Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework

The NAIC received several similar questions from Interested Parties that touch on oversight, defined terms, specific calculations and thresholds, and interpretation of results under the Framework. Those questions are addressed directly in the subsequent questions below.

The NAIC would like to clarify that Framework has been intentionally designed to be dynamic. The NAIC's expectation is that the Framework will evolve over time (including possible enhancements and addendums) with a) changing investment and market landscapes, b) as data availability, volume, and quality improve, and c) as the NAIC gains further implementation experience under the Framework. The NAIC further notes that the Framework is not intended to regulate Credit Rating Providers (CRPs). Rather, it is intended to inform the NAIC's due diligence and reliance decisions regarding credit ratings used in support of NAIC Designations and other regulatory purposes.

The NAIC believes that a prudent approach is to be transparent about type of analysis that will be completed under the Framework, the purpose of such analysis, and the basis for conclusions, without committing to publication of all underlying formulas and parameters.

Further, the NAIC would like to emphasize that Scoping and Risk Assessment procedures are designed to inform the scope and extent of further Detailed Testing Procedures and that the results of Scoping and Risk Assessment procedures do not, in and of themselves, form the basis for any conclusions. Any conclusions or remediation action would be based on the totality of the due diligence findings and the applicable governance process. Such conclusions or remediation actions relate solely to the NAIC's use and reliance on credit ratings within its regulatory framework and should not be interpreted as regulating, supervising, or evaluating CRPs outside of that context.

Provisional Acceptance of CRPs

1. When will the provisional acceptance period for CRPs begin, and under what circumstances would the CRP Working Group extend it for some or all CRPs?

The timing of any provisional acceptance period has not yet been finalized. The Working Group anticipates establishing an implementation timeline after considering public comments on the proposed framework.

As described in the white paper, historically accepted CRPs would be provisionally accepted following implementation of the framework, subject to the conditions set forth in the proposal. The white paper contemplates a 36-month provisional acceptance period from the implementation date, unless extended by the CRP Working Group. Any such extension would be expected to reflect practical implementation considerations, including operational readiness and the need to promote consistent treatment across CRPs.

2. Does the NAIC have a target timeline for adoption of the framework?

The NAIC is targeting an adoption of the CRP Due Diligence Framework in ~~2027~~ 2026. However, final timing for adoption is expected to be determined following the Working Group's consideration of public comments and any resulting revisions to the proposed framework.

The adoption timeline will be expected to reflect practical implementation considerations, including any final revisions to the framework, operational readiness, and coordination among the relevant NAIC groups responsible for implementation and oversight.

3. In page 7 on the section of Provisional Acceptance of CRPs, condition number (ii) states that there is "no materially adverse findings related to a specific CRP… in the most recently available SEC (or other applicable jurisdictional examination report". However, if by SEC report it means the OCR Report of NRSROs, the first disclaimer found on the Report is "This is a report of the Staff and, as such, reflects solely the Staff's views." Thus, it is not an SEC Report, and no affirmation has been made regarding any action by the SEC on any of the findings. Thus, two questions arise from this, a) What is the definition of materially adverse findings? And b) Why would the NAIC consider as part of its framework a report which expressly states that it is a Staff Report, and not an SEC Order or Proceeding against a violation in rules?

The current focus on OCR report findings could be interpreted as too narrow. As such, we propose expanding the language to include reports, findings, examinations, disciplinary and/or enforcement actions, and other work product from the SEC or its staff, as all of the foregoing are produced in a regulatory capacity and can serve to inform the NAIC in its reliance on ratings for its own regulatory needs. Even though the SEC OCR report may be qualified as "solely the Staff's views" the OCR staff report is mandated by law and regulation and is based on the OCR's extensive NRSRO examinations. Similarly, SEC Corporation Finance Interpretations (CFIs) and no-action letters are the product and opinions of SEC staff, and yet market participants often look to them for guidance.

To determine materiality the NAIC will consider, among other elements, the likelihood of increased risk posed to our regulatory regime. Some examples might include findings that question the independence of the ratings process or the consistent application of methodology.

4. Will Phase 2 discussions focus only on CRP methodologies applicable to filing exempt/private letter securities, and will the NAIC conduct these reviews simultaneously across all CRPs or sequence them by ratings volume or asset class coverage?

As noted in the "Provisional Acceptance Phase 2: Methodology Walkthrough and Discussion with CRPs" section of the whitepaper, Phase 2 discussions will focus on the methodologies applied to filing-exempt and private letter securities.

Further, "The NAIC will determine the sequence of these reviews considering several factors including, but not limited to, relative proportion of FE and PL securities rating coverage provided by each CRP and the proportion of CRP rating coverage for asset classes determined to be higher growth for insurers or higher risk asset classes."

