Draft date: 3/11/2025

2025 Spring National Meeting
Indianapolis, Indiana

VALUATION OF SECURITIES (E) TASK FORCE
Tuesday, March 25, 2025
9:30 – 10:30 a.m.
JW Marriott Indianapolis—JW White River A–E—Level 1

ROLL CALL

Member	Representative	State
Doug Ommen, Chair	Carrie Mears, Chair	Iowa
Andrew N. Mais, Vice Chair	Ken Cotrone, Vice Chair	Connecticut
Mark Fowler	Sanjeev Chaudhuri	Alabama
Lori K. Wing-Heier	David Phifer	Alaska
Ricardo Lara	Laura Clements	California
Michael Yaworsky	Ray Spudeck	Florida
Dean L. Cameron	Eric Fletcher	Idaho
Ann Gillespie	Matt Cheung	Illinois
Vicki Schmidt	Tish Becker	Kansas
Timothy J. Temple	Melissa Gibson	Louisiana
Marie Grant	Gilbert Mendoza	Maryland
Michael T. Caljouw	John Turchi	Massachusetts
Grace Arnold	Fred Andersen	Minnesota
Angela L. Nelson	Danielle Smith	Missouri
Remedio C. Mafnas	Remedio C. Mafnas	N. Mariana Islands
Eric Dunning	Tadd Wegner	Nebraska
Justin Zimmerman	Justin Zimmerman	New Jersey
Adrienne A. Harris	Bob Kasinow	New York
Jon Godfread	Matt Fischer	North Dakota
Judith L. French	Cameron Piatt	Ohio
Glen Mulready	Ryan Rowe	Oklahoma
Michael Humphreys	Diana Sherman	Pennsylvania
Carter Lawrence	Trey Hancock	Tennessee
Cassie Brown	Amy Garcia	Texas
Jon Pike	Jake Garn	Utah
Scott A. White	Doug Stolte	Virginia
Patty Kuderer	Steve Drutz	Washington
Nathan Houdek	Amy Malm	Wisconsin

NAIC Support Staff: Charles Therriault/Marc Perlman/Eric Kolchinsky

AGENDA

Discuss and Consider Adoption of:

1. Its 2024 Fall National Meeting Minutes — Attachment One
   (Doc. ID: 2025-000.01)
   —Carrie Mears (IA)

Discuss and Consider Exposure of:

2. 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 Rational Reports Within 90-days of an Affirmation, Update, or Change — Attachment Two
   (Doc. ID: 2025-001.01)
   —Carrie Mears (IA), Charles Therriault (NAIC), and Marc Perlman (NAIC)

3. A Proposed P&P Manual Amendment to Require that Private Rating Letter Rational Reports Possess Analytical Substance — Attachment Three
   (Doc. ID: 2024-002.01)
   —Carrie Mears (IA), Charles Therriault (NAIC), and Marc Perlman (NAIC)

Receive NAIC Staff Reports on:

4. The Status of Private Rating Letter Rationale Report Filings for 2024 — Attachment Four
   —Charles Therriault (NAIC)
   (Doc. ID: 2025-003.01)

5. The Securities Valuation Office (SVO) Annual Report on Carry-Over Filings for 2024 — Attachment Five
   —Charles Therriault (NAIC)
   (Doc. ID: 2025-004.01)

6. The Projects of the Statutory Accounting Principles (E) Working Group
   —Carrie Mears (IA) and Julie Gann (NAIC)

7. The Proposed Collateralized Loan Obligation (CLO) Modeling Methodology
   —Eric Kolchinsky (NAIC)

8. Discuss Any Other Matters Brought Before the Task Force
   —Carrie Mears (IA)

9. Adjournment

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Draft: 11/25/24

Valuation of Securities (E) Task Force
Denver, Colorado
November 17, 2024

The Valuation of Securities (E) Task Force met in Denver, CO, Nov. 17, 2024. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Andrew N. Mais, Vice Chair, represented Kenneth Cotrone (CT); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Ricardo Lara represented by Laura Clements (CA); Michael Yaworsky represented by Jane Nelson and Carolyn Morgan (FL); Dean L. Cameron represented by Eric Fletcher (ID); Ann Gillespie represented by Vincent Tsang (IL); Vicki Schmidt represented by Chut Tee (KS); Timothy J. Temple represented by Bill Werner (LA); Michael T. Caljouw represented by John Turchi (MA); Marie Grant represented by Greg Ricci (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner and Andrea Johnson (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Diane Carter and Holly Mills (OK); Michael Humphreys represented by Diana Sherman (PA); Cassie Brown represented by Amy Garcia (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and Greg Chew (VA); Mike Kreidler represented by Katy Bardsley (WA); and Nathan Houdek represented by Amy Malm (WI). Also participating was Dale Bruggeman (OH).

