



2025 SUMMER NATIONAL MEETING MINNEAPOLIS, MN

Draft date: 7/28/25

VALUATION OF SECURITIES (E) TASK FORCE

Tuesday, August 12, 2025

12:00 – 1:00 p.m.

Minneapolis Convention Center—101—Level 1

ROLL CALL

Member

Doug Ommen, Chair
Andrew N. Mais, Vice Chair
Mark Fowler
Heather Carpenter
Ricardo Lara
Michael Yaworsky
Dean L. Cameron
Ann Gillespie
Vicki Schmidt
Timothy J. Temple
Marie Grant
Michael T. Caljouw
Grace Arnold
Angela L. Nelson
Remedio C. Mafnas
Eric Dunning
Justin Zimmerman
Adrienne A. Harris
Jon Godfread
Judith L. French
Glen Mulready
Michael Humphreys
Carter Lawrence
Cassie Brown
Jon Pike
Scott A. White
Patty Kuderer
Nathan Houdek

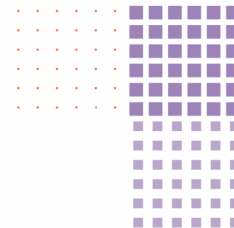
Representative

Carrie Mears, Chair
Ken Cotrone, Vice Chair
Sanjeev Chaudhuri
David Phiher
Laura Clements
Anoush Brangaccio
Eric Fletcher
Matt Cheung
Tish Becker
Melissa Gibson
Gilbert Mendoza
John Turchi
Fred Andersen
Danielle Smith
Maryann Borja-Arriola
Tadd Wegner
Justin Zimmerman
Bob Kasinow
Matt Fischer
Cameron Piatt
Ryan Rowe
Diana Sherman
Trey Hancock
Amy Garcia
Jake Garn
Doug Stolte
Steve Drutz
Amy Malm

State

Iowa
Connecticut
Alabama
Alaska
California
Florida
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Illinois
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Louisiana
Maryland
Massachusetts
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Missouri
N. Mariana Islands
Nebraska
New Jersey
New York
North Dakota
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Oklahoma
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Washington
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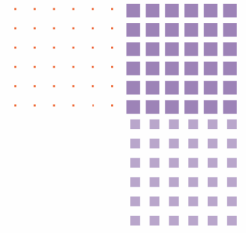
NAIC Support Staff: Charles Therriault/Marc Perlman/Eric Kolchinsky

**AGENDA*****Discuss and Consider Adoption of:***

- | | |
|---|---|
| 1. Its June 4 and Spring National Meeting Minutes
(Doc. ID: 2025-006.01, 2025-007.01)
— <i>Carrie Mears (IA)</i> | Attachment One
Attachment Two |
| 2. A Revised Proposed Amendment to the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> (P&P Manual) to Require the Filing of Private Rating Letter Rationale Reports Within 90 Days of the Annual Update or a Rating Change
(Doc. ID: 2025-001.02, 2025-001.04)
— <i>Carrie Mears (IA), Charles Therriault (NAIC), and Marc Perlman (NAIC)</i> | Attachment Three
Attachment Three-A |
| 3. A Revised Proposed P&P Manual Amendment to Require that Private Rating Letter Rationale Reports Possess Analytical Substance
(Doc. ID: 2025-002.02, 2025-002.07, 2025-002.08)
— <i>Carrie Mears (IA), Charles Therriault (NAIC), and Marc Perlman (NAIC)</i> | Attachment Four
Attachment Four-A
Attachment Four-B |
| 4. A Proposed P&P Manual Technical Amendment to Put Caps on NAIC Designations of Credit Rating Provider (CRP)-Rated Securities
(Doc. ID: 2025-005.01, 2025-005.02, 2025-005.03)
— <i>Carrie Mears (IA), Charles Therriault (NAIC), and Marc Perlman (NAIC)</i> | Attachment Five
Attachment Five-A
Attachment Five-B |

