

## VALUATION OF SECURITIES (E) TASK FORCE

Valuations of Securities (E) Task Force August 12, 2025, Minutes

Valuation of Securities (E) Task Force June 4, 2025, Interim Meeting Minutes (Attachment One)

Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Require the Filing of Private Rating Letter Rationale Reports Within 90 Days of the Annual Update or a Rating Change (Attachment Two).

Amendment to *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Require that Private Rating Letter Rationale Reports Possess Analytical Substance (Attachment Three)

Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Caps on NAIC Designations of CRP Rated Securities (Attachment Four)

## Draft Pending Adoption

Draft: 8/20/25

Valuation of Securities (E) Task Force  
Minneapolis, MN  
August 12, 2025

The Valuation of Securities (E) Task Force met in Minneapolis, MN, Aug. 12, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Andrew N. Mais, Vice Chair, represented Ken Cotrone (CT); Heather Carpenter represented by David Phifer (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Laura Clements (CA); Michael Yaworsky represented by Carolyn Morgan (FL); Dean L. Cameron represented by Amber Re (ID); Ann Gillespie represented by Matt Cheung (IL); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Tom Travis (LA); Marie Grant represented by Gilbert Mendoza (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by Danielle Smith (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by Nakia Reid (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Amy Garcia (TX); Jon Pike represented by Cambria Shore (UT); Scott A. White represented by Doug Stolte (VA); Patty Kuderer represented by Steve Drutz and Katy Bardsley (WA); and Nathan Houdek represented by Amy Malm (WI).

### 1. Adopted its June 4 and Spring National Meeting Minutes

The Task Force met June 4 and took the following action: 1) exposed two proposed *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendments; and 2) exposed a P&P Manual technical amendment to put caps on NAIC designations of credit rating provider (CRP)-rated securities.

Garcia made a motion, seconded by Clements, to adopt the Task Force's June 4 (Attachment One) and March 25 (see *NAIC Proceedings – Spring 2025, Valuation of Securities (E) Task Force*) minutes. The motion passed unanimously.

### 2. Adopted an Amendment to the P&P Manual to Require the Filing of Private Rating Letter Rationale Reports Within 90 Days of the Annual Update or a Rating Change

Mears said the next item was a revised proposed P&P Manual amendment to require the filing of private rating letter Rationale Reports within 90 days of an annual rating update or any rating change. The Task Force discussed this revised amendment during its June 4 meeting and exposed it for a 14-day public comment period that ended June 18.

Since Jan. 1, 2024, all private letter (PL) securities (other than waived submission PL rating securities) have required a corresponding "private rating letter rationale report," which is filed with the Securities Valuation Office (SVO) in order to be eligible for the filing exemption (FE) process. The revised amendment establishes a 90-day deadline to submit a new or updated private rating letter rationale report following the date of the required annual rating update or following a rating change. A new private rating letter rationale report would not be required for other rating affirmations or confirmations if the rating did not change. If the private rating letter rationale report is not filed during that time, the private rating on the security would become ineligible for FE. The security rating could become eligible for FE again when the SVO receives the private rating letter rationale report related to such rating action.

The Task Force received one joint comment letter from the American Council of Life Insurers (ACLI), Private Placement Investors Association (PPIA), and National Association of Securities Valuation Analysts (NASVA) in support of the revised amendment.

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Mike Reis (Northwestern Mutual), representing the ACLI, PPIA, and NASVA, expressed gratitude and support for considering their feedback in a workable manner.

Malm made a motion, seconded by Fischer, to adopt the revised P&P Manual amendment to require the filing of private rating letter rationale reports within 90 days of the required annual rating update or following a rating change (Attachment Two). The motion passed unanimously.

### 3. Adopted a Revised P&P Manual Amendment to Require that Private Rating Letter Rationale Reports Possess Analytical Substance

Mears said the next item was a revised proposed P&P Manual amendment to clarify the intent of the policy to submit private rating letter rationale reports. The SVO has reported receiving private rating letter rationale reports that do not possess any substantive analysis. Included in the SVO's memorandum accompanying the revised amendment is an anonymized actual rating rationale report that clearly does not possess any analytical substance. That rationale report says that the CRP "... *consider(ed) ... baseline macroeconomic scenarios for rated sovereign economies ...*" but does not include any information on the scenarios, which countries they are related to, or how that information relates to the rating assigned to the investment. There are no numbers, financial trends, ratios, or analysis of any kind in the brief single paragraph purporting to be a rationale report, only text that vaguely describes things that were supposedly looked at. Private letter rating rationale reports must provide transparency and information about how the rating came to be. Many of the private letter rating rational reports received possess analytical substance. It is more of an exception than the rule that they do not have the expected analytical purpose.

This amendment and its impact are not a judgment on the rating itself, but rather whether the rational report includes enough information to explain and document the rating assigned.

The Task Force received a joint comment letter from the ACLI, PPIA, and NASVA in support of the revised amendment. Reis, representing the ACLI, PPIA, and NASVA, expressed appreciation for considering their feedback in a workable manner. A comment letter was also received from Morningstar DBRS.

Drutz made a motion, seconded by Piatt, to adopt the revised P&P Manual amendment to require that private rating letter rationale reports possess analytical substance (Attachment Three). The motion passed unanimously.