1. <u>Adopted its Oct. 1 and Summer National Meeting Minutes</u>

The Task Force met Oct. 1. During this meeting, the Task Force took the following action: 1) exposed a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to remove references to Subscript-S and update references to investment risk for a 30-day public comment period that ended Nov. 1; and 2) exposed a proposed P&P Manual amendment to update the list of NAIC credit rating providers (CRPs) and the NAIC policy on the use of CRP credit ratings for a 14-day public comment period that ended Oct. 16.

Malm made a motion, seconded by Drutz, to adopt the Task Force's Oct. 1 (Attachment One) and Summer National Meeting (*see NAIC Proceedings – Summer 2024, Valuation of Securities (E) Task Force*) minutes. The motion passed unanimously.

2. <u>Adopted an Amendment to the P&P Manual to Require Annual Reviews of Regulatory Transactions</u>

Mears said the next item on the agenda is to discuss and consider for adoption a proposed amendment to the P&P Manual to require annual reviews for regulatory transactions. This amendment was first discussed at the Summer National Meeting and exposed for a 30-day public comment period that ended Sept. 13.

Charles Therriault (NAIC) said, as mentioned at the Summer National Meeting, that the P&P Manual has specialized instructions for filing and reporting Regulatory Transactions. These transactions do not receive NAIC designations but instead receive Securities Valuation Office (SVO) Analytical Values. The P&P Manual does not specify that an annual update is required for Regulatory Transactions, but it does for all other filings, so this amendment clarifies that annual updates are required for Regulatory Transactions. One comment letter was received from the American Council of Life Insurers (ACLI), the Private Placement Investors Association

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(PPiA), and the North American Securities Valuation Association (NASVA) in support of the amendment as drafted. The SVO recommends the Task Force adopt the amendment.

Kasinow made a motion, seconded by Fletcher, to adopt the P&P Manual amendment to require the annual update of Regulatory Transactions with an RTS administrative symbol (Attachment Three). The motion passed unanimously.

3. Adopted a P&P Manual Amendment to Update the List of NAIC CRPs and the NAIC Use of CRP Credit Ratings

Mears said the next item on the agenda is to discuss and consider for adoption a proposed P&P Manual amendment that updates the list of credit rating providers (CRPs). This amendment was first discussed at the Summer National Meeting and exposed for a 30-day public comment period that ended on Sept. 13. In response to comments received, the amendment was updated to include additional clarifying language on the NAIC's Policy on the Use of CRP Credit Ratings. The revised amendment was discussed at the Task Force's Oct. 1 meeting and was exposed for a 14-day public comment period that ended on Oct. 16. Based upon the additional comments received, the SVO made further revisions to the clarifying language.

Marc Perlman (NAIC) said Part Three of the P&P Manual lists the classes of credit ratings for which each CRP is authorized by the U.S. Securities and Exchange Commission (SEC) to issue credit ratings as a nationally recognized statistical rating organization (NRSRO). The list was last reviewed on Feb. 2, 2021. No class changes were identified, and one minor editing error was corrected.

Comments were received suggesting that there was some confusion caused by the differences between the definitions of asset-based security (ABS) used in *Statement of Statutory Accounting Principles (SSAP) No. 43—Asset-Backed Securities*, which will be effective Jan. 1, 2025, and the ABS definition used by the SEC for purposes of registering NRSROs to rate ABS securities. The revised amendment- makes it clear that the SEC definitions used to define classes of credit ratings for NRSROs are distinct from the definitions used for statutory accounting asset classification purposes in SSAPs. Therefore, the SVO could rely on a rating from a CRP that is not licensed to rate ABS as an NRSRO if the security qualifies as an ABS according to statutory accounting principles but not according to the SEC definition. The SVO recommends adopting the revised amendment.

Mike Reis (Northwestern Mutual), representing the ACLI, PPiA, and NASVA, said the groups are supportive of the language as written and understand the intent. The language proposed is a little more explicit and communicates the same message.

Doggett made a motion, seconded by Piatt, to adopt the P&P Manual amendment to update the list of NAIC CRPs and the NAIC use of CRP credit ratings (Attachment Four). The motion passed unanimously.