Discuss and Consider Exposure of:

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| 5. A Proposed P&P Manual Amendment to Permit a 30-Day Filing Grace Period to Provide the Private Rating Letter Annual Update
(Doc. ID: 2025-008.01)
— <i>Carrie Mears (IA), Charles Therriault (NAIC), and Marc Perlman (NAIC)</i> | Attachment Six |
| 6. A Proposed Annual Statement Schedule Update for Security Identifiers (IDs)
(Doc. ID: 2025-009.01)
— <i>Carrie Mears (IA) and Charles Therriault (NAIC)</i> | Attachment Seven |



Receive NAIC Staff Reports on:

7. The Proposed Collateralized Loan Obligation (CLO) Modeling Methodology
—*Carrie Mears (IA) and Eric Kolchinsky (NAIC)*
8. The Projects of the Statutory Accounting Principles (E) Working Group
—*Carrie Mears (IA) and Julie Gann (NAIC)*
9. The Impact of Moody's Ratings (Moody's) Downgrading the U.S. Government's Credit Rating
—*Carrie Mears (IA) and Charles Therriault (NAIC)*
10. The CRP Rating Due Diligence Framework and Filing Exemption (FE) Discretion Projects
—*Charles Therriault (NAIC)*
11. Discuss Any Other Matters Brought Before the Task Force
12. Adjournment

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Draft: 4/3/2025

Valuation of Securities (E) Task Force
Indianapolis, Indiana
March 25, 2025

The Valuation of Securities (E) Task Force met in Indianapolis, IN, March 25, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Andrew N. Mais, Vice Chair, represented Ken Cotrone (CT); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Laura Clements (CA); Michael Yaworsky represented by Ray Spudeck and Carolyn Morgan (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by John Turchi (MA); Marie Grant represented by Gilbert Mendoza and Greg Ricci (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by Danielle Smith (MO); Jon Godfread represented by Matt Fischer and Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf and Nakia Reid (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Ryan Rowe (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 Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2024 Fall National Meeting Minutes

Garn made a motion, seconded by Clements, to adopt the Task Force's Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Valuation of Securities (E) Task Force*). The motion passed unanimously.

2. Exposed Two Proposed P&P Manual Amendments

Mears said the next two items on the agenda would be discussed together and considered for exposure. The first item is a proposed *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendment to require the filing of private rating letter rationale reports within 90 days of an affirmation, update, or change. The second item is a P&P Manual amendment to require that private rating letter rationale reports possess analytical substance.

Charles Therriault (NAIC) said that 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" to be filed with the Securities Valuation Office (SVO) in order to be eligible for the filing exemption (FE) process. The first proposed amendment establishes a deadline of 90 days to submit a new or updated private rating letter rationale report following the date of any annual or mid-year rating affirmation, confirmation, or change. If the private rating letter rationale report is not filed during that time, the security would become ineligible for FE. The security could become eligible for FE again when the SVO receives the private rating letter rationale report related to such rating action. Making this a daily process should avoid a repeat of this past year-end when a very large number of private ratings were unsupported by a required rationale report.

The second proposed 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*

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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.

To enable the SVO to better monitor credit rating provider (CRP) analysis for privately rated securities, which are otherwise opaque, the SVO recommends clarifying language that insurers are required to file a full private rating letter rationale report that contains sufficient analytical substance to enable an independent party, like the SVO, to form an opinion of the basis for a CRP’s assessment of 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. Additionally, the analysis will be no less comprehensive than the work product that a CRP would produce for a similar publicly rated security.

The SVO believes the first proposed amendment will help it operationally by spreading the flow of the large volume of private rating letter rationale reports across the year, and the second proposed amendment will help clarify the expectations of the rationale reports’ content. Neither proposed amendment is being viewed as a material change, and the SVO recommends a 30-day comment period.