### 4. Adopted a P&P Manual Technical Amendment to Put Caps on NAIC Designations of CRP-Rated Securities

Mears said the next item was to discuss and consider adoption of a technical amendment to put caps on NAIC designations assigned by the SVO, including NAIC CRP-rated securities.

Marc Perlman (NAIC) said that in November 2024, the Task Force adopted an amendment to the P&P Manual to replace the concept of credit risk and related terms, including "credit quality," with the concept of investment risk. Two P&P Manual sections concern a cap on allowable NAIC designations, in which replacing "credit quality" with "investment risk" reversed the intended meaning of the sections.

The sections in Parts One and Three of the P&P Manual, titled "NAIC Designation is Capped to Highest NAIC CRP Rating," are intended to limit an SVO-assigned NAIC designation on a security that already holds a rating from a CRP to no higher than the CRP rating equivalent. Being SVO-assigned means that a policy has not been assigned through FE or the Structured Securities Group (SSG).

In both sections, the original P&P Manual language said that the SVO shall not assign a designation on such already rated security that would "express an opinion of credit quality HIGHER than that indicated by," the CRP rating. Higher credit quality means a higher NAIC designation.

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When swapping “credit quality” with “investment risk,” the P&P Manual sections now say that the SVO shall not assign a designation on such already rated security that would “express an opinion of investment risk HIGHER than that indicated by,” the CRP rating. However, higher investment risk means a lower NAIC designation. The SVO, therefore, proposed revised language to clarify that these two sections are intended to remain as caps.

One joint comment letter was received from the ACLI, PPIA, and NASVA, which raised two concerns with the proposed amendment. The first concern is that the first occurrence of the “Caps” section is found in Part One of the P&P Manual under the broader headings of “Filing Exemptions” and “Application of the FE Procedure to Specific Populations,” leading to possible confusion as to whether the caps section applies to the FE process. The caps section, however, falls under a subheading called “Limitations on Use of NAIC CRP Ratings,” which is intended to provide clarity around further use of NAIC CRP ratings, including situations outside the FE process.

The second concern from the comment letter was whether the caps would apply to designations assigned by the SSG; specifically, whether tranches of a collateralized loan obligation (CLO) could be designated higher than, or would be capped by, an NAIC CRP rating on that tranche.

The potential for clarifying language was added to ensure users understood this policy only applied to SVO-assigned designations. In further discussions, the placement of this section within the P&P Manual warrants further review around whether more substantive changes are appropriate to reflect current practices. The SVO reiterates that there is no change to current practices from this edit, which is simply to correct the inappropriate sentence structure. Therefore, the SVO recommends that the Task Force adopt the language without the edit, that being the avoidance of doubt provisions, but also direct the SVO to do a more fulsome analysis of whether further changes are warranted.

Reis, representing the ACLI, PPIA, and NASVA, said the companies had no issue with the original intent of the exposure, which was to address the inverse relationship between NAIC designation and risk. The broader concerns, given the confusion highlighted, can be figured out. He said the companies are supportive of what is being proposed to be adopted.

Drutz made a motion, seconded by Clements, to adopt the P&P Manual amendment, without the proposed clarifying language, to place a cap on SVO-assigned NAIC designations of CRP-rated securities (Attachment Four). The motion passed unanimously.

### 5. Exposed a P&P Manual Amendment to Permit a 30-Day Filing Grace Period to Provide the Private Rating Letter Annual Update

Mears said the next item was a proposed P&P Manual amendment to permit a 30-day filing grace period to provide the private rating letter annual updates.

Charles Therriault (NAIC) said that at the 2024 Fall National Meeting, the Task Force agreed to permit insurers a 30-day filing grace period after an NAIC CRP renews a PL rating to provide the annual update to the SVO. The objective of the grace period was to avoid the need to deactivate PL ratings that received an annual update close to year-end. If it came through in December, it would be deactivated at year end. The amendment gives a 30-day grace period for PL rating annual updates regardless of what time of year they occur.

The SVO recognizes that insurers need time to provide PL rating annual updates to the SVO, particularly if they are manual, after they receive them from the CRPs, and recommends granting insurers a 30-day grace period to provide the PL rating annual updates.

Mears said the 30 days are for the PL rating and providing that update. The earlier adopted 90-day allowance to file is to provide the accompanying rationale.

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Mears directed the SVO to expose the P&P Manual amendment to permit a 30-day filing grace period to provide the private rating letter annual update for a 30-day public comment period ending on Sept. 12.

### 6. Exposed an Annual Statement Schedule Update for Security IDs

Mears said the next item was to discuss and consider for referral a proposed update to the annual statement schedule for security identifiers (IDs).

Therriault said that in a number of reports that the SVO team has run for the Task Force over the past several years, it has encountered security IDs that it could not find in S&P Global's Global Instruments Cross Reference Service (GICRS) database. The GICRS database of global security IDs cross-references approximately 92 million instruments and includes all the IDs currently permitted by the NAIC for reporting on Schedule D (e.g., Committee on Uniform Security Identification Procedures [CUSIP], the CUSIP International Numbering System [CINS], private placement number [PPN], and International Securities Identification Number [ISIN]). The SVO worked with Financial Regulatory Services (FRS) staff to quantify the number of invalid or missing security IDs that were reported on Schedule D as of Dec. 31, 2024, when compared to the GICRS database, along with the associated book/adjusted carrying value (BACV). There were 10,053 missing or invalid security IDs on Schedule D, collectively representing \$55 billion of BACV.