4. Adopted a P&P Manual Amendment to Remove References to Subscript-S and Update References to Investment Risk

Mears said the next item on the agenda is to discuss and consider for adoption a proposed P&P Manual amendment to remove references to Subscript-S and other non-payment risks and update references to investment risk. At the Summer National Meeting, the Task Force adopted an updated definition of an NAIC designation. This included changing "credit risk" to "investment risk." While credit risk is usually the predominant determinant of what an NAIC designation represents, which focuses on an issuer's ability to

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make payments in accordance with contractual terms, the Task Force agreed that this was too narrow of a concept for NAIC purposes. The updated definition now defines "investment risk" as the likelihood of the insurer's receipt of full principal and expected interest. As noted at the Summer National Meeting, this use of "investment risk" is also consistent with the language used in the Financial Condition (E) Committee's Investment Framework.

The updated definition also removed the SVO's administrative symbol Subscript-S and the concept of other non-payment risk from the P&P Manual. This proposal was a non-substantive, technical amendment to remove the references to Subscript-S and other non-payment risks along with references to "credit risk" and the related concept of "credit quality." The amendment does not make any policy or instruction changes to the P&P Manual. The proposed amendment was received by the Task Force at its Oct. 1 interim meeting and exposed for a 30-day public comment period that ended Nov. 1.

Therriault said the update to the definition of an NAIC designation included the removal of the concept of other non-payment risk and the corresponding SVO administrative symbol Subscript-S. Therriault said he and Perlman reviewed the P&P Manual to identify references to the other non-payment risk concept, the Subscript-S symbol, and references to "credit risk," "credit quality," or other language that would be impacted by the definition's inclusion of the "receipt of full and timely principal and expected interest," and updated or removed those references, as necessary. The amendment did not add any new instructions or propose any substantive changes. The technical update only removed or updated outdated references.

The ACLI, PPiA, and NASVA submitted a joint comment letter recommending the deletion of paragraphs 50–58 in Part Two of the P&P Manual, which relate to the concept of other non-payment risk. While this would be a substantive change, the SVO agrees that these paragraphs can be deleted from the proposed amendment, as the updated definition of an NAIC designation now addresses the issues highlighted in these paragraphs. The SVO recommends adopting the amendment with the deletion of paragraphs 50–58.

Reis thanked the Task Force for working with the groups on the P&P Manual amendment language throughout the process including the proposal for NAIC discretion of CRP ratings and this follow-up amendment on the definition of an NAIC designation, as some of the language was causing confusion about non-payment risk.

Bardsley made a motion, seconded by Doggett, to adopt the P&P Manual amendment to remove references to Subscript-S and update references to investment risk, including the deletion of paragraphs 50–58 in Part Two of the P&P Manual. (Attachment Five). The motion passed unanimously.

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

Dale Bruggeman (OH) said that as part of the Working Group and Task Force coordination initiative, a few items from the Statutory Accounting Principles (E) Working Group focus on investments that may be of interest to Task Force members and interested regulators and parties. As a reminder, these are only specific investment-related items, and the full list of adoptions and exposures should be obtained from the Working Group website.

Bruggeman first discussed Working Group adoptions. He said there was one key adoption: the bond project question and answer implementation guidance (Q&A) in the new *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions & Answers*. This Q&A addresses application questions of the bond

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definition/qualifying provisions to specific investment questions. With this adoption, there were no changes to the adopted bond guidance. Although there are 11 questions addressed in the Q&A, a key one to note pertains to single asset, single borrower (SASB) investments. Consistent with the bond definition, ABS structures that are pass-throughs do not qualify as bonds, as they do not put the holder in a different economic position than holding the underlying collateral directly (they lack substantive credit enhancement). These structures shall be captured as non-bond debt securities on Schedule BA within the reporting line specific for "debt securities that lack substantive credit enhancement." Life reporting entities can file these debt securities with the NAIC SVO to obtain an NAIC designation that can be used for risk-based capital (RBC).

Bruggeman reminded that the bond definition is effective Jan. 1, 2025. Debt securities that do not qualify as bonds under the guidance shall be reported on Schedule BA as non-bond debt securities.

Bruggeman said there were a few exposures to highlight from the Working Group meeting.

- **Collateral loans:** Discussions are still occurring for more granular reporting of collateral loans, in accordance with the underlying collateral. At the Fall National Meeting, the Working Group re-exposed the agenda item to allow for concurrent exposure with the Blanks (E) Working Group, which exposed Schedule BA and asset valuation reserve (AVR) revisions on Nov. 6.