Scoping Assessment and Data

1. In the Scoping there is a mention about less than two years of historical data being available, then you proceed to Detailed Testing, but how would you assess the amount of historical information?

This determination would focus on whether the available historical data is adequate to support the quantitative analyses procedures outlined in the framework. In evaluating the data, the NAIC would consider the length of time covered by the data, completeness, and quality.

2. Have all CRPs confirmed that they will be able to provide the NAIC with the necessary data on a consistent and timely basis to implement the framework?

Yes, all the CRPs will be providing data to the NAIC, and the data set is expected to improve over time.

3. In the CRP Scoping (and also Asset Class one) assessment, one of the attributes that is analyzed is Growth, but it is not clear how growth is calculated or measured or what is taken as a reference (is growth ratings, revenue). Is that Growth measured for the CRP at the category level/asset class specifically that is being analyzed?

The growth attribute of the scoping assessment will be measured based on growth in insurance industry exposure at the CRP level and then separately at the asset class level.

4. In the CRP Scoping (and also Asset Class one) assessment, insurance industry exposure is also not clearly defined. Is it on number of ratings, or amount of assets in nominal terms covered?

For CRP and Asset Class Scoping, Insurance Industry exposure will be understood as insurer balance sheet impact, such as Book Adjusted Carrying Value exposure to CRP-rated securities held by insurers, rather than simply the number of ratings.

5. With respect to the Scoping Assessment Overview, the NAIC has indicated that it will consider reliance on qualitative judgment, how does NAIC propose to differentiate between CRPs’ application of qualitative judgment?

The NAIC assessment would focus on whether qualitative judgment is applied in a manner that is logical, consistently governed, and reasonably supported within the CRP’s stated methodology.

Where qualitative judgment appears to be significant, insufficiently supported, inconsistently applied, or associated with unexplained rating divergence, additional due diligence may be warranted, including methodology walkthroughs, targeted discussions with the CRP, or security-specific reviews.

6. How long does a High-Risk designation persist? Under what circumstances would the NAIC revisit their conclusions? How would an NRSRO commence a review process of such a designation?

High-Risk designation persists for 12 months or until the next annual assessment.

7. In the NAIC's review of SEC exam findings, what would constitute a "material risk to ratings?"

To determine materiality the NAIC will consider, among other elements, the likelihood of increased risk posed to our regulatory regime. Some examples might include findings that question the independence of the ratings process or the consistent application of methodology.

8. The framework contemplates segmentation of assets into categories for purposes of scoping, risk assessment, and testing. Can the NAIC clarify when it expects to finalize and communicate those segment definitions? Specifically, industry is interested in the level of granularity expected for segmentation buckets.

The whitepaper identifies the core segmentation factors: public versus private status, asset class or security type, industry, investment grade versus non-investment grade, jointly rated versus single rated, and CRP. The governing principle is to define segments that are comparable enough to be analytically meaningful, while still large enough to support useful inference. Where smaller segments are too thin or unreliable, the framework permits combining them into broader populations rather than drawing conclusions from inadequate data.

The NAIC expects that these decisions will be informed by actual implementation experience, including the quality and completeness of the data received from CRPs, insurer reporting, and other sources available to the NAIC. For that reason, the framework appropriately leaves room for refinement over time rather than attempting to fix all segment definitions in advance without the benefit of operational experience.

9. How do PwC and the NAIC envision analyzing spread comparisons across segments? In particular, how would spread comparisons be structured and normalized for differences in origination, timing, structure, and market conditions?

The analysis would be structured around comparable populations. Spread comparisons may consider rating band, asset class or security type, and relevant security characteristics to the extent the data permits. Where appropriate and feasible, spread comparisons can be expected to account for additional factors outside of credit profile that may impact spread such as market conditions, tenor, and origination timing.

10. How are "rating bands" defined and applied in testing and comparisons? Would bands be based on NAIC designation categories (e.g., NAIC 1 vs. 2) or on designation notches (e.g., NAIC 2.A vs. 2.B)?

Rating bands will be defined in a manner that supports meaningful comparison across similarly situated securities while remaining practical given available data. The appropriate level of granularity may differ depending on the purpose of the analysis, the size of the population, and the depth of the underlying data.

The use of broader designation categories versus designation notches will be determined based on the analytical objective and the availability of sufficient, comparable data within each segment. Where designation notch-level analysis is feasible, it may provide more precise insights. Where it is not feasible, broader designation-level groupings may be necessary to avoid drawing conclusions from populations that are too limited or not statistically meaningful.

Risk Assessment

1. Section 2.2 states that the NAIC may "extrapolate results across Test Segments (e.g. applying findings from jointly rated securities to comparable single-rated securities)." How will the NAIC perform extrapolations across test segments, and what analytical, statistical, or empirical standards will support those extrapolations?