The SVO wanted to alert the Task Force of these exceptions and recommends combining the CUSIP and ISIN fields into a single security ID field on Schedule D and adding a security ID type field. The fields would be next to each other: a CUSIP number and then a code identifying it as a CUSIP, or if it was an ISIN, in the security ID column, the next column would identify the security ID type as ISIN.

Combining security IDs into a single field aligns with the NAIC's integration of GICRS into its systems and will simplify the NAIC's data validation processes. Structuring the security IDs this way would also potentially permit the NAIC to include other security IDs, such as Bloomberg's Financial Instrument Global Identifier (FIGI) and Mark-It's Loan-X, which has its own ID. There are 27 individual security IDs in the GICRS database. The SVO recommends developing a new reporting field to clearly identify when a security ID has not been validated on a financial statement. This could be a regulator-only field, or it could be something that could be added to the financial statements themselves. It would be up to the regulators to decide how they wish to use that.

The SVO requests the Task Force's approval to expose this memorandum for comment with the goal of using any technical comments received to prepare a referral to the Blanks (E) Working Group to affect these security ID changes. The SVO would also welcome working with industry on researching possible causes for these security ID validation issues and incorporating any appropriate remediation steps that would be appropriate to ensure the IDs are corrected.

Mears said the memorandum is to be exposed for feedback from industry and presumably NASVA on these technical details, then, ultimately, the blanks proposal will be prepared. It will then be exposed before it gets referred. There are a few steps to this, but this exposure is just looking for that initial feedback.

Mears directed the SVO to expose the memorandum summarizing the security ID changes for a 30-day public comment period ending Sept. 12.

### 7. Received NAIC Staff Reports on the CLO Modeling Methodology

Mears said the next item was to receive an update on the proposed CLO modeling methodology and ad hoc working group. The CLO modeling methodology is scheduled to go into effect at the end of this year. Last year, in recognition of ongoing work at the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and by the American Academy of Actuaries (Academy), the Task Force extended the implementation date by one year to better align with those workstreams. Eric Kolchinsky (NAIC) will provide an operational update, and then the Task Force can discuss next steps.

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Kolchinsky said that the CLO effort at the NAIC, consistent with the current language in the P&P Manual and the deadline that the Task Force set last year, is operationally and technically ready to produce results for year-end 2025. The SSG is also set up to produce these results monthly for informational purposes, as promised. However, progress is being made on the ongoing work by the Academy's C1 working group on CLOs. Furthermore, a great deal of feedback was received through the ad hoc group. The work has not been presented to the Task Force. In light of that, and given previous remarks, the SSG is requesting guidance on next steps.

Mears said it is of critical importance to insurance regulators to continue monitoring the growth, in this case of insurer CLO exposures, but also for work on asset-backed securities (ABS) overall. As most people are aware, there is ongoing work by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and the Academy on ABS, like CLOs. There is also a holistic review of the overall risk-based capital (RBC) framework by the Risk-Based Capital Model Governance (EX) Task Force. The chairs of this Task Force, the Working Group, and the Financial Condition (E) Committee will be consulting with the Academy over the next few months to develop a clearer timeline and roadmap for addressing insurer CLO exposures. This will take into account the Academy's work, progress, and expected timeline, as well as its integration with the SSG's financial modeling. Given all these concurrent workstreams and the anticipated updates expected in September from the Working Group on CLOs, Mears recommends deferring implementation of the SSG's CLO modeling process for one year to give these other efforts additional time.

Mears directed the SVO and SSG staff to draft a P&P Manual amendment to defer the SSG's financial modeling of CLOs for one year and to expose the amendment for a 30-day public comment period ending Sept. 12.

### 8. Received NAIC Staff Reports on the Projects of the Statutory Accounting Principles (E) Working Group

Julie Gann (NAIC) said the Statutory Accounting Principles (E) Working Group met the previous day and had many adoptions and exposures. This update will only highlight a few items, mostly investment-related items, and the Working Group's website will have the full listing. First, the Working Group adopted a revised *Interpretation (INT) 23-01: Net Negative (Disallowed) Interest Maintenance Reserve*, which is the negative disallowed interest maintenance reserve (IMR) INT that was adopted in August 2023. It was set to expire at the end of this year, and it was adopted to give one more year under that INT, so it would be effective through Dec. 31, 2026, automatically nullifying Jan. 1, 2027. A few edits to the INT were adopted along with that extension. Most notably, it clarified that the 10% adjusted capital and surplus limit on what is allowed to be admitted for net negative IMR is based on the prior period's financials. The Working Group added a new cap of 10% of the current period capital surplus.

As another small adoption, this one was addressed through the editorial revisions. The Working Group moved a lingering reference to CRP ratings that was in *Statement of Statutory Accounting Principle (SSAP) No. 41—Surplus Notes*, related to what sort of ratings were required for surplus notes and capital notes, which is contingent on the SVO's P&P Manual. The Working Group removed that reference and included a pointer to this publication for what sort of designation is required.