- **Repacks/debt securities with derivative wrappers:** At the Fall National Meeting, the Working Group directed NAIC staff not to continue with the proposal as exposed to require separation of embedded derivatives from debt securities. Rather, these debt securities will be subject to the bond definition without derivative bifurcation. (If they do not qualify as bonds, they will be reported as non-bond debt securities.) The agenda item will be modified and subsequently re-exposed to clarify disposal and reacquisition reporting requirements when a debt security is sold and then reacquired from a special purpose vehicle (SPV) with those added derivative components.

- **Investment subsidiaries:** A new concept agenda item was exposed to solicit comments on recommendations for the accounting and reporting of investment subsidiaries. The concept of an investment subsidiary existed as an SSAP in 2005, but it was superseded. However, the concept still exists in reporting on D-6-1 and RBC. With an increase in the reporting of investment subsidiaries and questions raised on the reporting and look-through that companies are doing for measurement and RBC, clarification is needed to ensure consistent and appropriate application. The options exposed include re-establishing SSAP guidance, creating new reporting schedules, and/or modifying RBC to allow regulators to verify the calculation of underlying assets in an investment subsidiary.

  As additional information, under current reporting and RBC provisions, reporting entities can look through investment subsidiaries to calculate RBC as if the underlying assets were held directly. However, there is no current information to verify these calculations or that the underlying assets met the requirements for a particular RBC factor. Also, it has been identified that some companies are reclassifying Schedule BA assets (LLC/joint venture) as investment subsidiaries for look-through purposes, and that is outside the scope of what is permitted under the existing guidance as it should only include subsidiary, controlled, and affiliated entities (SCAs) in the scope of *SSAP No. 97—Investments in Subsidiary, Controlled, and Affiliated Entities.*

Bruggeman noted that he provided only a high-level overview of the items addressed at this national meeting that pertain to investments. The Working Group has several high-profile projects ongoing and has plans to meet Dec. 17 to continue discussions.

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Eric Kolchinsky (NAIC) said the NAIC Structured Security Group (SSG) is ready to begin modeling SASB commercial mortgage-backed security (CMBS) unitranche deals. To expedite the process, Kolchinsky asked that insurance companies send specific Committee on Uniform Security Identification Procedures (CUSIPs) that may qualify for this year's end. These securities must meet the initial information sufficiency and ongoing information sufficiency requirements as described in the P&P Manual. The initial information sufficiency requirements have a safe harbor if the deal has been publicly registered or has two public 17g-7 letters. If the safe harbor has not been met, an insurance company could file the information with the SSG to meet the requirements. There is time for this work to be done for year-end 2024, and the ongoing information sufficiency requirement just means that there is ongoing information about the deal in a system from an independent trustee like Trepp. To expedite the process, Kolchinsky asked insurers to speedily send the candidate CUSIPs to the SSG to be evaluated.

Due to sound system troubles which made hearing Kolchinsky difficult, Reis requested that Kolchinsky provide a written summary of his comments. Kolchinsky repeated his comments and agreed to send them in writing.

6. Received a Status Update of Private Rating Letter Rationale Report Filings for 2024

Therriault said the instructions for privately rated securities are in Part Three, paragraphs 9–23 of the P&P Manual. Privately rated securities are separated into three groups: 1) those issued before 2018 before the private rating filing policy was adopted; 2) those issued between 2018 and 2021 after the private rating policy was adopted but before the private rating rationale report filing policy was adopted; and 3) those issued after 2021 beginning Jan. 1, 2022, and subject to the private rating and rationale report filing policy.

For private ratings that require a rationale report to be filed with the SVO: if a rational report was received, the SVO will include that security in the filing exemption (FE) process and publish an NAIC designation based upon that private rating with the administrative symbol "PL" to denote it is based upon a private rating. However, if the security does not receive a rationale report for a private rating security that requires one, the SVO is required to treat the security as though it is not FE. This is accomplished by deactivating the unsupported private rating in NAIC systems.

Per the instructions in Part Three, paragraphs 14–16 in the P&P Manual, an insurer that owns a privately rating security that is not FE shall either: (a) file the security with the necessary documentation with the SVO for an analytically determined NAIC designation or (b) self-assign an NAIC 5GI and an NAIC designation category of NAIC 5.B GI to the security and report using the interrogatory procedure in either case within 120 days of purchase. No other reporting options are permitted.

The SVO has deferred acting on this deactivation requirement for the past two years, including most of this year, because it was building out functionality in its VISION and AVS+ systems to inform insurers about the filing status of the privately rated securities and whether a rationale report had been received on them. The technology updates to process these securities are now operational, and the status information is published in VISION and AVS+.

