~~Beginning with year-end 2024 for~~ For CLOs, probability weighted net present values will be produced under NAIC staff supervision by SSG using its financial model with defined analytical inputs selected by the SSG. SSG will model CLO investments and evaluate all tranche level losses across all debt and equity tranches under a series of calibrated and weighted collateral stress scenarios to assign NAIC Designation Categories for a specific CLO tranche as determined by the NAIC.

    NOTE: Please refer to SSAP No. 43—Asset-Backed Securities for guidance on all accounting and related reporting issues.

    ~~**NOTE:** Effective as of January 1, 2024, SSG will financially model CLOs.~~

ANALYTICAL PROCEDURES FOR CLO, RMBS AND CMBS

Analytical Procedures for CLO, RMBS and CMBS

25. As necessary, ~~T~~the SSG shall develop and implement all necessary processes to coordinate the engagement by the NAIC of a vendor who will perform loan-level analysis of insurer-owned CLO, RMBS and CMBS using the vendor's proprietary models.

…

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2026 IDAWG/2026-08 Summer National Meeting/05-CLO Guidance/2026-XXX.XX PP_Manual_Part_Four_CLOs.docx