For exposure actions, first, the Working Group exposed a new agenda item proposing new reporting and disclosure requirements for private securities. This exposure will require a new electronic-only column for all investment schedules that have securities that could be subject to U.S. Securities and Exchange Commission (SEC) registration, and each investment that is included on that schedule will need to be identified as whether it is public, a Reg 144A, a Regulation D, or a general exemption to the SEC registration. There is also a not applicable option that should only be used for investments on the schedule that are not subject to the SEC registration. Additionally, this item has a new proposed disclosure to capture aggregate information based on those classifications, along with other pertinent information that is pulled from the financial statements. Therefore, those categories would include total BACV, the amount of fair value that is classified as level two and level three, the BACV supported by PL ratings, and information based on aggregate deferred interest and

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paid-in-kind. If something were a Reg 144D, those on Schedule D would be aggregated with those categories. A regulator could quickly look to see how much aggregate deferred interest is reported on Schedule D for something that is a private security, based on the different types. This item was exposed with a shortened comment period ending Sept. 19. That was proposed only to allow initial comments before the Working Group sponsors a blanks proposal. Once initial comments are received and considered, it will move forward with the goal of it being adopted for year-end 2026, which means it has to be through the Working Group and blanks by May 2026.

The Working Group exposed a new agenda item proposing disclosure revisions to debt securities and residual interests. This came about as the Working Group reviewed the reporting after the principles-based bond definition for the first quarter. It was noted that some existing disclosures that were in *SSAP No. 21—Other Admitted Assets*, *SSAP No. 26—Bonds*, and *SSAP No. 43—Asset-Backed Securities*, all three related to debt securities, had different frequencies and reporting locations. This is now being uniformly incorporated into the financial statements. There were no residual interest disclosers, so disclosures were proposed in line with other existing investment-type disclosures. For that one, a new disclosure is proposed to identify the measurement method for those items, whether they follow the practical expedient or the allowable earned yield method. Also, the intended date of that item is Dec. 31, 2026. That one does not have a shortened comment period, and the Working Group is proceeding with a blanks proposal. That item is exposed for a public comment period ending Oct. 17.

The Working Group exposed revisions that would allow qualifying trust structures. Qualifying trust structures are often reported on Schedule BA, either as *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or under *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* as a D6.1 SCA, to be reported as individual residential mortgage loans if they meet criteria dedicated or stipulated within the SSAPs. If an insurer has a qualifying trust structure that holds residential mortgage loans, it can report those as if it held those residential mortgage loans directly.

Lastly, the Working Group exposed proposed edits to the annual statement reporting instructions that would eliminate the concept of an investment subsidiary from D6-1. The investment subsidiaries concept dates back to 2005. It was eliminated from the statutory accounting guidance in *SSAP No. 97*. Originally, it was intended as a subsidiary that holds investments on behalf of the insurance company. Although the concept was eliminated in *SSAP No. 97*, the reporting still continued on D6-1. Additionally, there is a look-through RBC provision that allows companies to calculate what the RBC would be under those investments and determine the RBC, but there is no transparency as to what actual investments are held within those investment subsidiaries. This was exposed to eliminate that concept from D6.1, so after the effective date, which is proposed to be Dec. 31, 2026, those would just follow the normal subsidiary, controlled, and affiliated (SCA) reporting guidelines. There is also a proposal to eliminate the look-through RBC, which is also exposed for a public comment period ending Oct. 17.

### 9. Received NAIC Staff Reports on the Impact of Moody's Downgrading the U.S. Government's Credit Rating

Mears said the Task Force has received some questions following Moody's Ratings (Moody's) downgrade of the U.S. government credit rating from "AAA" to "Aa1" on May 16. This follows Fitch Ratings' downgrade of the U.S. government from "AAA" to "AA+" on Aug. 1, 2023, along with S&P's downgrade in 2011 from "AAA" to "AA+." That now makes three rating agencies that no longer maintain an "AAA" rating on the U.S.

Currently, the NAIC designation of U.S. government obligations is fixed in the P&P Manual at NAIC 1.A. Therefore, any upgrades or downgrades do not change the NAIC designation as they would with the non-U.S. government FE process. If the NAIC designations were governed by the general CRP rating FE process, U.S. government obligations would be at NAIC 1.B. The Task Force should discuss this issue, but no current recommendation exists. This update is to ensure that the Task Force members and interested parties were aware of these rating changes, how they flow through NAIC processes and procedures, and, given the P&P Manual's current U.S. government FE policy, confirm that there has been no change to the NAIC designation

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of NAIC 1.A. If the NAIC needs to address anything, either within the Task Force or within some of the groups the Task Force coordinates with, including the Statutory Accounting Principles (E) Working Group and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, it will be discussed at a future meeting. It is not the designation that is fixed as much as the mapping from that subtotal that goes to the RBC and receives the NAIC 1.A. effectively RBC treatment. To confirm, no designation changes come with these downgrades, but as noted again, this may be something that can be discussed later.

### 10. Received the CRP Rating Due Diligence Framework and FE Discretion Project

Therriault said the NAIC selected PricewaterhouseCoopers (PwC) to develop the NAIC's CRP rating due diligence framework. PwC was officially engaged for this initiative on June 2. NAIC business and technology teams have met with PwC to kick off the project, align stakeholder objectives and expectations, establish project governance, and discuss CRP data. Access to a secure portion of the NAIC network is being worked on, along with provisioning the technology tools PwC will need for its analysis. This includes a secure NAIC SharePoint site to share information with the PwC. The PwC team will be given NAIC IDs, and all ratings information and data will be stored securely on NAIC systems. A template was created for a historical ratings data call to the CRPs. The template standardizes the ratings history data necessary for the development of the framework's analytical component. The rating history data call was issued to all eight CRPs Aug. 8.