Therriault said there were challenges with the development, either not understanding the data coming through from the rating agencies because the data was constantly changing or technology issues working through the development process. At this point, Therriault believes the NAIC has addressed all technology issues.

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Therriault said the SVO recommends deferring the deactivation of the privately rating securities that are in 2018 to the end of 2021 issuance group for another year because there appears to be widespread confusion about reporting the confidentiality or contractual restrictions to the SVO in VISION. Many insurers appear to be interpreting the question in VISION as asking if the security itself is confidential, whereas this question is asking if there is a confidentiality or contractual restriction in providing the rating rational report to the SVO in VISION. There are approximately 2,000 securities in this population. The SVO plans to compare the securities in this group to the required general interrogatory discloser in the financial statements for the insurers that hold those securities in the coming year and then report back to the Task Force.

For the securities where the instructions are definitive, the group of privately rated securities issued on or after Jan. 1, 2022, there must be a supporting rationale report submitted to the SVO. Therriault said the SVO recommends the deactivation of those private ratings this coming year-end to remove them from FE. Insurers would have the option of filing the security with the SVO where it would be treated as an initial filing or report it as an NAIC 5.B GI. Therriault explained that, in an abundance of caution, the SVO shared with the NASVA leadership a listing of the approximately 1,700 securities that would be impacted and asked them to review the list and report any potential issues in NAIC systems. That process is ongoing, and if a material system defect is found, the SVO will withdraw the deactivation recommendation and look to remediate whatever problem was identified and look to deactivate sometime before March 2025.

Therriault said he wanted to bring this to the Task Force's attention because it would be the first time the SVO would be proceeding with the deactivation of private ratings under the private rating policy. Before doing so, he wanted to inform the Task Force that it was scheduled to occur and get confirmation that the SVO should proceed as required by the policy.

Therriault said he also has one procedural request. In SVO discussions with the insurers, it realized that it would be unfair to deactivate a private rating that was renewed close to year-end for which the insurer would not have been given sufficient time to file the rationale report with the SVO. Therriault said the SVO requested that the Task Force permit a 30-day grace period for the filing of the supporting rationale report with the SVO for any private rating which renewed at the end of 2024. This will ensure that the insurance company has a designation to report by year-end 2024. The SVO will draft an amendment to address this in the P&P Manual next year.

Mears said the SVO is working with NASVA on this listing of securities that currently do not have private letter rating (PLR) rationales attached. To the extent that any insurers are having issues, they should work with NASVA so that they are made aware and can coordinate conversations with the SVO. The recommendation is to move forward with deactivation, which was the policy that was put in the P&P Manual over three years ago. Mears said the Task Force wants to move forward but only if there are no issues with the data. If there are any changes, the SVO will ensure that there is an update back to the Task Force and to the public. Mears said the Task Force should also consider whether those private ratings that renew close to year end should get a 30-day grace period.

Reis thanked the SVO for working with NASVA. Therriault said the SVO is appreciative of NASVA, as it has helped identify the problems that were in the system. The SVO has worked hard to remediate those. If NASVA does identify more problems, the SVO looks forward to the feedback. The SVO does not move forward if there are major system problems. Reis said the complication was that companies were saying it was not fair if private ratings were deactivated inappropriately. Identifying the issue would be a big win.

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Mears said the SVO will move forward with the deactivation of the private rating securities issued on or after Jan. 1, 2022, that do not have the required rating rationale report submitted to the SVO and permit a 30-day grace period to provide that report for any private ratings that were renewed in December just prior to year-end. However, if an ongoing review by the SVO and NASVA shows that there are any data quality issues that needs to be considered, the deactivation will be deferred but only for three months. The Task Force plans to keep this process moving by working continually with NASVA to address any issues, and the Task Force will continue to receive updates from the SVO.

7. <u>Received an Update on the Proposed CLO Modeling Methodology and AdHoc Working Group</u>

Mears said the next item on the agenda is to hear updates on the proposed collateralized loan obligation (CLO) modeling methodology. Kolchinsky said the next ad hoc meeting will take place in the next few weeks. The SSG has selected a preliminary probability distribution and put together the documentation. Kolchinsky said the approach that SSG used can be summarized as follows: First, SSG calculated the approximate pool RBC for each of the 1,800 CLOs SSG has modeled, whose results were posted. Next, SSG generated a number of random probability distributions and selected the one that minimized the mean squared error. The error here is the difference between the probability-weighted RBC on all the tranches versus the RBC on the pool calculated in the first step. The selected scenario was further fine-tuned to lower mean squared error. SSG will present the algorithm (including the R code where appropriate), risk measures, and will be looking for the industry's comments on the methodology.

