



---

## MEMORANDUM

To: Kevin Fry, Chair of the Valuation of Securities (E) Task Force  
Members of the Valuation of Securities (E) Task Force

From: Charles Therriault, Director, NAIC Securities Valuation Office  
Robert Carcano, Esq., NAIC Consultant

Re: Adopt Content of the Proposed New Purposes and Procedures of the NAIC Investment Analysis Office (P&P Manual) for 2019

Date: March 12, 2019

**1 Introduction and Recommendations** – The project to simplify the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) began in November 2017. A marked up and clean version of a Prototype to illustrate the proposed format and reorganization was released in April for a 75 day comment period. The Task Force adopted the format of the proposed 2019 Manual in November. A marked up and clean version of a draft 2019 P&P Manual intended to reflect the content of the 2018 P&P Manual was released on January 4 for a 60 day comment period. NASVA and the SVO have identified editorial modifications to the 2019 P&P Manual which are discussed in this memorandum. Appendix One shows NASVA's comments as they were received by the SVO. Appendix Two identifies modifications suggested by NASVA and by the SVO to be made to the draft 2019 P&P Manual. The proposed modifications are summarized below. The SVO recommends that the Task Force *adopt the content of the clean version of the draft that is now on the web-site* as the official 2019 P&P Manual. Adoption of the Manual would permit staff and other users to focus on finalizing content for publication in December 2019 by identifying further editorial modifications; adding such amendments that the Task Force may adopt in 2019 and creating the various administrative documentation and the corresponding electronic platforms that are part of the simplification approach for the new Manual.

## 2 Summary of Proposed Edits and SVO Responses

### References to additional filing information

*Summary of Requested Edit and SVO Response* – When will the web-site(s) to which the SVO would post information about filing and documentation requirements and instructions on how to accomplish submissions through VISION be created and notified to industry? The adoption of the 2019 P&P Manual will permit the SVO to publish the new version of the Manual on December 31, 2019. (Until then the December 21, 2018 P&P Manual is the official NAIC guidance.) Changes will be made to the draft after adoption to address administrative issues such as that raised in the comment, make additional corrections as necessary and to add amendments adopted by the Task Force during 2019. The website(s) indicated in the comment are mentioned in Part One, paragraph 56 and Part Two, paragraph 167 of the clean version of the 2019 P&P Manual?<sup>1</sup> References to the web-sites will be added as this process unfolds.

### Old processes referenced thru out the manual

---

<sup>1</sup> NASVA's original reference to the mapped version of the 2019 P&P draft provided different citations to the text than those in the clean version of the draft which we used.

*Summary of Requested Edit and SVO Response* – There are a number of references in the mapped version of the P&P Manual to:

- “... **A completed SAR**” which should be removed given that this term is no longer used. An SVO review of the clean version found references to “a completed SAR” at Part One, paragraph 71 and at Part Three, paragraphs: 42, 45, 51, 71, 72, 73 and 236. We agree these will be removed. The SVO also noted text beginning in Part Three, paragraph 71 in the CTL instructions that refers to the reporting insurance company submitting evidence of a current NAIC CRP rating for the lessee or the lessee’s guarantor or providing a Bloomberg screen as evidence of the rating; text that was to be deleted as an outmoded instruction.
- ☐ **The symbols NR and NR\*** instead of to the modified symbols ND and ND\*. An SVO review of the clean version found that the term NR occurs at least once. The SVO inserted the terms **ND** and **ND\*** because the Task Force adopted that change to be effective December 31, 2019. We believe some instances of the use of the symbols were not changed. We propose to make those changes before the December 31, 2019 publication date.
- ☐ **Modified Filing Exemption** which should be deleted because that term is no longer required or used. An SVO review of the clean version *did not find* that term.
- ☐ **Units Prices** which should be removed because the SVO no longer provides unit prices and no longer has a valuation role. An SVO review of the clean version found a reference to that term in Part One, paragraph 118 and in Part Two, paragraph 5. These will be removed.

*Summary of Requested Edit and SVO Response* – We request that text shown below be amended by the addition of the text shown in red: “RMBS and CMBS that are deemed ineligible for financial modeling and that have also not been assigned credit ratings by NAIC CRPs may be reported by the insurer **in the 5GI General Interrogatory**.” The SVO review of the clean version found the text above in Part Two, paragraph 7, page 44. The SVO has no objection to the requested amendment.