The initial business requirements for the FE discretion process have been gathered. The process will require updates to the NAIC's VISION and AVS+ applications. The SVO and Information Technology Group (ITG) reviewed various vendor applications for a secure data room to be used during the deliberative portion of the discretion process, and a vendor has been selected. Development work on the NAIC system enhancements is anticipated to begin in 2026.

Mears said additional updates on these processes will be given to the Task Force. The goal is to review all the CRPs. Therriault said there are multiple steps, one of which is qualitative and the other is quantitative. Both processes are being looked at, including the mapping of those ratings to the NAIC designation.

Mears said it will recreate a more fulsome due diligence process to look at how the NAIC approves new CRPs, which come from nationally recognized statistical rating organizations (NRSROs), so there could be new ones all the time, as well as review existing CRPs to ensure that the CRPs are meeting the NAIC's expectations for an NAIC designation.

### 11. Discussed the Restructuring of the Task Force Into Four Groups

The Financial Condition (E) Committee adopted the restructuring of the Task Force into the following four new groups: Invested Assets (E) Task Force; Investment Analysis (E) Working Group, Securities Valuation Office & Structured Securities Group (E) Working Group, and Credit Rating Provider (E) Working Group. Those names may change to make sure the acronyms are appropriate. These changes will require a number of P&P Manual updates to align the titles and governance described throughout the manual because there are many references to the Task Force as it is currently named. The Task Force had no objections, so Mears directed SVO staff to prepare the amendment necessary to reflect this structural change as efficiently as possible, given how many references there may be to the Task Force in the P&P Manual, and include detailed changes only when necessary. That also means the next national meeting will be the final Task Force meeting. Then, during the 2026 Spring National Meeting, the Invested Assets (E) Task Force will meet.

Having no further business, the Valuation of Securities (E) Task Force adjourned.

[https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-08-12 - NAIC Summer NM/Minutes/VOSTF\\_2025-08-12\\_Summer\\_2025\\_NM v2 \(CT edits\).docx](https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-08-12 - NAIC Summer NM/Minutes/VOSTF_2025-08-12_Summer_2025_NM v2 (CT edits).docx)



Draft: 6/20/25

Valuation of Securities (E) Task Force  
Virtual Meeting  
June 4, 2025

The Valuation of Securities (E) Task Force met June 4, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Andrew N. Mais, Vice Chair, represented Ken Cotrone (CT); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Laura Clements (CA); Michael Yaworsky represented by Ray Spudeck (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Marie Grant represented by Greg Ricci (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by Danielle Smith (MO); Remedio C. Mafnas represented by Maryann Borja-Arriola (MP); Jon Godfread represented by Matt Fischer and Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); Patty Kuderer represented by Katy Bardsley (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Exposed Two Proposed P&P Manual Amendments

Mears said the first agenda item was a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to require the filing of private rating letter rationale reports within 90 days of the annual rating update or following a rating change. There is a proposed revision in the materials (Attachment A) that reflects a recommendation from industry to strike the requirement for “any rating confirmation or affirmation.” Charles Therriault (NAIC) walked through some components based on the first comment letter received on that amendment.

The second item was a P&P Manual amendment to require that private rating letter rationale reports possess analytical substance, for which there is a revision (Attachment B). One of the comments received on this item was a request to provide an example of an anonymized version of a rating rationale that did not possess any analytical substance. An example is now included in the revised memorandum. Some comment letters appear to conflate this with Securities Valuation Office (SVO) discretion. This is not an opinion or discretion issue, as, based on what passed years ago, insurers are required to provide a rating rationale for every private letter (PL) rating they utilize. The Task Force implemented the consequence of removing a rating until the rationale is provided, which goes back to the 90-day period amendment. This second part simply states that the rating rationale needs to serve its purpose of providing transparency and information on how the rating came to be. It is not a judgment on the rating itself, but rather whether it includes enough information. There were a couple of concerns that more specific requirements should be provided as to what it should look like, but doing so may not be beneficial to everyone. If the Task Force were to put minimum requirements, it would likely be well beyond what is listed in the memorandum. The Task Force is trying to be open to what a reasonable person would be looking for. The anonymized summary of what had been submitted should suffice for that purpose.

This is not an issue with a particular rating agency or something seen across the board. These are exceptions rather than the rule for ones that would be questioned. Every rating agency has provided rationales that possess analytical substance. They can review what that looks like in their own processes based on the materials and the comments that Therriault summarized. This is something that can easily be remedied by providing a rationale. If it does not have analytical substance, it should be provided again. Every rating agency has been capable of providing that. The rating is reinstated as soon as it is uploaded.

Therriault said that, as mentioned in the memorandums, since Jan. 1, 2024, all PL securities (other than waived submission PL rating securities) have required a corresponding private rating letter rationale report to be filed

with the SVO in order to be eligible for the filing exemption (FE) process. The first amendment would establish a deadline of 90 days to submit a new or updated private rating letter rationale report following the date of any annual rating update and rating change. The SVO appreciates the industry feedback recommending excluding intra-year rating affirmations or confirmations when there has not been a rating change. This was incorporated into the revision.