Any extrapolation will be limited to segments that are determined to be sufficiently comparable based on characteristics such as asset class, rating level, public versus private, and other relevant segmentation criteria. The whitepaper allows for extrapolation to allow for the possibility that some segments may not have enough observations for direct testing, especially where jointly rated data is limited. That said, the framework does not currently set out a fixed extrapolation formula. Any extrapolation will be used as a part of the overall assessment and not treated as conclusive on its own.

The specific empirical standards supporting any extrapolation have not yet been finalized and will depend in part on the sufficiency and quality of the data received. For that reason, the NAIC does not believe it would be appropriate at this stage to prescribe rigid universal extrapolation rules in the absence of actual implementation data. Rather, the NAIC expects that extrapolation will be supported by documented comparability considerations, observed analytical consistency across relevant segments, and governance review within the broader framework.

2. For all of the statistical analysis mentioned in the risk assessment section, will the detailed formulas be published for each of the example tests to be undertaken? A variation in any of the formulas or the number of observations required can have material impact in how the formula is to be applied.

At this stage, the NAIC does not anticipate publishing detailed formulas for every statistical test. The whitepaper identifies example tests, but it also makes clear that the final set of tests, thresholds, and implementation details will depend on the data actually received and remain subject to refinement. Consistent with the framework's iterative design, the range of tests applied may also evolve over time as data availability, volume, and quality improve and as the NAIC gains further implementation experience. The NAIC believes that a prudent approach is to be transparent about the categories of tests being used, the purpose of those tests, and the basis for conclusions, without committing to publication of all underlying formulas and parameters.

3. In the risk assessment section where the statistical analysis is discussed, there is a mention that a lack of sufficient data or reliable history will initially default to High Risk. How will this be measured? What are the thresholds to be used?

If a test segment does not have enough reliable data to support meaningful analysis, the framework should not infer low risk when there is a lack of evidence. The whitepaper expressly provides that segments lacking sufficient data or reliable history may initially default to high risk and proceed to qualitative review or Detailed Testing. Final numeric thresholds have not yet been set, because those will depend on the volume, completeness, and quality of the data ultimately received.

A high risk designation for an individual security or cohort of securities does not, in itself, indicate a deficiency or adverse finding; rather, it is used to calibrate the scope and extent of the Detailed Testing phase, including sample size and the procedures to be performed.

4. In the risk assessment section where the Activities Outcome are presented, what happens if several statistical analyses are performed, and each yields a different threshold result? It is not clear what happens for a Test Segment for which several analyses are performed and different thresholds are observed, nor the thresholds to be used.

The statistical thresholds and related analyses are dependent on the quality and completeness of the data that is ultimately made available. As a result, the NAIC is not in a position to prescribe a single mechanical tie-breaker rule at this stage. The current framework anticipates that differences across test results would be evaluated in context, documented in the Risk Assessment record, and considered as part of a governed supervisory determination.

5. For the Risk Assessment that NAIC would conduct in order to arrive at the Test Segments (and the High, Moderate, Low risk ratings per segment), how does the NAIC envision that the Risk Assessment process would factor in the respective CRPs methodologies in order for NAIC to arrive at a conclusion regarding the presence/absence of equivalence across CRPs?

The framework distinguishes between two related questions:1) whether rating outcomes appear equivalent at the Test Segment level, and 2) if concerns arise, whether methodological factors help explain those outcomes. The Risk Assessment principally addresses the first question, while Detailed Testing and methodology walkthroughs provide the forum for deeper evaluation of the second.

6. Will CRPs be given an opportunity to review and respond to Risk Assessment inputs and results prior to them being finalized?

The framework does not establish a separate formal review period for every interim Risk Assessment result. However, CRPs are expected to be involved through data submissions and methodology discussions in the Detailed Testing phase. The whitepaper expressly provides that where an adverse determination is made after the culmination of Scoping, Risk Assessment and Detailed Testing procedures, then the CRP would receive a confidential explanation and an opportunity to respond before the decision is made public.

7. Can the NAIC provide guidance on how it will determine appropriate Test Segment definitions and what principles will govern when smaller segments are combined into larger populations?

The whitepaper identifies the core segmentation factors: public versus private status, asset class or security type, industry, investment grade versus non-investment grade, jointly rated versus single rated, and CRP. The governing principle is to define segments that are comparable enough to be analytically meaningful, while still large enough to support useful inference. Where smaller segments are too thin or unreliable, the framework permits combining them into broader populations rather than drawing conclusions from inadequate data.

The NAIC expects that these decisions will be informed by actual implementation experience, including the quality and completeness of the data received from CRPs, insurer reporting, and other sources available to the NAIC. For that reason, the framework appropriately leaves room for refinement over time rather than attempting to fix all segment definitions in advance without the benefit of operational experience.