*Summary of Requested Edit and SVO Response*

- We request the addition of the text shown below in red to text in various NOTES in the reformatted P&P Manual. The text is: “The NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class, **as specified in this manual**. The SVO has no objection to the requested change.
- ☐ We found a typographical error in the year end 2018 P&P Manual in the text which indicates that an insurer can use the General Interrogatory procedure for a security subject to a private rating letter when 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. The error involves a reference to the symbol **5PLGI**. The correct reference is to the symbol **NAIC 5GI** which is what appears in the mapped version of the new P&P Manual. We request that the correct reference be retained in the final version. The SVO agrees that an error was made in the 2018 P&P Manual and is correctly stated in the 2019 clean version. The **NAIC 5GI** is the is used *for securities issued on or after January 1, 2018*. The **PL GI** symbol is used *for securities issued prior to January 1, 2018*. The text in the clean version of the P&P is reproduced here.<sup>2</sup>

<sup>2</sup>Part Three, paragraph 10 – “For PL Securities issued prior to January 1, 2018, if an insurance company cannot provide a copy of the rating letter to the SVO due to confidentiality concerns and the rating is not included in a CRP credit rating feed (or other form of direct delivery from the NAIC CRP), the insurer shall report such securities on such securities’ General Interrogatory to be developed for this purpose (i.e., a **PL GI security**).”

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

13. PL securities are exempt from filing with the SVO for assignment of an analytically determined NAIC Designation if the security has been assigned an Eligible NAIC CRP Credit Rating and the insurer verifies the rated status of the PL security to the SVO.

#### Production of NAIC Designations

*Summary of Requested Edit and SVO Response* – The text for the heading called: NAIC Designations Related to the Special Reporting Instruction – which houses the 5 GI General Interrogatory procedure - was deleted from the mapped version of the 2019 P&P Manual. We ask that the text be added back in the 2019 P&P manual. The SVO review of the clean version shows the policy component of the procedure at Part One, paragraph 91 but not the procedure which would have been inserted in Part Two.

*Summary of Requested Edit and SVO Response* – We request a text change to the text in Filing Logic in Part 2, #274, Pg. 104 as shown below in red. “ Insurer need only file a security that is not in the AVS+ or that is in the 258.274.AVS+ without a recently assigned NAIC Designation/Unit Price, is in the AVS+ but without a current year review date or a symbol that is other than an **NR** or **UP** or has not been **filed in VISION**.” SVO has no objection to the requested change. The SVO also notes that the portion of the text that refers to the numbers 258.274 is not part of the text but code from the underlining process. In the clean version of the 2019 P&P, the text appears in Part Two, paragraph 158 - as follows – “**Filing Logic** - 158. Insurer need only file a security that is not in AVS+ or that is in AVS+ without a recently assigned NAIC Designation, is in AVS+ but without a current year review date or a symbol that is other than an NR or has not been logged into VISION.”

*Summary of Requested Edit and SVO Response* – A portion of text in Part 3, #173, Pg. 188 of the mapped version of the 2019 P&P Manual seems to have deleted two words as shown below. We ask that the missing words which appear in the year-end 2018 P&P Manual in Part 3, Section 18, Pg. 192, be reinserted. “The SVO is directed to assess investment risks of military housing bonds or securities, as defined below, using the certification process discussed in this **Section 5** to assign such bonds or securities an NAIC Designation and any other appropriate analytical values it deems appropriate.” An SVO review of the clean version of the 2019 P&P shows that the sentence discussed above was restructured and that there is not a need to reinsert text. The text – which appears in Part Three – is reproduced here: “208. The SVO is directed to assess investment risks of military housing bonds or securities, as defined below, using the certification process discussed in this to assign such bonds or securities an NAIC Designation and any other appropriate analytical values it deems appropriate.”

---

14. If the PL security is not rated by an NAIC CRP; or a credit rating is assigned that is not an Eligible NAIC CRP Credit Rating; or if the insurer cannot provide the SVO a private rating letter verifying that the assigned credit rating is an Eligible NAIC CRP Credit Rating; or the NAIC CRP cannot provide the Eligible NAIC CRP Credit Rating on the PL security to the NAIC through an electronic data feed approved by the SVO and that specifically identifies the PL securities rated by that NAIC CRP, the PL security is not filing exempt.