Christopher Anderson (Anderson Insights) said the standards for private and public securities by the rating agency are the same. He said that what is being seen here is an effort to conform to the private and public securities. There are instances, as referred to in the second proposal, where a rating agency would not deem it necessary to do a new rating rationale. However, that does not mean that: 1) the rating agency would not have conducted its surveillance; 2) the rating agency would not have reported the new rating to the NAIC through the data feed; or 3) the rating agency would not submit a new rating letter. The rating agency is asked to submit a new rating rationale even in an instance where it ordinarily would not. That means that a rating agency would be in the position of thinking that since nothing has changed, it can just change the date and send a new rating rationale or put a banner at the top of the rating rationale saying there were no material changes. The rating agency could also send a note to the SVO saying there were no changes. As a result, the savings would not be to the rating agency, as it will conduct surveillance in any event. The savings would be to the SVO, which is beginning to acquire thousands and thousands of rating rationales that it has never acquired before. Imposing the requirement that a rating rationale be submitted every year, regardless of whether it is thought to be necessary by the rating agency, imposes a burden on the SVO and insurers. Insurers are struggling with the requirement that they provide these rating rationales, where, ideally, rating rationales would come directly from the rating agencies to the SVO and be done on a machine-to-machine basis. Therefore, the only time an insurer would need to get involved is if there were exceptions.

Therriault said it is key that what the SVO receives aligns with the other information it has. Rating rationale reports are also evidence that there has been an annual review in some capacity, and the rating itself must show that it was reviewed. The rationale report, consistent with what the SVO does on an annual basis, is evidence that the rating was reviewed, hence the reason for the requirement. Anderson replied that U.S. Securities and Exchange Commission (SEC) Rule 17g- 7(a) requires that. Secondly, the rating letter that is submitted is evidence that the rating is current. If a rating is under surveillance, then it is a demonstrated fact. However, rating agencies might want to weigh in on this matter.

Mears said in regard to the comment about reducing the workload of the SVO that if a new rating letter has been submitted with a new date and there is not a corresponding rationale, the SVO would have to go in and review it to see that there was no change, versus only looking at exceptions where a rationale does not exist,

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to see that there might be some sort of automatic removal for the FE rating. Mears said that would increase the SVO's workload rather than decrease it. Mears asked Mr. Anderson to put these comments in writing. CRPs' comments are also welcome so the Task Force can review them prior to adoption.

Mears directed NAIC staff to expose the two proposed P&P Manual amendments (Attachment Two and Attachment Three) for a 30-day public comment period ending April 25.

3. Received a Report from the SVO on the Status of Private Rating Letter Rationale Report Filings for 2024

SVO staff informed the Task Force at the 2024 Fall National Meeting that the system 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. For the past two years, the SVO has recommended deferring the removal from FE privately rated securities that did not have the required supporting private rating letter rationale report submitted to the SVO because of the needed system functionality, which had not yet been implemented.

Marc Perlman (NAIC) said, as previously mentioned, that since Jan. 1, 2024, all privately rated securities, other than waived submission PL rating securities, have required a corresponding private rating letter rationale report to be filed with the SVO to be eligible for the FE process. 2024 was the first year that NAIC systems were sufficiently enhanced to make the FE classification changes. As reported at the 2024 Fall National Meeting, as of Nov. 11, 2024, the SVO had identified 1,636 privately rated securities missing a required rationale report. That number declined to 853 by Dec. 31, 2024. By Feb. 27, 2025, the number of missing required rationale reports was down to 494, and by March 3, when the policy to remove privately rated securities with a missing rating rationale report from FE was applied, the number was down to 346 impacted securities. Those privately rated securities can be reinstated if an insurer submits the missing rationale report for 2024 or provides one for 2025. The private rating and supporting rationale report are needed each year.

As these numbers indicate, a large number of submissions were made over the last few months. As Therriault mentioned while discussing the proposed rationale report filing deadline amendment, the SVO would like to spread this filing volume out over the entire year by setting a reasonable submission deadline for the filing of private rating letter rationale reports.