8. For security-specific challenges, the materiality threshold before a remediation step is required is three rating notches. Is this same three-notch threshold also relevant for determining whether remediation is necessary for a CRP overall and/or for a CRP's ability to rate a particular asset class?

As outlined in the whitepaper, when performing Detailed Testing for a security specific rating, consistent with the IAO materiality threshold outlined in the Purposes & Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), is three or more notches. Deviations beyond this tolerance will be flagged for escalation.

Broader remediation actions impacting a CRP overall and/or a CRP's ability to rate a particular asset class will reflect severity and persistence of overall issues observed during Risk Assessment and Detailed Testing Procedures.

Detailed Testing Procedures

1. Would the NAIC be amenable to conducting its annual CRP interviews on a cadence that does not conflict with the annual SEC onsite exams of CRPs?

The NAIC will work with CRPs to try to avoid conflicts with their onsite SEC exams.

2. With respect to the Security-Specific Rating Review, NAIC indicates that it will perform an independent rating analysis "leveraging an acceptable methodology (as outlined in the P&P Manual) and an independent approach, to assess the reasonableness of the CRP rating provided." The P&P Manual (para. 38, page 13) describes a wide range of possible methodological approaches that the SVO may use. In light of the foregoing, briefly explain how the NAIC will ensure that its selected methodology would respect the established methodologies of credit rating providers, such that NAIC would not, in effect, impose a methodological approach on a CRP or otherwise potentially impinge a CRP's independence in producing a credit rating.

CRPs may utilize any methodology that they deem appropriate to assess an investment. Likewise, the NAIC's SVO may also utilize any methodology that it deems appropriate to determine an NAIC Designation and which aligns with the NAIC's regulatory objectives when assessing an investment.

The NAIC will neither impose methodology requirements on CRPs nor impinge upon their independence. The NAIC will be asserting its right as a consumer to use ratings, including not using them, as it deems appropriate for its regulatory objectives.

3. What will be the definition on the thresholds on spread comparison? How will the spread comparison be controlled for changes in macro or industry environment, or timing of security?

Where appropriate and feasible, spread comparisons can be expected to use a normalized approach, to account for additional factors outside of credit profile that may impact spread such as market conditions, tenor, and origination timing.

Thresholds, and implementation details will depend on the data received and remain subject to refinement. The NAIC believes that a more prudent approach is to be transparent about the types of procedures to be performed under the framework, the purpose of those procedures, and the basis for conclusions, without committing to publication of all underlying thresholds.

4. When will sample size or characteristics be determined for Sampling Approach under Detailed Testing?

Sample size and characteristics are expected to be determined during implementation and applied as part of the Detailed Testing Procedures, after the Scoping Assessment and Risk Assessment have identified the relevant CRPs, asset classes, or test segments for review.

5. What would the NAIC be looking for in the Methodology Walkthrough and Discussion with CRP in the Detailed Testing Procedures? What would be considered a "good" methodology vs. a deficient or bad one? In the Questionnaire, many of the questions are not about the methodology, but more about the general processes around methodologies, so what are the criteria that the NAIC determine as sufficient for a methodology?

The NAIC would be looking for the CRP to describe how the methodology would be applied with the objective of understanding in which ways the methodology does or does not align with the NAIC's regulatory objectives and its definition of investment risk.

6. The proposal indicates that newer asset classes, methodologies, and segments with limited historical data may automatically receive heightened scrutiny or default to "high risk" classifications. How does the NAIC intend to avoid unintentionally stifling the development of new capital market products that address evolving investor needs and provide valuable financing alternatives?
   - Furthermore, how will the NAIC avoid disadvantaging innovative CRPs that are better positioned to respond to market demands and credit opinions on such products?
   - Lastly , how will the NAIC consider the analytical conservativism CRPs generally use when incorporating proxy data in situations where direct historical data is sparse (e.g., meaningful haircuts are used when proxy data rather than direct historical data is the basis of the CRP's quantitative assumptions and/or such products may not be able to achieve ratings above a category)?

The NAIC acknowledges the importance of continued capital markets innovation and development. The framework is intended to provide risk-based oversight of the NAIC's reliance on CRP ratings, not to discourage innovation or the development of new products, methodologies, or asset classes. A high risk designation does not, in itself, indicate a deficiency or adverse finding: rather, it reflects that limited data or performance history may warrant additional review procedures. In such cases, the framework contemplates further diligence, including qualitative assessments and methodology discussions, to better understand the rating approach and supporting analysis as well as further detailed testing procedures.

Where proxy data is used, the NAIC would consider the relevance of the proxy data and any conservatism incorporated to address uncertainty, including haircuts, stress assumptions, or similar measures.