15. 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 to the security and report using the Interrogatory procedure; in either case within 120 days of purchase.**

**Conditions to Filing Exemption for PL Securities Issued Prior to January 1, 2018**

16. PL securities are exempt from filing with the SVO for assignment of an analytically determined NAIC Designation if the security has been assigned an Eligible NAIC CRP Credit Rating. If the PL security CRP rating is not included in the applicable CRP credit rating feed (or other form of direct delivery from the CRP) or the insurer cannot submit the private letter rating to the SVO because of confidentiality provisions, **the security shall be designated PLGI**. Insurers shall report on all such securities in a General Interrogatory with an attestation that all such securities have an Eligible CRP Credit and are reflected in the financial statements and risk-based capital calculation commensurate with that rating.

## Appendix One

### P&P Manual Rewrite – NASVA suggested edits

#### 1. References to additional filing information

Part One, #46, Pg. 32 - “Information and Documentation Requirements – This can be found in Part 3 as part of the description of the methodology that applies to specific types of securities or investments and the instructions on how to submit through VISION is on the NAIC website: XYZ. “

The Mapped version has a bullet saying “When adopted the SVO will identify a web-site where the document referred to will be posted”.

Part Two, #283, Pg. 105 – “Filing procedures and documentation requirements can be accessed at this location: <https://vision.naic.org/>. See Part Three which contain filing procedures and documentation requirements for the asset classes identified there.”

**Our Ask:** Has a web-site been identified where the documents will be posted? If so, when do you anticipate posting the instructions and lists that have been previously part of the P&P? Will a notification be sent out to industry? Please also review all similar references in the P&P manual for consistency.

#### 2. Old processes referenced thru out the manual

##### a. SAR

**Our Ask:** There are several references in the mapped copy to “A completed SAR” (Pg. 33, Pg. 136, Pg. 137, Pg. 138, Pg. 143, and Pg. 193). Given that the term is no longer appropriate with Vision; will you be removing all references?

##### b. NR to ND or NR\* to ND\*

**Our Ask:** There are several references in the mapped copy to “NR” or “NR\*” (Pg. 115-116; Pg. 117, or Pg. 232). Now that the term is changed to “ND” for 12/31/2019 reporting, will you be changing all sections that currently reference NR or NR\*?

##### c. Modified Filing Exempt

**Our Ask:** There are several references in the mapped copy to Modified Filing Exemption (Pg.44; Pg. 123, and Pg. 223). Now that Modified Filing Exemption is no longer required, will you be changing all sections that currently reference Modified FE to Filing Exempt Process?

##### d. Units Prices

**Our Ask:** There are several references in the mapped copy to Unit Prices (Pg. 15; Pg. 52, Pg. 59 and Pg. 98). It was our understanding that the SVO had happened to no longer be providing unit prices as part of the change in their valuation role. Do you plan to be changing all sections that currently reference Unit Prices?

#### 3. RMBS/CMBS & 5GI

Part 2, #113, Pg.59

**Current Language:** “RMBS and CMBS that are deemed to be subject to financial modeling are retained in the RMBS/CMBS Modeled Process. RMBS and CMBS that are deemed ineligible for financial modeling but that have been assigned credit ratings by NAIC CRPs migrate to the Filing Exempt Securities Process. **RMBS and CMBS that are deemed ineligible for financial modeling and that have also not been assigned credit ratings by NAIC CRPs may be reported by the insurer on the 5GI.**”

**Our Ask:** Changes in Red

“RMBS and CMBS that are deemed ineligible for financial modeling and that have also not been assigned credit ratings by NAIC CRPs may be reported by the insurer **in the 5GI General Interrogatory.**”

#### 4. Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities

*Wording change:*

**Current Language: Pg. 33, Pg. 39, Pg. 40, Pg. 41, Pg. 101, Pg. 120**

**NOTE:** See, “Policies Applicable To The Filing Exemption (FE) Process” discussed below; NAIC Policy on the Use of Credit Ratings of NRSROs” (especially “Definition – Credit Ratings Eligible for Translation to NAIC Designations”) in Part Two [the definition of “Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type *where the NAIC has determined that the security type is not eligible to be reported on Schedule D or that it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset.*] and “Procedure Applicable to Filing Exempt (FE) Securities and to Private Letter (PL) Rating Securities” in Part Three.