SSG also hopes that the industry can present a probability distribution that further lowers the mean squared error. Going forward, SSG hopes that in the early first quarter of 2025, SSG will post monthly results on risk measures. The next batch of results will include the methodology changes discussed at the last ad hoc meeting that was proposed by the industry.

Kolchinsky then provided an update on the work being done with the American Academy of Actuaries (Academy). The C1 subcommittee is currently processing data for Moody's and will look for relationships between the CLO analytics and the risk calculated pursuant to the SSG model. At some point, the Academy will ask SSG to adjust the model to better comport with the RBC. SSG continues to work closely with the Academy.

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

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-11 Fall NM/Minutes/VOSTF_2024-11-17_Fall_NM_Minutes v6 (Chair review).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

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~~.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

PL SECURITIES

…

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 rational report related to such rating action for that filing year.

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https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/03-PLR RationaleReportFiling/2025-001.01 PP_Manual_PLRationaleFiling.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 Require Private Rating Letter Rationale Reports to Contain Analytical Substance
DATE:	March 4, 2025

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 that do not meet this minimum expectation.

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 substance to enable an independent party to form an opinion as to the investment risk for any annual, or mid-year, rating action, affirmation, confirmation, or change, even if the CRP's own policies do not require a full analysis.

Proposed Amendment –The proposed changes to the current P&P Manual are shown below with additions in <u>red underline</u> font color, and deletions in ~~red strikethrough~~.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC DESIGNATIONS

PL SECURITIES

…

Definitions

13. For purposes of this section:

…

- 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.

…

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.

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https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/03-PLR RationaleReportSubstance/2025-002.01 PP_Manual_PLRationaleSubstance.docx

SVO

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO:	Nathan Houdek, Chair, Financial Condition (E) Committee ` Members of the Financial Condition (E) Committee 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:	Removal from Filing Exemptions of Privately Rated Securities Without a Required Private Rating Letter Rationale Report
DATE:	March 10, 2025

Summary – Since January 1, 2024, all privately letter rated (PLR) 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. The rationale report is filed with the Securities Valuation Office (SVO) through NAIC's VISION application. This past year end, Dec. 31, 2024, was the first year that NAIC systems were able to accurately identify which privately rated securities did not comply with the rationale report filing requirement and would be removed from Filing Exemption per the Task Force's policy.

Background – The SVO staff informed that Valuation of Securities (E) Task Force at the 2024 NAIC Fall National Meeting that the functionality necessary to accurately identify which privately rated securities were missing a required rationale report in the NAIC systems, VISION and AVS+, was now operational, and the status of each security was published in the AVS+ valuation file. Over the prior two years, the SVO deferred the implementation of the Task Force's policy to remove from Filing Exemption (FE) privately rated securities that did not have the required supporting private rating letter rationale report submitted to the SVO. This deferral was recommended by the SVO and approved by the Task force to allow for the implementation of the needed functionality in NAIC systems.

As of Nov. 11, 2024, the SVO identified 1,636 privately rated securities missing a required rationale report. By Dec. 31, 2024, the number of privately rated securities missing the required rationale report had dropped to 853. And as of Feb. 27, 2025, that number had been further reduced to 494 privately rated securities missing the required rationale report. The SVO and Task Force chairs met with industry representatives from the American Council of Life Insurers (ACLI), Private Placement Investors Association (PPiA) and North American Securities Valuation Association (NASVA) on Nov. 22, 2024, Dec. 3, 2024, Jan. 15, 2025, Feb. 18, 2025, and Feb. 27, 2025, to discuss and review the privately rated securities missing a required rationale report. Following each meeting, the SVO researched all issues reported by industry representatives. The SVO identified no systemic issues in NAIC systems.

Additionally, at the direction of the Task Force chairs, the SVO sent reports on Jan. 9, 2025, to each state with an insurer that held one of the identified securities at some time in 2024. The goal of sharing this information with each state was to minimize the number of securities that would potentially be removed from FE because of an insurer's failure to provide the required rationale report. That goal appears to have been achieved given the significant reduction in impacted securities.