7. Section 3.2.1(c) of the Framework provides that when the NAIC performs independent methodology reviews on sample securities, such reviews may include assessments of model accuracy. CRPs may use proprietary models that are not intended to be shared

with external parties. In addition, a CRP may use a model as a component of the analysis such that assessing model results in isolation does not give clarity as to the ultimate rating result. How does the NAIC intend to manage these modeling nuances?

Security-Specific Rating Methodology Review, which would include an assessment of model accuracy, is just one of three alternative Detailed Testing procedures available under the framework. When performing this review, model accuracy is just one component of the overall procedure. The NAIC recognizes that other factors including qualitative review may contribute to the ultimate rating result and those factors would be taken into consideration in understanding the overall Security-Specific Rating Methodology.

8. Can the NAIC clarify who will be responsible for performing the scoping, risk assessment, and detailed testing under the framework (e.g., SVO, external advisors, or other parties)?

It is expected that NAIC staff will perform the assessments and testing at the direction of the CRPWG and bring results to the CRPWG which can act on those results pursuant to the Framework.

Governance Overview-Remediation Actions

1. Given the number of CRP methodologies, sub-methodologies, jurisdictions, and asset classes potentially implicated, how did the NAIC determine that an annual review cycle is appropriate to operate the framework effectively? Section 4.2.1.

The NAIC produces NAIC designations each year for insurers to report on their financial statements. The more automated quantitative process would align with that reporting frequency but further analysis, including qualitative assessments, would follow after/augment the more automated quantitative process.

2. Has the NAIC assessed what potential market disruption could result from "Translation Matrix Adjustments," "Removal of Filing Exempt Status," or "CRP De-admittance"? Section 4.2.2.

Once the remediation action is finalized, a defined notice period (expected to range from three to six months depending on the materiality of impacted filings) may be provided prior to implementation to mitigate large market impact.

3. What administrative appeal rights and review procedures will apply before remediation actions become effective, including opportunities for CRP input, standards for factual verification, and measures to ensure consistency and transparency in adverse determinations?

Interested parties including the CRPs will be able to present their opinions to the CRPWG before a final determination is made. That discussion could be in a regulator-only session, depending upon the nature of the issue, and could include explanatory context and any new materials.

4. Will remediation actions apply at the CRP level or at the individual asset-class level within a CRP's coverage?

It could be both.

5. For remediation actions, what would be the criteria for assessing if it is a systematic vs repeated vs persistent inconsistency?

Systemic inconsistencies that are observed for a given CRP or asset class implies that CRP ratings that are mapped to analogous NAIC designations may not be equivalent. Repeated inconsistencies in CRP ratings for a given asset class suggest that reliance on CRP ratings in a particular asset class is no longer producing consistent, relevant, or fit for the purpose results of NAIC designations. Inconsistencies with rating methodologies or outcomes that impact a significant number of ratings or continue to impact ratings period over period would be considered persistent.

6. What objective evidentiary thresholds and procedural safeguards will apply before the NAIC imposes Tier 2 remediation actions such as:
   - additional rating requirements,
   - translation matrix adjustments,
   - removal of filing-exempt status,
   - or CRP de-admittance?

The quantitative thresholds have not been established. They will also likely change over time as the quality of the information provided improves. The CRPWG would decide what action is appropriate for the situation.

7. How will outcomes under the CRP Due Diligence Framework be addressed within the existing NAIC appeal process, and does the framework introduce any new or separate appeal or review mechanisms?

There is not an explicit appeal process for decisions by the CRPWG. Adopted actions by the CRPWG would next be considered by the IATF and then E Committee.

8. How is the SVO's rating discretion process for filing-exempt securities intended to fit within the proposed CRP Due Diligence Framework, and which group within the IATF structure would be responsible for hearing an appeal, in the event of a rating discretion challenge?

The NAIC's FE Rating discretion process is about removing an individual rating on an individual security from the FE eligibility once the CRPWG deliberates the rating challenge and removal is authorized. The CRP Due Diligence Framework will be used to address CRP rating reasonableness and equivalency more broadly, across CRPs and asset classes.

9. Page 26 (Tier 2, point 3) references removal of filing-exempt (FE) treatment at the asset class level. Can the NAIC clarify whether this removal would be applied on a CRP specific basis (i.e., limited to a particular CRP within that asset class) or applied broadly across all CRPs for that asset class?

Removal could be applied narrowly to a particular CRP or more broadly across all CRPs for that asset class, as has been previously done (e.g., principal protected securities and CLO Combo Notes). It would depend upon the nature of the specific situation and asset class.