**Our Ask:**

The NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class, **as specified in this manual.**

**TYP0:**

**YE2018 old Version – WRONG - Part 3, Section 1, Pg. 102**

“An NAIC **5PLGI** designation may also be used in connection with the designation of PL securities rated by an NAIC CRP (i.e., for PL 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.”

**Mapped Version – Correct – Part Three #17, Pg. 125**

“An NAIC **5GI** Designation 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.”

**Our Ask:** An error was found in the YE2018 manual. It should have read 5GI rather than 5PLGI. The mapped version appears to have been corrected. Please make sure the correction carries over to the final version.

#### 5. Part Two, Section 5 - YE2018 Old Version – Missing from Mapped

“a) NAIC Designations Related to the Special Reporting Instruction

NAIC 5GI is permitted to be assigned by insurance companies to certain obligations that meet all of the following criteria: (1) 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; and (2) the issuer or obligor is current on all contracted interest and principal payments; and (3) the insurer has an actual expectation of ultimate payment of all contracted interest and principal.

An insurance company that self-assigns a 5GI must attest that securities receiving this designation meet all required qualifications by completing the appropriate general interrogatory in the statutory financial statements. If documentation necessary for the SVO to perform a full credit analysis for a security does not exist or if an NAIC CRP credit rating for an FE or PL security is not available, but the issuer is not current on contractual interest and principal payments, and/or if the insurer does not have an actual expectation of ultimate payment of all contracted interest and principal, the insurance company is required to self-assign this security an NAIC 6\*.

NAIC 6\* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5GI are not met.

Securities with NAIC 5GI Designations are deemed to possess the credit characteristics of securities assigned an NAIC 5 Designation. A security assigned an NAIC 5GI Designation incurs the regulatory treatment associated with an NAIC 5 Designation.

Securities an insurance company previously assigned as NAIC 5GI are permitted to subsequently receive this designation if the requirements for an NAIC 5GI designation continue to be met.

Securities with NAIC 6\* Designations are deemed to possess the credit characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6\* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.

NOTE: The GI after the quality indicator 5 refers to General Interrogatory and distinguishes NAIC 5GI from an NAIC 5 Designation. The asterisk (\*) after the quality indicator 6 distinguishes the NAIC 6\* Designation from an NAIC 6 Designation.”

**Our Ask:** We are asking to have this put back in the P&P manual new version as it appears to have been omitted in error.

## 6. Filing Logic

Part 2, #274, Pg. 104

### **Current Language:**

“Insurer need only file a security that is not in the AVS+ or that is in the 258.274.AVS+ without a recently assigned NAIC Designation/Unit Price, is in the AVS+ but without a current year review date or a symbol that is other than an **NR** or **UP** or has not been logged into VISION. “

### **Our Ask:** Changes in Red

“ Insurer need only file a security that is not in the AVS+ or that is in the 258.274.AVS+ without a recently assigned NAIC Designation/Unit Price, is in the AVS+ but without a current year review date or a symbol that is other than an **NR** or **UP** or has not been **filed in** VISION. ”

## 7. Military Housing

Part 3, #173, Pg. 188

### **Current Language:**

“(c) Direction

The SVO is directed to assess investment risks of military housing bonds or 173.securities, as defined below, using the certification process discussed in this **sto** assign such bonds or securities an NAIC Designation and any other appropriate analytical values it deems appropriate. “

**Our Ask:**

This appears to be missing language from previous version (see below)

YE-2018 Version – CORRECT – Part3, Section 18, Pg. 192

The SVO is directed to assess investment risks of military housing bonds or securities, as defined below, using the certification process discussed in this Section 5 to assign such bonds or securities an NAIC Designation and any other appropriate analytical values it deems appropriate.

## Appendix Two Modifications to the 2019 Clean Draft to Reflect NASVA Edits

To remove the term “a completed SAR” in Part One, paragraph 71 and Part Three, paragraphs: 42, 45, 51, 71, 72, 73 and 236 and to delete references to certain outdated instructions.

### Part One

#### Filing Requirements for U.S. Government Securities

70. No filing is required for the securities deemed exempt from filing below unless a state insurance department has specifically requested the SVO to evaluate an exempt security.

