July 9, 2021

Mr. Kevin Fry, Chair
Ms. Carrie Mears, Vice Chair
NAIC Valuation of Securities Task Force
1100 Walnut Street
Suite 1500
Kansas City, MO 64106-2197

Dear Mr. Fry and Ms. Mears:

The American Council of Life Insurers (ACLI)[1] and the North American Securities Valuation Association (NASVA)[2] ("the undersigned") appreciate the opportunity to comment on the implementation of the amendment to the Purposes and Procedures (P&P) Manual of the NAIC Investment Analysis Office (IAO) adopted on March 22, 2021.

The ACLI and NASVA (and their respective members) are supportive of the adopted amendment referenced above and the change to a "through the cycle" modeling approach that the Structured Securities Group (SSG) of the Securities Valuation Office had informed us was planning to also implement this year. As we expressed in our March 20, 2021 letter to you, we believe that the combination of these changes would largely revert distortions in NAIC designations where securities of high credit quality received designations typically reserved for speculative quality securities.

Notwithstanding the above, we also understand that there are additional circumstances like the implementation of the new bond risk-based capital (RBC) factors that may increase the complexity of all these changes. Given that we are into the second half of the year and ACLI and NASVA member companies have not received detailed implementation instructions for all these changes that would allow member company vendors to adapt their systems, we fear that a rushed implementation may introduce undue operational and reporting risks.

In this context, the undersigned would be supportive of phased implementation of the announced changes if that helps protect the operational soundness of member companies reporting processes.

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[1] The *American Council of Life Insurers* ("ACLI") is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

[2] The *North American Securities Valuation Association* ("NASVA") is an association of insurance company representatives who interact with the National Association of Insurance Commissioners Securities Valuation Office to provide important input, and to exchange information, in order to improve the interaction between the SVO and its users. In the past, NASVA committees have worked on issues such as improving filing procedures, suggesting enhancements to the NAIC's ISIS electronic security filing system, and commenting on year-end processes. Find more information here.

At the same time, we would recommend that sufficient changes be introduced this year to avoid distortions in the assignment of NAIC designations to modeled securities, and more broadly ensure consistency in RBC treatment between structured products and other bond investments.

ACLI and NASVA would respectfully recommend the following approach to ensure the goals outlined above are attained:

1. NAIC designation mapping of non-modeled structured securities follows the same filing-exempt (FE) process as all other FE bond investments that are currently granted filing exemption under the P&P manual of the IAO.

2. NAIC designation mapping of non-legacy modeled securities should follow the below outlined process:
    a. Price breakpoints for non-legacy modeled securities are eliminated this year and the SSG follows the adopted intrinsic price approach.
    b. Companies receive a file from the SSG with CUSIP-level designations that can be directly consumed by vendors.
    c. In the absence of a more detailed methodology for mapping under the 20 NAIC designations, SSG will map "zero-loss" securities to 1A, and all other securities to the middle designation of their category.

3. NAIC designation mapping of legacy modeled securities should follow the below outlined process:
    a. Companies receive a file from the SSG with CUSIP-level price points that can be directly consumed by vendors (one set for Life and one set for PC). This file will have the exact same layout as in 2020. To that end, the SSG will derive the CUSIP-level price breakpoints from the new RBC factor of the middle designation of each designation category.
    b. In the absence of a more detailed methodology for mapping under the 20 NAIC designations, companies will map "zero-loss" securities to 1A, and all other securities to the middle designation of their category.

4. Implementation of "through the cycle" modeling for CMBS is postponed to 2022, provided that if 2021 modeling results lead to visibly distorted NAIC designations as in 2020, the SSG retains flexibility to calibrate results in a way that alleviates such distortions.

The ACLI and NASVA understand that the SSG will need to develop a more detailed approach to apply the new 20 NAIC designations to modeled securities than the process recommended above. However, we ask that such more detailed approach be developed for 2022 so that the process can be fully vetted and analyzed by all interested parties. Investment software vendors require testing and implementation time to upgrade their software, and insurance companies also need enough lead time to perform their requisite due diligence before implementing software upgrades to their accounting and reporting systems. Beginning this type of technology upgrade so late in the year puts unnecessary operational burdens on insurance companies and may result in inconsistent application of the 20-designation approach if system upgrades cannot be put into production in 2021.

We believe that the changes and timing outlined above would help produce NAIC designations for 2021 that are adequately aligned with the credit risk of structured securities, while also helping

ensure that the year-end reporting processes do not encounter unnecessary operational complexities and risks. Also, the recommended process helps ensure that all structured securities can fit into the new 20 RBC factors alongside all other bond types – an important outcome given all the changes to RBC that are taking place this year. Finally, we would kindly ask that once the details around the changes to be implemented for year-end 2021 are decided on, the SSG works with its modeling vendor to expeditiously produce interim results for modeled securities that may help regulators and insurers ascertain the soundness of the changes and take timely corrective action if need be.

We are grateful for the opportunity to provide these comments, and for the continued engagement of regulators and staff with industry participants throughout the development and implementation of these changes.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy
American Council of Life Insurers

Tracey Lindsey

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President
North American Securities Valuation Association