MEMORANDUM

TO: Kevin Fry, 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 (SVO)
       Marc Perlman, Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau


DATE: April 30, 2020

1. Summary – With the introduction of NAIC Designation Categories, the 20 granular delineations of credit risks adopted by the Task Force on Jun. 11, 2018, several policy-based assignments of NAIC Designations did not receive a mapping. This amendment identifies the appropriate NAIC Designation Category to be assigned for these policy-based assignments.

2. Recommendation – The SVO recommends that the Task Force update the guidance in the P&P Manual to reflect these policy-based assignments of an NAIC Designation Category.

3. Proposed Amendment – The following text in red shows the proposed revisions in Part One, Part Two, Part Three and Part Four.
PART ONE
POLICIES OF THE NAIC
VALUATION OF SECURITIES (E) TASK FORCE

FILING EXEMPTION FOR CERTIFICATES OF DEPOSIT
REPORTED AS BONDS UNDER SSAP NO. 26R

65. The NAIC Designation for Certificates of Deposit described above shall be NAIC 1 and the NAIC Designation Category shall be NAIC 1.A. The NAIC Designation for Certificates of Deposit described above shall be derived by application of the filing exempt conversion process.

FILING EXEMPTION FOR U.S. GOVERNMENT SECURITIES

SVO Publishing Conventions for Filing Exempt U.S. Government Securities

67. U.S. Treasury Obligations – U.S. Treasury Obligations are added to the VOS Process automatically, and they appear in the VOS Product. The NAIC Designation is NAIC 1 and the NAIC Designation Category is NAIC 1.A.

Other Filing Exempt U.S. Government Securities

68. A single entry is in the AVS+ Products in its normal CUSIP sequence, followed by the description “All Issues” for the securities listed below.

69. Because these securities are Filing Exempt, CUSIP numbers are not published in the AVS+ Products. The securities should, however, be reported with a CUSIP in the appropriate section of Schedule D. The NAIC Designation is NAIC 1 and the NAIC Designation Category is NAIC 1.A.
Filing Exemption for Other U.S. Government Obligations

79. Obligations issued and either guaranteed or insured, as to the timely payment of principal and interest, by the government agencies or government-sponsored enterprises listed below are filing exempt. They are not backed by the full faith and credit of the U.S. Government. The filing exemption here is based on an analytical judgment that the combined creditworthiness of the entity itself and U.S. government support for that entity provides confidence that the issuer will be able to pay its obligation on a full and timely basis at the level of an **NAIC 1** quality designation and an **NAIC Designation Category of NAIC 1.A.** For the avoidance of doubt, preferred stock or similar securities of the government agencies or government-sponsored enterprises listed below are not considered guaranteed or insured and hence are not subject of this section.

…
NAIC Designations

...NAIC General Interrogatory

66. **NAIC 5GI** and NAIC Designation Category **NAIC 5.B GI** is assigned by an insurance company to certain obligations that **meet all of the following criteria:**

- Documentation necessary to permit a full credit analysis of a security by the SVO does not exist or an NAIC CRP credit rating for an FE or PL security is not available.
- The issuer or obligor is current on all contracted interest and principal payments.
- The insurer has an actual expectation of ultimate payment of all contracted interest and principal.

...
PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO

...
U.S. Treasury Securities Process


Exempt U.S. Government Securities Process

The SVO will convert the counterparty’s or the guarantor’s financial strength ratings as assigned by an NAIC CRP (e.g., S&P Financial Programs Ratings, Moody’s Counterparty’s Ratings or Fitch Counterparty Risk Ratings) into an equivalent NAIC Designation. In the absence of an NAIC CRP counterparty financial strength rating, the SVO may convert the counterparty’s senior unsecured rating, as assigned by an NAIC CRP, into the equivalent NAIC Designation. In the absence of an NAIC CRP counterparty financial strength or senior unsecured rating, the SVO will conduct a review of the counterparty’s financial statements to assign an NAIC Designation. For purposes of the application of this section, all U.S. domiciled exchanges are assigned an NAIC 1 Designation and an NAIC Designation Category of NAIC 1.A.
PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION
OF NAIC DESIGNATIONS
PROCEDURE APPLICABLE TO FILING EXEMPT (FE) SECURITIES AND PRIVATE LETTER (PL) RATING SECURITIES

... PL SECURITIES ...

Conditions to Filing Exemption for PL Securities Issued on or After January 1, 2018

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14. An insurer that owns a PL security that is not filing exempt shall either: (a) file the security with the necessary documentation with the SVO for an analytically determined NAIC Designation; or (b) self-assign an NAIC 5GI and an NAIC Designation Category of NAIC 5.B GI to the security and report using the Interrogatory procedure; in either case within 120 days of purchase.

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20. If the SVO verifies that the security:

- Has been assigned a credit rating but that the credit rating is not an Eligible NAIC CRP Credit Rating; or
- Has not been rated by an NAIC CRP; or
- Is no longer subject to a private letter rating

The SVO shall notify the insurer that the security is not eligible for filing exemption. The insurance company shall then either file that security and necessary documentation with the SVO for an independent credit assessment or assign an NAIC 5GI Regulatory Designation and an NAIC Designation Category of NAIC 5.B GI to the security in the related Interrogatory.

21. An NAIC 5GI Designation and an NAIC Designation Category of NAIC 5.B GI may also be used in connection with the designation of PL securities rated by an NAIC CRP (i.e., for private letter ratings issued on or after January 1, 2018) when the documentation is not available for the SVO to assign an NAIC Designation. For purposes of this section, the documentation is not available for the SVO to assign an NAIC Designation if the NAIC CRP credit rating is not included in the applicable CRP credit rating feed (or other form of direct delivery from the NAIC CRP) and the insurer is unable to provide a copy of the private letter rating documentation necessary for the SVO to assign an NAIC Designation.

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Regulatory Treatment of Eligible Funds

263. A bond mutual fund on the NAIC Bond Mutual Fund List is in scope of SSAP No. 26R—Bonds, reported with an **NAIC 1** designation and **NAIC 1A** Designation Category on Schedule D, Part 1 – Long-Term Bonds on the “SVO Identified Funds – Bond Mutual Funds” line. The insurance company reports an **NAIC 1** Designation and **NAIC 1A** Designation Category in accordance with Annual Statement Instructions. These investments are reported at fair value unless the investment qualifies for and the reporting entity elects systematic value.
PART FOUR
THE NAIC STRUCTURED SECURITIES GROUP

...
28. Securities subject to *SSAP No. 43R—Loan-Backed and Structured Securities* that cannot be modeled by the SSG and are not rated by an NAIC CRP or designated by the SVO are either: (a) assigned the NAIC administrative symbol ND (not designated), requiring subsequent filing with the SVO; or (b) assigned the NAIC Designation for Special Reporting Instruction [i.e., an **NAIC 5GI**, **NAIC Designation Category NAIC 5.B GI** or **NAIC 6* (six-star)**].