Action Taken – On Mar. 3, 2025, the NAIC applied the Task Force policy to remove privately rated securities missing the required rationale report from FE. There were 346 securities impacted by this FE removal and the list of these securities has been published in the NAIC's AVS+ system so insurers can view impacted securities they hold. Those privately rated securities can be reinstated if an insurer submits the missing rationale report.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/04-PLRMissingRationale/2025-003.01 PP_Manual_PLRMissingRationale.docx

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 (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: SVO 2024 Carry Over Filings

DATE: March 10, 2024

For 2024, the SVO reviewed 19,443 filings comprised of 4,480 initial filings, 14,685 annual updates, 3 appeals, 253 material changes, and 22 renumbering requests (e.g. CUSIP changes). In comparison, in 2023, the SVO reviewed 15,549 filings comprised of 3,893 initial filings, 11,257 annual updates, 12 appeals, 366 material changes, and 21 renumbering requests (e.g. CUSIP changes). This was a 25% overall increase primarily due to Private Letter Ratings filings increasing 112%.

2024 Completed Filings

	Filing Type					
Category	**Initial**	**Annual**	**Appeal**	**Material Change**	**Renumbering Requests**	**Grand Total**
Corporate	1,084	5,491	3	5	22	6,605
Counterparty Derivatives	4	58				62
ETF	19	241				260
Money Market Fund	71	141				212
Municipal	149	136				285
Private Letter Rating	2,664	5,565				8,229
QUSFI	11	134				145
Regulatory Transaction	3	9				12
RTAS	48	-				48
Sovereign	6	19				25
Structured Securities	421	2,891		248		3,560
Grand Total	**4,480**	**14,685**	**3**	**253**	**22**	**19,443**

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
New York One New York Plaza, Suite 4210, New York, NY 20004 p | 212 398 9000 f | 212 382 4207
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2023 Completed Filings

	Filing Type					
Category	**Initial**	**Annual Update**	**Appeals**	**Material Change**	**Renumbering**	**Total**
Corporate	1,083	5,443	12	13	21	6,572
Counterparty Derivatives	18	48	-	-	-	66
ETF	8	219	-	-	-	227
Money Market Fund	22	153	-	-	-	175
Municipal	149	216	-	-	-	365
Private Letter Rating	2,012	1,865	-	-	-	3,877
QUSFI	14	131	-	-	-	145
Regulatory Transaction	-	46	-	-	-	46
RTAS	69	-	-	-	-	69
Sovereign	2	17	-	-	-	19
Structured Settlements	-	743	-	-	-	743
Structured Security	516	2,376	-	353	-	3,245
Grand Total	**3,893**	**11,257**	**12**	**366**	**21**	**15,549**

The total number of 2024 filings include 8,229 manually processed private letter ratings that comprised 3,083 ratings, 4,812 rationale reports that were not billed and 334 filings that were rejected. In 2023 there were 3,879 manually processed private rating letters that comprised 2,407 ratings, 1,305 rationale reports that were not billed and 167 filings that were rejected. The following are the most common reasons for private rating letter rejections in 2024: 13% preliminary/provisional rating, 13% PLR only for a rationale report filing, 11% security not identified, 10% duplicate, 8% prior year, 7% insufficient, 7% filer requested, 7% wrong security, 7% public rating, 6% wrong CRP, 5% expired information request, and 6% other.

There were 1,496 carry-over filings for year-end 2024 versus 1,262 in 2023, 1,199 in 2022 and 828 in 2021. The 2024 carry-over filings comprise 364 received a “IF” for an accepted initial filing and 1,132 received a “YE” for an accepted annual update. This represented a carry-over rate for 2024 of 7.5% which is slightly lower than the carry-over rate of 8.1% for 2023, 9.2% for 2022 but higher than the carry-over rate of 6.7% for 2021. As of Mar. 5, there were still 398 carry-over filings remaining.

Generally, a carry-over rate of 10% or higher would be an indication that there is an analytical resource constraint issue for the SVO. The high number of private letter rating filings is distorting the overall carry-over percentage. Excluding private letter rating filings shows a carry-over percentage for traditional SVO filings of 13.3% for 2024 and 10.8% for 2023. The growing carry-over rate for non-private letter rating filings reflects increasing resource demands on the office that requires additional staff to handle this increase in filing volume.

The year-end carry-over rate does not provide any insight into the technology resource needs of the SVO team. The SVO made progress on private letter rating processing sufficient to recommend applying the Task Force’s policy to remove from Filing Exemption privately rated securities lacking a required supporting rationale report. The private letter rating work included adding the ability for an SVO analyst to match private rating rationale reports to the private ratings received. Further reporting on the status of private rating rationale reports is needed for insurers. The NAIC implemented multi-factor authentication for the SVO's applications VISION and AVS+. While there was some initial foundational work to permit multiple security identifiers (e.g. ISINs) utilizing S&P's business entity cross reference service (BECRS) and global identifier cross reference service (GICRS) in 2023, full functionality has not been achieved and is still in-progress. Other initiatives such as improving the efficiency of handling the documents received by insurers, improving overall filing efficiency, complete ratings history and the electronic delivery of private rating letter rationale reports has not begun. Several new technology resources were approved in the 2024 budget, but additional resources and specialties are still needed.