As with the original amendment, the security would become ineligible for FE if the private rating letter rationale report is not filed during that period. The security could become eligible for FE again when the SVO receives the private rating letter rationale report. This would still be a daily process, as originally envisioned, with the goal of avoiding a very large number of private ratings unsupported by a required rationale report at year-end. This would be something that would get current feedback through NAIC systems.

The second amendment is focused on satisfying the intent of the policy to submit private rating letter rationale reports. As defined in the P&P Manual, “The phrase ‘private rating letter rationale report’ means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP.” Unfortunately, the SVO has received rationale report filings, like the anonymized example in the memorandum, that do not meet this minimum standard, as they have text but no analysis. There is no information about the company/issuer, management, analysis of underlying collateral if that is a key component of its risk, any changes to the deal structure, actual or expected performance, discussion of the current risks, analysis and trends of the financial statements, and comparison to peers, to name just a few typical things that would normally be in a rating rationale report. A rationale report is expected to be an analysis of the investment sufficient to support the rating assigned. Unlike public ratings, there may be no other information available on a privately rated security, and this is a key document to keep track of what is going on in the space.

The SVO appreciates the feedback and recommendation to include the information request. This idea was included in the revised amendment. The SVO recommends a brief exposure period of 14 days for both amendments ending June 18.

Mears asked Therriault for a brief walkthrough of what the information request would look like in the event that a rating rationale did not meet the standard.

Therriault said the insurance company filing the rationale report would get a notification through the Vision application that the SVO analyst identified a question about the transaction. The insurer can then work with the credit rating provider (CRP) involved to either resolve the issue or discuss it with the SVO analyst. The information request is an efficient way for an SVO analyst to communicate to the filer that there is a concern.

Mears asked how long it takes for a rating to be reinstated once an updated rationale is provided. Therriault said it would be immediate because once the SVO analyst completes the filing, it is immediately processed in Vision. Information request instructions are set up as a two-step process in the P&P Manual. There is an initial 45 days, and if there is activity and discussion with the filer responding to the request, the SVO analyst can extend it for an additional 45 days to give up to 90 days to complete the information request.

Mears said one joint comment letter was received from the American Council of Life Insurers (ACLI), Private Placement Investors Association (PPIA), and National Association of Securities Valuation Analysts (NASVA) on the amendment to provide a deadline for the filing of private rating letter rationale reports.

Mike Reis (Northwestern Mutual), representing the ACLI, PPIA, and NASVA, acknowledged that they endorse the recommendation to expose both amendments for a 14-day public comment period ending June 18.

Mears said four comment letters were received on the amendment to require private rating letter rationale reports to contain analytical substance, including a joint comment letter from the ACLI, PPIA, and NASVA and individual comment letters from the Alternative Credit Council (ACC), Egan-Jones Ratings Company (Egan-Jones), and the Lease-Backed Securities Working Group. No additional comments were received.

Mears directed NAIC staff to expose the two proposed P&P Manual amendments for a 14-day public comment period ending June 18.

## 2. Exposed a P&P Manual Technical Amendment to Caps on NAIC Designations of CRP-Rated Securities

Mears said the next item on the agenda was to discuss and consider exposure of a technical amendment to caps on NAIC designations of NAIC CRP-rated securities.

Marc Perlman (NAIC) said that in November 2024, the Task Force adopted an amendment to the P&P Manual to replace the concept of credit risk and related terms, including “credit quality,” with the concept of investment risk. In two P&P Manual sections concerning a cap on allowable NAIC designations, replacing “credit quality” with “investment risk” reversed the intended meaning of the sections.

The sections in Parts One and Three of the P&P Manual, each titled “NAIC Designation is Capped to Highest NAIC CRP Rating,” are intended to limit an SVO-assigned NAIC designation on a security that already holds a rating from a CRP to no higher than the CRP rating equivalent.

In both sections, the original P&P Manual language said that the SVO shall not assign a designation on such already rated security that would “express an opinion of credit quality higher than that indicated by” the CRP rating. Higher credit quality means a higher NAIC designation. However, when “credit quality” and “investment risk” are swapped, the P&P Manual sections say that the SVO shall not assign a designation on such already rated security that would “express an opinion of investment risk higher than that indicated by” the CRP rating. Higher investment risk means a lower NAIC designation.

The SVO, therefore, proposes the revised language in the materials to clarify that these two sections are intended to remain as caps. Mears said quality versus risk is the key differential.

Mears directed NAIC staff to expose the proposed P&P Manual amendments (Attachment X) for a 33-day public comment period ending July 7.

Having no further business, the Valuation of Securities (E) Task Force adjourned.

[https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/Minutes/VOSTF\\_2025-06-04\\_Interim\\_Minutes\\_v6 \(Final\).docx](https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/Minutes/VOSTF_2025-06-04_Interim_Minutes_v6 (Final).docx)

SVO



**NAIC**  
NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

TO: Carrie Mears, 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  
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office  
Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau

RE: Proposed Purposes and Procedures Manual Amendment to Provide a Deadline for the Filing of Private Rating Letter Rationale Reports

DATE: March 4, 2025 (Updated: May 15, 2025)

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**Summary:** Since January 1, 2024, all PL securities (other than waived submission PLR securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the “P&P Manual”)) have required a corresponding “private rating letter rationale report” to be filed with the SVO in order to be eligible for the Filing Exemption process. Based on ongoing discussions with Task Force chairs and industry, the SVO proposes the following amendment to the P&P Manual to clarify when a private rating letter rationale report needs to be filed with the SVO to prevent a security from becoming ineligible for Filing Exemption and the related Filing Exemption-derived NAIC Designation from becoming de-activated.