10. If a CRP is determined to be ineligible, or not reliable for a particular asset class or sleeve, how does the NAIC expect existing ratings from that CRP to be treated for purposes of NAIC designations and insurer reporting? Where that CRP is the only available rating provider, what process would apply to those securities, and would the SVO or another party be able to provide a timely alternative?

The ratings for that CRP that are determined to be ineligible will be removed from the FE process. If there are alternate ratings that are still eligible, they would be used. If there are no eligible ratings, the SVO or SSG would be tasked with assigning NAIC Designation if they have an appropriate methodology for those investments. The impacted investments would follow the guidance in the P&P Manual.

11. Can the NAIC describe the anticipated remediation process, including the notice period insurers would receive from the identification of remediation through final implementation? Also, is it expected that remediation discussions and decisions would occur through a public process? If so, would industry have an opportunity to provide feedback and share additional information as recommendations move through the approval process (e.g., IATF, the (E) Committee, and Plenary)?

For CRP WG remediation action determinations that are materially adverse to a CRP (i.e., Tier 2 remediation actions), a confidential and detailed explanation of the decision shall be provided to the subject CRP, prior to any adverse decision being made public. The CRP shall be able to present its opposition to the CRP WG determinations in a regulator-only session, including explanatory context and any new materials. Recommended remediation actions, if any, by the CRP WG will then be subject to the CRP WG's parent committees (IA TF, E Committee, Plenary). Once the remediation action is finalized, a defined notice period – generally expected to range from three to six months, depending on the materiality of impacted filings – may be provided prior to implementation to mitigate large market impact. This remediation adjusting period is intended to support timely implementation.

Appendix B

1. Can NAIC clarify whether each rating included in the data call must be explicitly tagged to a specific CRP methodology, or whether asset class identification alone is sufficient for purposes of segmentation and testing?

The NAIC is looking for each rating to be tagged to a specific CRP methodology as outlined in the data call.

We expect that every security will be tagged with an identifier to identify the specific methodology or methodologies used to assign the rating, the date of that methodology or methodologies, and a way to identify the version of the methodology or methodologies. Asset class identification alone is not sufficient for segmentation or testing purposes.

2. Does NAIC intend to publish a standardized asset-class taxonomy (aligned to Appendix B) that CRPs are expected to map their methodologies to?

There is no industry-wide adopted or utilized asset classification standard.

3. Does NAIC expect CRPs to retroactively re-tag historical ratings when asset-class definitions or methodology mappings change, or will NAIC accept point-in-time mappings to preserve time-series consistency?

The NAIC expects the CRPs to associate the methodology and version of the methodology with the rating provided for that security at that point in time. If a new or updated methodology is used for future ratings, the new methodology and version number of the methodology and methodology effective date would be provided.

4. When asset-class identification differs between insurer statutory filings, CRP methodology tags, and external vendor data (as contemplated in Appendix B Options 1-3), what hierarchy or conflict-resolution rules will NAIC apply?

There is no industry-wide adopted or utilized asset classification standard. Likewise, there is frequent inconsistency between insurers when reporting. To the extent possible, follow the guidance in the NAIC's Annual Statement Instructions posted on the NAIC's Publications website.

5. To what extent would IDAWG and INVAWG be involved in remediation efforts?

It will depend on what remediation action the CRPWG decides is appropriate.

Clarification of Concepts/Undefined Terminology

1. Several quantitative thresholds, classifications, and testing criteria described in Sections 1.2.2 and 2.3 are characterized as “preliminary,” “illustrative,” or “subject to refinement.” What process and timeline will the NAIC use to finalize preliminary thresholds, methodologies, and testing standards, and will CRPs have opportunities to review and comment on future calibration changes and exposure drafts?

The expected timeline for finalizing preliminary thresholds, methodologies, and testing standards is before the 2026 NAIC Fall National Meeting when it is hoped that the Framework will be adopted. CRPs and interested parties will have the opportunity to review and comment on the proposed and future calibration changes and exposure drafts.

2. Key concepts remain undefined, including “equivalency” (including at what level it will be assessed at: i.e. asset class, issuer, or rating category level) (Sections 2.1, 2.3, 3.3 and 4.2.1), “reasonableness” (Sections 2.3 and 3.3), “material risk” (Section 1.2.3.1), “systematic disagreement” (Section 2.1) , “misalignment” (Sections 2.1 and 4.2.2), criteria governing “high risk” classifications (Section 1.3), and “CRP Methodologies with significant qualitative approaches in their methodologies” (section 1.2.3.2)? How does the NAIC define these terms? Will the definitions be included in the final proposal?

The NAIC’s intent is for these concepts to guide a risk-based due diligence framework, not to prescribe automatic or formulaic outcomes. Terms such as “equivalency,” “reasonableness,” “material risk,” “systematic disagreement,” “misalignment,” “high risk,” and “significant qualitative approaches” should retain sufficient flexibility to be applied overtime across the framework. Overly rigid definitions could limit the NAIC’s ability to consider the full set of relevant facts, including changing data availability, methodologies, and practices.

