
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)

CC: Marc Perlman, Investment Counsel, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Updated Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Include Instructions for Financial Modeled RMBS/CMBS Securities to Map NAIC Designations to NAIC Designations Categories

DATE: February 10, 2020 (Updated 5-14-2020, 12-14-2020)

1. Summary – On the Feb. 4, 2020 interim meeting of the Valuation of Securities (E) Task Force NAIC staff were directed to draft and expose a P&P Manual amendment retaining the Financial Modeling and book/adjusted carrying value price ranges for modeled RMBS/CMBS securities but add mapping instructions from the resulting NAIC Designation to produce an NAIC Designation Category so that insurers can report an NAIC Designation Category. This mapping from an NAIC Designation to the NAIC Designation Category midpoint would be a temporary measure until new Risk Based Capital factors are adopted for each NAIC Designation Category and new price ranges can be developed. As requested by the Task Force, there would be no regulatory capital impact from this proposed change.

Update 12-14-2020: Through discussions with industry it appears there is the potential for some zero-loss securities to have their regulatory capital impacted in ways not intended by the Task Force. This proposed editorial update would eliminate that potential regulatory capital impact and calibrate the reported NAIC Designation Category for the entire population of zero-loss to be consistent with their overall equivalent CRP rating risk level that would be applied under Filing Exemption (FE).

2. Recommendation – The IAO staff recommend these updated instructions be adopted by the Task Force to provide insurers and their system vendors guidance for year-end. It also recommends referring this amendment, if adopted, to the Statutory Accounting Principles (E) Working Group to inform them that there would be no change to SSAP 43R - Loan-Backed and Structured Securities, at this time.

3. Proposed Amendment – The following text shows the revisions needed in Part Four with edits in red.



PART FOUR

THE NAIC STRUCTURED

SECURITIES GROUP

27. The NAIC Designation and NAIC Designation Category for a given modeled RMBS or CMBS CUSIP owned by a given insurance company depends on the insurer’s book/adjusted carrying value of each RMBS or CMBS, whether that carrying value, in accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, paragraphs 25 through 26a, is the amortized cost or fair value, and where the book/adjusted carrying value matches the price ranges provided in the model output for each NAIC Designation and the mapped NAIC Designation Category, reflected in the table below, to be used for reporting an NAIC Designation Category until new Risk Based Capital factors are adopted for each NAIC Designation Category and new prices ranges developed; except that an RMBS or CMBS tranche that has no expected loss under any of the selected modeling scenarios and that would be equivalent to an **NAIC 1** Designation and **NAIC 1.A** Designation Category if the filing exempt process were used, would be assigned an **NAIC 1** Designation and **NAIC 1.D** Designation Category regardless of the insurer’s book/adjusted carrying value.

NOTE: Please refer to the detailed instructions provided in SSAP No. 43R.

<u>NAIC Designation Determined by Modeled Price Ranges</u>	<u>Mapped NAIC Designation Category</u>
<u>1</u>	<u>1.D</u>
<u>2</u>	<u>2.B</u>
<u>3</u>	<u>3.B</u>
<u>4</u>	<u>4.B</u>
<u>5</u>	<u>5.B</u>
<u>6</u>	<u>6</u>

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