**Recommendation** – The SVO recommends allowing a grace period of 90 days from the date of any annual, or mid-year, rating affirmation, confirmation or change, for a new or updated private rating letter rationale report to be filed with the SVO, through the feed or otherwise. If the private rating letter rationale report is not filed during that time, the security would become ineligible for Filing Exemption. The security could again become eligible for Filing Exemption at such time as the SVO receives the private rating letter rationale report related to such rating action.

**Proposed Amendment** –The proposed changes to the current P&P Manual are shown below with additions in red underline font color, and deletions in ~~red strikethrough~~. Updates highlighted in yellow.



## PART THREE SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

### PL SECURITIES

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#### Producing NAIC Designations for PL Securities

21. The SVO shall produce NAIC Designations for securities subject to private letter ratings as follows:

- The insurance company shall file a copy of the private rating letter with the SVO if not included in the applicable NAIC CRP Rating feed(s) (or other form of direct delivery from the CRP) noted above in Conditions to Filing Exemption for PL Securities and the supporting private rating letter rationale report, if the SVO has not received it directly from the CRP, within the initial filing deadline for newly acquired securities or securities in transition (as explained in “SVO Analytical Department Symbols” in Part Two of this Manual) and each calendar year thereafter along with any changes in PL Securities rating. In instances where the **PL** security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure for Filing Exempt (FE) securities only after the SVO receives both the private rating letter and private letter rationale report either directly or through a NAIC CRP Rating feed(s), and the SVO deems the privately rated security eligible to receive an NAIC Designation with an NAIC CRP Credit Rating.
- The SVO must receive a private rating letter rationale report supporting the assigned private rating no later than 90 days following the date of an annual rating update, any rating affirmation or confirmation, or any rating change, otherwise the SVO will mark the security as ineligible for Filing Exemption. The security can again become eligible for Filing Exemption at such time as the SVO receives the private rating letter rationale report related to such rating action for that filing year.

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[https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/02-PLR RationaleReportFiling/2025-001.02 PP\\_Manual\\_PLRationaleFilingV2.docx](https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/02-PLR RationaleReportFiling/2025-001.02 PP_Manual_PLRationaleFilingV2.docx)



TO: Carrie Mears, 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  
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office  
Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau

RE: Proposed Purposes and Procedures Manual Amendment to Require Private Rating Letter Rationale Reports to Contain Analytical Substance

DATE: May 16, 2025

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**Summary:** Since January 1, 2024, all PL securities (other than waived submission PLR securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the “P&P Manual”)) have required a corresponding “private rating letter rationale report” to be eligible for the Filing Exemption process. Based on ongoing discussions with the Task Force chairs and industry, the SVO proposes the following amendment to the P&P Manual to clarify what is expected for a private rating letter rationale reports filed with the SVO.

As defined in the P&P Manual in Part Three, paragraph 13, “*The phrase “private rating letter rationale report” means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP.*” Unfortunately, the SVO has received rationale report filings, like the following anonymized example of a real report, that do not meet this minimum expectation:

The confirmation by CPR XYZ is based on the following rating rationale and analytical considerations: 1) The transaction assumptions consider CRP XYZ’s baseline macroeconomic scenarios for rated sovereign economies, available in its published commentary. These baseline macroeconomic scenarios replace CRP XYZ’s moderate and adverse COVID-19 pandemic scenarios, which were first published in 2020. 2) Transaction capital structure and credit enhancement level are sufficient for the current rating. 3) Credit enhancement is in the form of overcollateralization, reserve account, and excess spread. 4) Credit enhancement level is sufficient to support the CRP XYZ’s expected default and loss severity assumptions under various stress scenarios. 5) Collateral performance is within expectations and cumulative defaults remain low.



**Recommendation** – Private rating letter rationale reports should possess sufficient analytical content that an independent party can form their own opinion as to a NAIC credit rating providers’ (“CRPs”) assessment of investment risk. To enable the SVO to better monitor CRP analysis for privately rated securities, which are otherwise opaque, the SVO recommends requiring insurers to file a full private rating letter rationale report that contains sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP’s assessment of investment risk, for any rating change or annual rating review, even if the CRP’s own policies do not require a full analysis.

If the SVO determines that a private rating letter rationale report does not satisfy minimum expectations, the SVO will file an information request to the filer, in accordance with the process outlined in the P&P Manual for information deficiencies. The information request will provide a reason for the information request to help the filer understand where the private rating letter rationale report lacks sufficient substance. Only if the information request is not fulfilled (e.g. is not timely, fails to provide sufficient substance) will the SVO reject the filing.

**Proposed Amendment** –The proposed changes to the current P&P Manual are shown below with additions in red underline font color, and deletions in ~~red-strikethrough~~. Updates are highlighted in yellow.



## **PART THREE**

### **SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS**

#### **PL SECURITIES**

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#### **Definitions**

13. For purposes of this section:

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- The phrase “private rating letter rationale report” means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP. A private rating letter rationale report ~~should mirror~~ shall be no less comprehensive than the work product that a CRP would produce for a similar publicly rated security and always include sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP’s assessment of investment risk.