3. How does the NAIC define “cumulative leverage” across layered private credit and structured finance vehicles, and does the proposal contemplate a standardized disclosure framework for aggregate leverage exposure across related entities and structures?

The CRP Due Diligence Framework does not include the term “cumulative leverage”. If there are specific investments, asset classes or methodologies where this is applicable, please share them with NAIC staff.

4. How does the NAIC define “equivalency,” “reasonableness,” “consistency,” “inappropriateness,” and “systematic disagreement” for purposes of the Framework, particularly given that different CRPs employ different methodologies and analytical assumptions?

Reasonableness, consistency and appropriateness are all in the context of the NAIC's overall regulatory framework, risk-based capital treatment objectives (e.g. equal capital for equal risk) and the definition of investment risk when assigning an NAIC Designation (e.g. NAIC Designations represent opinions of gradations of the likelihood of an insurer's timely receipt of an investment's full principal and expected interest ("investment risk"). Where appropriate, for a given investment, NAIC Designations and Designation Categories shall reflect "tail risk" and/or loss given default, the position of the specific liability in the issuer's capital structure, and all other risks, except for volatility/interest rate, prepayment, extension, or liquidity risk.)

Confidentiality/Security of Information/Data Retention

1. What cybersecurity, confidentiality, and information segregation controls will govern CRP submissions, including any use of artificial intelligence tools or access by external consultants and third parties?

Only Regulators and NAIC staff have access to CRP submissions.

2. The NAIC proposes that CRPs confidentially share regulatory findings with the NAIC. Much of a CRP's correspondence with regulators is confidential, so how does the NAIC recommend a CRP balance its confidentiality needs with this NAIC request?

The NAIC is willing to maintain that confidentiality of those findings, including, entering into a memorandum of understanding with the SEC's Office of Credit Ratings. Any sharing of such confidential information would require a waiver by the CRP and regulator. Being a credit rating provider to the NAIC is a privilege that comes with responsibilities that the CRP must agree to.

3. How will the NAIC safeguard confidential information used in the diligence process relating to CRPs and rated securities? Furthermore, how does the NAIC intend to disclose its diligence findings?

Only Regulators and NAIC staff will have access to the confidential information used in the diligence process.

For CRP WG remediation action determinations that are materially adverse to a CRP, a confidential and detailed explanation of the decision shall be provided to the subject CRP. All public communications related to CRP WG remediation action determinations shall be specific enough to relay the primary rationale for the decision while remaining sufficiently general to protect confidential information.

4. How will the NAIC incorporate SEC Office of Credit Ratings examination findings into the Framework in a manner that appropriately reflects the context and purpose of the SEC supervisory process and avoids creating a parallel supervisory regime for NRSROs?

The NAIC is not a rating agency supervisor and will not be duplicating the good work performed by the SEC's Office of Credit Ratings examination. As a consumer of ratings that are directly used within the NAIC's regulatory framework, it is important that the NAIC be aware of examination issues found by any of the rating agency's regulators and consider how those finding may or may not impact the NAIC's reliance on that rating agency's ratings.

5. Has the NAIC coordinated with the SEC, ESMA, IAIS, or other supervisory authorities regarding the sharing of methodology review materials and supervisory findings, and does the framework contemplate formal regulatory coordination where supervisory conclusions differ?

The NAIC is not a rating agency supervisor and does not have the regulatory mandate to perform the role of a rating agency supervisory like the SEC, ESMA, IAIS, or other rating supervisory authorities. The NAIC's relationship with rating agencies is as a consumer of ratings that are used within the NAIC's insurance regulatory framework.

6. Does the NAIC have in place an MOU with the U.S. Securities and Exchange Commission, such that the NAIC may directly request information from the SEC in lieu of the credit rating providers submitting their SEC exam reports to the NAIC?

The NAIC does not currently have a memorandum of understanding with the SEC's Office of Credit Ratings but is willing to enter into one with them along with the CRP's authorization to release those SEC exam reports to the NAIC.

7. To what extent would the NAIC consider utilizing the SEC's Office of Credit Ratings' Staff Report on NRSROs to inform its evaluative processes for CRPs?

The NAIC would consider use of the OCR report. Likely, initially it might be most useful for industry-wide findings. However, since the report anonymizes rating agencies, for the NAIC to rely on it for CRP specific findings, both the rating agencies and SEC would need to agree to waive confidentiality for the sharing of information with the NAIC.

8. Does NAIC envision excluding from consideration any content of SEC examination reports that do not pertain to governance, methodology, or control issues (the factors indicated its Scoping Assessment)?