71. For U.S. Government Securities required to be filed with the SVO, the reporting insurance company shall submit:

- ~~A completed SAR...~~

### Part Three

#### Structured Securities Fully Guaranteed by an NAIC CRP-Rated Entity or U.S. Government Entity

41. Initial Filing Requirements – A structured security filed under this section must be filed with ~~a completed SAR,~~ evidence that the guarantor is rated by an NAIC CRP and a prospectus, private placement memoranda or other similar document describing the pool, the credit and structural components of the transaction and how the guaranty is called upon together with a copy of the final executed guaranty.

#### Structured Securities Backed by NAIC CRP-Rated Financial Assets

45. Initial Filing Requirements – A structured security filed under this subsection must be filed with ~~a completed SAR,~~ evidence of all NAIC CRP ratings assigned to the obligors in the pool and a prospectus, private placement memoranda or other similar document (which must include a detailed list of all of the obligors in the pool), describing the asset types in the pool and the credit and structural components of the transaction.

51. A structured security filed under this section must be filed with ~~a completed SAR,~~ evidence that the pool insurer is rated by an NAIC CRP, a prospectus, private placement memoranda or other similar document describing the pool and a copy of the pool insurance policy including the proof of loss and claim form together with a description of the claims processing procedures employed by the pool insurance issuer.

#### CREDIT TENANT LOANS

#### FILING INSTRUCTIONS ...

#### Initial Filing Requirements

71. For Bond Lease Based CTLs and Credit Lease Based CTLs, the reporting insurance company shall submit ~~a completed SAR form,~~ a completed Bond Lease Based or Credit Lease Based CTL Evaluation Form, as appropriate (in either case together with the documentation described in the Evaluation Form), and ~~evidence of~~ the lessee's ~~rating or~~ Audited Financial Statement, unless the lessee is a rated entity.



72. In the case of Acceptable CTL Variants (ACVs), the reporting insurance company shall submit ~~a completed SAR,~~ an Audited Financial Statement, Credit Lease Based CTL Evaluation Form (including the documents described in the Evaluation Form) and a separate memorandum identifying and describing the ACV. Any documents that are unique to the transaction by virtue of its being an ACV should be included.

#### Subsequent Filing Requirements

73. For Bond Lease Based CTLs, Credit Lease based CTLs, Multiple Property Transactions (MPTs) and Acceptable CTL Variants, the ~~reporting insurance company shall submit evidence of a current NAIC CRP rating for the~~ lessee or the lessee's guarantor must have been assigned a credit rating by an NAIC CRP or ~~For purposes of this section, a current rating is defined as one issued or reviewed within the past 12 calendar months. Evidence of a current rating may be submitted in the form of a Bloomberg screen or other similar screens acceptable to the NAIC from another information vendor.~~ in In the event the lessee, or lessee's guarantor, is not rated by an NAIC CRP, the reporting insurance company shall file the Audited Financial Statement of the lessee or the lessee's guarantor, as the case may require. ...

236. Bonds – An investment in the form of a bond issued by an insurance or noninsurance SCA entity of the reporting insurance company is filed with the SVO. To file an SCA bond investment, the reporting insurance company files ~~a completed SAR,~~ an Audited Financial Statement for the subsidiary, a copy of the corporate resolution authorizing the issuance of the debt, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary and, if the subsidiary is an insurance company, the subsidiary's most recent NAIC Financial Statement Blank, together with the reporting insurance company's NAIC Financial Statement Blank, internal investment committee memorandum for the investment and loan documentation appropriate to the transaction.

#### To change remaining references to NR and NR\* to ND and ND\*

#### Part Two ...

#### Filing Logic

158. Insurer need only file a security that is not in AVS+ or that is in AVS+ without a recently assigned NAIC Designation, is in AVS+ but without a current year review date or a symbol that is other than an ~~NR-ND~~ or has not been logged into VISION. ...

#### Reporting Framework for Securities under Regulatory Review

199. Upon a public declaration that a security is under regulatory review, insurance companies that own the security shall report it on the NAIC Financial Statement Blank with the administrative symbol ~~NR~~\* if the security is under review for an assessment of regulatory policy for the investment or regulatory reporting instructions to implement applicable policy or with the administrative symbol Z\* if the security is under regulatory review for development by the VOS/TF of the instructions or methodologies for application by the SVO in its risk assessment.

200. In September of each year, the VOS/TF will publicly identify which classes of securities, if any, are under regulatory review and therefore eligible to take the regulatory treatment prescribed for ~~NR~~\*/Z\* in the Annual Statement Instructions for that year's year-end NAIC Financial Statement Blank.