The table to the right is a summary by 77 major industry groups, groupings of the 744 different Standard Industrial Classification codes (SIC Codes) on which the SVO received filings. There were 5,646 filings without an SIC Code major industry grouping. The missing codes are most often associated with the filing of replication synthetic asset transactions (RSATs), structured settlements, credit tenant loans, municipal securities, QUSFI filings and some private rating filings.

Major Industry Group	Number of Filings	% of Filings
Agricultural Production Crops	17	0.1%
Agricultural services	72	0.4%
Agriculture Production Livestock and Animal Specialties	4	0.0%
Amusement and recreation services	278	1.4%
Apparel and accessory stores	6	0.0%
Apparel and other finished products made from fabrics and similar materials	36	0.2%
Automotive dealers and gasoline service stations	14	0.1%
Automotive repair, services, and parking	123	0.6%
Building Construction General Contractors and Operative Builders	45	0.2%
Building materials, hardware, garden supply, and mobile home dealers	31	0.2%
Business services	783	4.0%
Chemicals and allied products	273	1.4%
Coal mining	5	0.0%
Communications	129	0.7%
Construction Special Trade Contractors	174	0.9%
Depository institutions	207	1.1%
Eating and drinking places	48	0.2%
Educational services	241	1.2%
Electric, gas, and sanitary services	2,533	13.0%
Electronic and Other Electrical Equipment and Components, except Computer Equipment	400	2.1%
Engineering, accounting, research, management, and related services	368	1.9%
Executive, legislative, and general government, except finance	18	0.1%
Fabricated metal products, except machinery and transportation equipment	81	0.4%
Fishing, hunting, and trapping	17	0.1%
Food and kindred products	378	1.9%
Food stores	177	0.9%
Forestry	18	0.1%
Furniture and fixtures	16	0.1%
General merchandise stores	11	0.1%
Health services	479	2.5%
Heavy Construction Other Than Building Construction Contractors	72	0.4%
Holding and other investment offices	1,172	6.0%
Home furniture, furnishings, and equipment stores	24	0.1%
Hotels, rooming houses, camps, and other lodging places	17	0.1%
Industrial and commercial machinery and computer equipment	303	1.6%
Insurance agents, brokers, and service	84	0.4%
Insurance carriers	197	1.0%
Leather and leather products	2	0.0%
Legal services	25	0.1%
Local and suburban transit and interurban highway passenger transportation	26	0.1%
Lumber and wood products, except furniture	42	0.2%
Measuring, Analyzing, and Controlling Instruments; Photographic, Medical and Optical Goods	194	1.0%
Membership organizations	4	0.0%
Metal mining	24	0.1%
Mining and quarrying of nonmetallic minerals, except fuels	31	0.2%
Miscellaneous manufacturing industries	138	0.7%
Miscellaneous repair services	11	0.1%
Miscellaneous retail	75	0.4%
Miscellaneous Services	61	0.3%
Motion pictures	11	0.1%
Motor freight transportation and warehousing	89	0.5%
Museums, art galleries, and botanical and zoological gardens	3	0.0%
National security and international affairs	12	0.1%
Nonclassifiable Establishments	35	0.2%
Non-Depository Credit Institutions	534	2.7%
Oil and gas extraction	123	0.6%
Paper and allied products	108	0.6%
Personal services	26	0.1%
Petroleum refining and related industries	54	0.3%
Pipelines, except natural gas	76	0.4%
Primary metal industries	31	0.2%
Printing, publishing, and allied industries	46	0.2%
Private households	4	0.0%
Public finance, taxation, and monetary policy	14	0.1%
Railroad transportation	44	0.2%
Real estate	1,245	6.4%
Rubber and miscellaneous plastics products	60	0.3%
Security and commodity brokers, dealers, exchanges, and services	183	0.9%
Social services	55	0.3%
Stone, clay, glass, and concrete products	59	0.3%
Textile mill products	17	0.1%
Transportation by air	210	1.1%
Transportation equipment	285	1.5%
Transportation services	224	1.2%
Water transportation	171	0.9%
Wholesale Trade-Durable Goods	371	1.9%
Wholesale Trade-Non-Durable Goods	223	1.1%
(blank)	5,646	29.0%
Grand Total	**19,443**	**100.0%**