The NAIC does not intend to limit use of any information contained in the OCR report which could be pertinent to its use of ratings.

9. What safeguards will be implemented to ensure that CRP ratings history data is used solely for purposes of the Framework and not for other NAIC activities, and how would the NAIC treat such data if a CRP is removed from the list of approved credit rating providers or reliance on its ratings is discontinued in one or more asset classes?

Prior to sharing data, the NAIC entered into confidentiality agreements with CRPs limiting the use of the data being provided for purposes of the CRP Due Diligence Framework

General Questions

1. How does the NAIC intend to staff the work that arises from this proposed framework? Does the NAIC have an estimate of the number of additional staff and the expertise required for this work?

There is a CRP process manager currently in place. Additional staff members will be added, as necessary.

2. How does the NAIC intend to ensure that the Framework complements — rather than duplicates or supersedes — existing SEC/NRSRO oversight processes?

The NAIC intends to use the Framework to become a more informed user of ratings. In doing so, it can leverage the work product of the SEC and other rating agency oversight. However, as a user of ratings, the NAIC may have additional concerns which do not directly overlap with those of the SEC.

3. How does the NAIC intend to address the analytical limitations associated with private market securities that are frequently rated by only one CRP and may not have sufficient jointly rated comparable populations for meaningful equivalency testing?
    - To what extent will the NAIC rely on jointly rated identical securities versus pooled comparisons across non-identical securities when drawing conclusions regarding CRP equivalency or rating divergence?

Where jointly rated identical securities are available, they would provide the most direct basis for comparing rating outcomes across CRPs. However, the framework should not depend exclusively on jointly rated identical securities given expected data limitations for certain segments. Accordingly, the NAIC may need to supplement direct comparisons of jointly rated securities with broader pooled comparisons across reasonably comparable securities.

4. How will the NAIC avoid attributing rating differences to CRP inconsistency where differences may instead reflect differing security structures, collateral pools, covenant protections, sponsor quality, or information availability?

The NAIC would seek to avoid attributing rating differences to CRP inconsistency without first considering whether the differences can be explained by relevant security-specific factors.

Equivalency testing and rating comparisons will be conducted using appropriately defined comparison groups to the extent the data permits. These factors may explain differences in rating outcomes and will be considered before any conclusion is drawn regarding inconsistency or misalignment. Accordingly, quantitative results will be interpreted in context and should not be used mechanically.

5. How does the NAIC intend to account for differences in ratings from CRPs owing to the application of different, but valid, methodologies each may use to rate certain transaction types?

The NAIC recognizes that CRPs may use different, but valid, methodologies to rate the same or similar transaction types. The framework is not intended to require methodological uniformity across CRPs or to favor one analytical approach over another.

Differences in methodology would be evaluated in the context of whether the resulting ratings remain reasonable and sufficiently comparable for NAIC regulatory reliance purposes.

To the extent that different CRP methodologies within the same asset class imply a different definition of Investment Risk, such cases will be identified during preliminary scoping and may warrant additional Detailed Testing Procedures. In those instances, the Detailed Testing Procedures will focus on assessing whether those methodological differences result in material non-equivalency across rating providers.

6. Can NAIC confirm whether a formal set of validation rules will be provided so CRPs can run the same checks in advance and reduce back-and-forth resubmissions while ensuring consistent data quality across CRPs?

It is to be determined.

7. Will NAIC establish a formal process for managing data corrections across the end-to-end framework?

It is to be determined.

8. Given the expectation that CRP data call submissions align with automated CRP data feeds, will the framework include reconciliation procedures between the data call submissions and automated data feeds, and can NAIC clarify the process that will be followed when discrepancies are identified?

The NAIC will work with CRPs if it finds discrepancies between the CRP data call submissions and the automated CRP data feeds. The NAIC expects that the CRPs will be performing quality and verification reviews of the CRP data call submissions.

9. The NAIC's Purposes and Procedures Manual provides that RMBS and CMBS are not eligible for the "filing-exempt" process. As a result, we understand that CRP ratings in these asset classes are not used by NAIC staff to assign NAIC Designations. On what basis does the NAIC intend to use CRP ratings performance data from these asset classes in connection with the Framework?

The P&P Manual does exclude RMBS and CMBS that are financially modeled by the NAIC's Structured Securities Group from Filing Exemption; however, RMBS and CMBS that are not financially modeled revert to using CRP ratings. This necessitates that the ratings on those investments being included in the CRP data call submissions.

10. Does the NAIC plan to publish the questions received in connection with the Framework proposal, as well as any corresponding responses?

Yes. The NAIC will post the questions it received through June 3, 2026, removing any identifying information, along with its answers to those questions. The intent is that the NAIC's answers will assist interested parties in the drafting of their comment letters.