...

205. The SVO will also delete a Schedule BA asset from the VOS Process if a reporting entity has failed to provide sufficient or timely information to permit the SVO to conduct the annual review assessment required above. Schedule BA assets assigned the administrative symbol ~~NR~~ are deleted from the VOS Process if an information deficiency is not addressed by the end of the first quarter following the previous year-end. However, a Schedule BA

asset assigned the administrative symbol ~~NDR~~ is not deleted if an ATF annual update filing has been filed and the SVO has received the information required to assign an NAIC Designation to the Schedule BA asset.

**To remove references to Units Prices in Part One, paragraph 118 and in Part Two, paragraph 5.**

## **Part One**

### **Mandatory Convertible Securities**

118. Mandatory convertible securities are defined as a type of convertible bond or convertible preferred stock that has a required conversion or redemption feature. Either on or before a contractual conversion date, the holder must convert the mandatory convertible bond or preferred stock into the underlying common stock. Mandatory convertible securities are not assigned NAIC Designations ~~or Unit Prices~~ by the SVO. Prior to conversion, insurers shall report mandatory convertible securities in accordance with the SSAP of the current nature of the investment (e.g., SSAP No. 26R—Bonds or SSAP No. 32—Preferred Stock). Insurers should also report an NAIC Designation in Schedule D which they can self-assign or determine in accordance with the filing exemption rule.

NOTE: Please refer to paragraphs 2, 10 and 20 of SSAP No. 26R for further guidance.

## **Part Two**

### **Filing Exempt Securities Process**

5. The Filing Exempt Securities Process (data file) is used to store NAIC Designations, ~~Unit Prices~~ or other determinations assigned by the SVO through an automated process for filing exempt (FE) securities that are an Investment Security. Insurance companies derive NAIC Designations for FE securities by applying the conversion instructions. The insurance company then reports the NAIC Designations assigned to FE securities through NAIC systems. The SVO subsequently adds the security to the Filing Exempt Securities Process. The SVO shall not add a Regulatory Transaction to the Filing Exempt Securities Process.

### **SVO Administrative Symbols**

147. SVO administrative symbols convey information about a security or an administrative procedure instead of an opinion of credit quality ~~or Unit Price~~. The administrative symbols in use by the SVO and their meanings are described below.

**To add requested text (“... by the insurer ~~in the 5GI General Interrogatory~~.”) to Part Two, paragraph 7,**

### **RMBS/CMBS Modeled Securities Process**

7. RMBS and CMBS that are deemed to be subject to financial modeling are retained in the RMBS/CMBS Modeled Process. RMBS and CMBS that are deemed ineligible for financial modeling but that have been assigned credit ratings by NAIC CRPs migrate to the Filing Exempt Securities Process. RMBS and CMBS that are deemed ineligible for financial modeling and that have also not been assigned credit ratings by NAIC CRPs may be reported by the insurer ~~on~~ in the 5GI General Interrogatory.

**To add requested text (“The NAIC may determine ... is not eligible to be reported on Schedule D or ... not appropriate for NRSRO credit ratings to be used ..., ~~as specified in this manual~~.”) in various NOTES.**

## Page 19

### **POLICIES APPLICABLE TO THE FILING EXEMPTION (FE) PROCESS**

NOTE: The policies below provide the policy framework for “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” in Part Three and are related to “The Use of Credit Ratings of NRSROs in NAIC Processes” discussed above; “NAIC Policy on the Use of Credit Ratings of NRSROs” and the “Definition – Credit Ratings Eligible for Translation to NAIC Designations” in Part Two (“Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset, [as specified in this Manual.](#))

## Page 25

### **POLICIES APPLICABLE TO THE FILING EXEMPTION (FE) PROCESS**

NOTE: The policies below provide the policy framework for “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” in Part Three and are related to “The Use of Credit Ratings of NRSROs in NAIC Processes” discussed above; “NAIC Policy on the Use of Credit Ratings of NRSROs” and the “Definition – Credit Ratings Eligible for Translation to NAIC Designations” in Part Two (“Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type *where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset,* [as specified in this Manual.](#))