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#### **Producing NAIC Designations for PL Securities**

21. The SVO shall produce NAIC Designations for securities subject to private letter ratings as follows:





- The insurance company shall file a copy of the private rating letter with the SVO if not included in the applicable NAIC CRP Rating feed(s) (or other form of direct delivery from the CRP) noted above in Conditions to Filing Exemption for PL Securities and the supporting private rating letter rationale report, if the SVO has not received it directly from the CRP, within the initial filing deadline for newly acquired securities or securities in transition (as explained in “SVO Analytical Department Symbols” in Part Two of this Manual) and each calendar year thereafter ~~(so long as such rationale update would normally be produced by the CRP for a comparable publicly rated security)~~ along with any changes in PL Securities rating. In instances where the PL security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure for Filing Exempt (FE) securities only after the SVO receives both the private rating letter and private letter rationale report either directly or through a NAIC CRP Rating feed(s), and the SVO deems the privately rated security eligible to receive an NAIC Designation with an NAIC CRP Credit Rating.
- If the SVO determines that a private rating letter rationale report does not satisfy minimum expectations, the SVO will file an information request to the filer, in accordance with the process outlined in this Manual for information deficiencies. The information request will provide a reason for the information request to help the filer understand where the private rating letter rationale report lacks sufficient substance. Only if the information request is not fulfilled (e.g. is not responded to in a timely manner, fails to provide a report with sufficient substance) will the SVO reject the filing.

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[https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/03-PLR RationaleReportSubstance/2025-002.02 PP\\_Manual\\_PLRationaleSubstanceV2.docx](https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/03-PLR RationaleReportSubstance/2025-002.02 PP_Manual_PLRationaleSubstanceV2.docx)

SVO



TO: Carrie Mears, 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  
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office  
[Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau]

RE: Proposed Purposes and Procedures Manual Technical Amendment to Caps on NAIC Designations of CRP Rated Securities

DATE: July 9, 2025

**Summary and Recommendation:** In November 2024 the Valuation of Securities (E) Task Force adopted an amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the “P&P Manual”) to replace the concept of credit risk and related terms, including “credit quality”, with the concept of investment risk. In two sections concerning a cap on allowable NAIC Designations, replacing “credit quality” with “investment risk” reversed the meaning of those sections.

The sections in Parts One and Three of the P&P Manual, each titled “NAIC Designation is Capped to Highest NAIC CRP Rating” are intended to limit an SVO assigned NAIC Designation of a CRP rated security to no higher than the CRP rating equivalent. The November 2024 amendment is shown below:

**NAIC Designation is Capped to Highest NAIC CRP Rating** – The SVO shall not assign an NAIC Designation for a security that has a credit rating assigned by an NAIC CRP when the NAIC Designation would express an opinion of ~~credit quality~~ investment risk higher than that indicated by the rating assigned by the NAIC CRP, except that the SVO may assign the NAIC Designation it deems appropriate to Municipal bonds and Military housing bonds or securities.

However, higher investment risk is the inverse of higher credit quality:

- higher investment risk = lower NAIC Designation, whereas
- higher credit quality = higher NAIC Designation.

Therefore, the November 2024 amendment effectively created a floor in place of the intended cap.

**Proposed Amendment** – The SVO proposes the following revised amendment to clarify that in the specified circumstances, the CRP rating would function as a cap on the SVO assigned NAIC Designation, as originally intended. There was a request in the submitted comment to clarify that this



Task Force instruction to the SVO is specific to when the SVO assigns an NAIC Designation and that it does not apply to the Filing Exemption or the Structured Securities group through the financial modeling processes. The revised amendment includes that clarifying language. The proposed changes to the current P&P Manual are shown below with additions in red underline font color, and deletions in ~~red strikethrough~~. Updates are highlighted in yellow.



## PART ONE POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE

### APPLICATION OF THE FE PROCEDURE TO SPECIFIC POPULATIONS

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#### Limitations on the Use of NAIC CRP Ratings

**8582.** **NAIC Designation is Capped to Highest NAIC CRP Rating** – The SVO shall not assign an NAIC Designation for a security that has a credit rating assigned by an NAIC CRP when the NAIC Designation would express an opinion of investment risk ~~higher than~~ lower than (i.e. higher NAIC Designation) that indicated by the rating assigned by the NAIC CRP, except that the SVO may assign the NAIC Designation it deems appropriate to Municipal bonds and Military housing bonds or securities

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## PART THREE SVO PROCEDURES AND METHODOLOGIES FOR PRODUCTION OF NAIC DESIGNATIONS

### LIMITATIONS ON USE OF NAIC CRP RATINGS

#### NAIC Designation is Capped to Highest NAIC CRP Rating

**8526.** The SVO shall not assign an NAIC Designation for a rated security that reflects an opinion of investment risk ~~greater than~~ lower than (i.e. higher NAIC Designation) that indicated by the rating assigned by an NAIC CRP, except as provided below, and except that the SVO may assign the NAIC Designation it deems appropriate to:

- Municipal bonds.
- Military housing bonds or securities.

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[https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2028-08-12 - NAIC Summer NM/04-InvestmentRiskTechnicalAmendment/2025-005.02 PP\\_Manual\\_InvestmentRisk\\_Cap\\_v2.docx](https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2028-08-12 - NAIC Summer NM/04-InvestmentRiskTechnicalAmendment/2025-005.02 PP_Manual_InvestmentRisk_Cap_v2.docx)