## Page 26 - 27

NOTE: See “Coordination Between the Statutory Accounting Principles Working Group and the Valuation of Securities Task Force” especially “NAIC Designations Do Not Communicate Statutory Accounting or Reporting” and “Sources and Application of Statutory Accounting Guidance” above; and “Use of Credit Ratings of NRSROs In NAIC Processes” and “Definition – Credit Ratings Eligible for Translation to NAIC Designations” in Part Two. (The definition of “Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset, [as specified in this Manual.](#))

## Page 27

NOTE: See “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities “Policies Applicable to the Filing Exemption (FE) Process” including the disclosure on securities not eligible for filing exemption in Part Three and NAIC Policy on the “Use of Credit Ratings of NRSROS” and “Definition – Credit Ratings Eligible for Translation to NAIC Designations” in Part Two. (The definition of “Eligible NAIC CRP Credit Ratings” excludes the use of any credit rating assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or that is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset, [as specified in this Manual.](#))

## Page 111

### **PROCEDURE APPLICABLE TO FILING EXEMPT (FE) SECURITIES AND PRIVATE LETTER (PL) RATING SECURITIES**

NOTE: See “Use of Credit Ratings of NRSROs in NAIC Processes” and “Coordination Between the Statutory Accounting Principles Working Group and the Valuation of Securities Task Force” (especially “NAIC Designations Do Not Communicate Statutory Accounting or Reporting” and “Policies Applicable to the Filing Exemption (FE) Process”) in Part One; “NAIC Policy on the Use of Credit Ratings of NRSROs” (especially “Definition – Credit Ratings Eligible for Translation to NAIC Designations”) in Part Two (the definition excludes the use of NAIC CRP credit ratings assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset, as specified in this Manual); and “Filing Exemption Status of RMBS and CMBS” in Part Four (excluding RMBS and CMBS from the use of credit ratings for NAIC regulatory processes).

**To reinsert the text for the heading: NAIC Designations Related to the Special Reporting Instruction – which houses the 5 GI General Interrogatory procedure in Part Two.**

## **GENERAL FILING PROCEDURES**

...

### **NAIC Designations Related to the Special Reporting Instruction**

166. NAIC 5GI is permitted to be assigned by insurance companies to certain obligations that meet all of the following criteria: (1) 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; and (2) the issuer or obligor is current on all contracted interest and principal payments; and (3) the insurer has an actual expectation of ultimate payment of all contracted interest and principal.

164. An insurance company that self-assigns a 5GI must attest that securities receiving this designation meet all required qualifications by completing the appropriate general interrogatory in the statutory financial statements. If documentation necessary for the SVO to perform a full credit analysis for a security does not exist or if an NAIC CRP credit rating for an FE or PL security is not available, but the issuer is not current on contractual interest and principal payments, and/or if the insurer does not have an actual expectation of ultimate payment of all contracted interest and principal, the insurance company is required to self-assign this security an NAIC 6\*.

165. NAIC 6\* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5GI are not met.

166. Securities with NAIC 5GI Designations are deemed to possess the credit characteristics of securities assigned an NAIC 5 Designation. A security assigned an NAIC 5GI Designation incurs the regulatory treatment associated with an NAIC 5 Designation.

167. Securities an insurance company previously assigned as NAIC 5GI are permitted to subsequently receive this designation if the requirements for an NAIC 5GI designation continue to be met.

Securities with NAIC 6\* Designations are deemed to possess the credit characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6\* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.

NOTE: The GI after the quality indicator 5 refers to General Interrogatory and distinguishes NAIC 5GI from an NAIC 5 Designation. The asterisk (\*) after the quality indicator 6 distinguishes the NAIC 6\* Designation from an NAIC 6 Designation.

## **PROCEDURE TO AUTHORIZE SVO USE OF A NATIONAL FINANCIAL PRESENTATION STANDARD**

...

**To add requested text to the Filing Logic text (“... or has not been **filed in** VISION.”) and to delete extraneous text (“... or that is in the (258.274) AVS+ ...” in Part Two, paragraph 158**

### **Part Two**

#### **Filing Logic**

158. Insurer need only file a security that is not in AVS+ or that is in AVS+ without a recently assigned NAIC Designation, is in AVS+ but without a current year review date or a symbol that is other than an **NR** or has not been ~~logged-filed in into~~ VISION.

W:\National Meetings\2019\Spring\TF\VOS\2019 Spring National Meeting\Item 6 - Consider Adoption of the Text of the 2019\07 - 2018-028.03 Task Force 2019 Adopt Content of New PP (2).docx