4. Received an Annual Report from the SVO on 2024 Carry-Over Filings

Therriault said as required in Part Two of the P&P Manual (Operational and Administrative Instructions Applicable to the SVO), the SVO director must prepare a report for the Spring National Meeting identifying an acceptable annual rate of carry-over filings for the year-end reporting period. These carry-over filings can be identified with the administrative symbols "IF," which are initial filings that are self-assigned, and "YE," which are annual updates where the designation has been extended from the prior year.

For 2024, the SVO reviewed 19,443 filings composed of 4,480 initial filings, 14,685 annual updates, 3 appeals, 253 material changes, and 22 renumbering requests (e.g., Committee on Uniform Security Identification Procedures [CUSIP] changes). In comparison, in 2023, the SVO reviewed 15,549 filings composed of 3,893 initial filings, 11,257 annual updates, 12 appeals, 366 material changes, and 21 renumbering requests. This was a 25% overall increase, primarily due to a 112% increase in PL rating-related filings in 2024.

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The total number of 2024 filings includes 8,229 manually processed PL ratings, which were composed of 3,083 ratings, 4,812 rationale reports that were not billed, and 334 filings that were rejected. That is a significant increase compared to 2023, when 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 most common reasons for private rating letter rejections in 2024 were: 13% for preliminary/provisional rating; 13% for PLR only for a rationale report filing; 13% for security not identified; 11% for duplicate filing; 10% for prior year; 8% for insufficient content; 7% for filer-requested rejection; 7% for wrong security; 7% for public rating; 7% for wrong CRP; and 6% for expired information request.

There were 1,496 carry-over filings for year-end 2024 compared to 1,262 in 2023 and 1,199 in 2022. The carry-over filings comprise 364 IFs for initial filings and 1,132 YEs for accepted annual updates. This represents a carry-over rate of 7.5% for 2024, which is slightly lower than the 2023 carry-over rate of 8.1%. As of March 5, when the report was prepared, there were 398 carry-over filings remaining. As of March 18, there were 268 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 higher number of PL rating filings is now distorting the overall carry-over percentage. Excluding PL rating filings, the carry-over percentage for traditional SVO filings of was 13.3% for 2024 and 10.8% for 2023. The growing carry-over rate for non-PL rating filings reflects increasing demands on the office that require additional resources, which is why the Task Force is being alerted and the reason for this annual report.

The carry-over rate does not provide any insight into the technology resource needs of the SVO team. The SVO made sufficient progress on PL rating processing to recommend applying the Task Force's policy to remove it from FE, as just occurred in March. The PL rating work included adding technology that enabled an SVO analyst to match private rating letter rationale reports to the private ratings received via electronic feeds. For further reporting on the status of private rating rationale, reports are needed for insurers and will be worked on in 2025. The NAIC implemented multi-factor authentication (MFA) for the SVO's applications, VISION and AVS+. While there was some initial foundational work to permit multiple security identifiers (e.g., International Securities Identification Numbers [ISINs]) utilizing S&P Global Ratings' business entity cross reference service (BECRS) and global identifier cross reference service (GICRS) in 2023, full functionality has not been achieved and that work needs to continue. Other initiatives, such as improving the efficiency of handling the documents received by insurers, improving overall filing efficiency, completing ratings history, and electronically delivering private rating letter rationale reports, have not begun. Several new technology resources were approved in the 2024 budget, but the department needs additional technology resources.

5. Received an NAIC Staff Report on Statutory Accounting Principles (E) Working Group Projects

Julie Gann (NAIC) highlighted a few items from the Statutory Accounting Principles (E) Working Group's March 24 discussion, including that the bond definition was in effect Jan. 1, 2025. Gann said that, as a reminder, there is a transition disclosure that should be completed in the first quarter financial statements, details of which are captured in *SSAP No. 26—Bonds*. For those items that move from Schedule D to Schedule BA, there are six reporting lines for those that are captured on the non-bonded securities with an SVO designation that must come from the SVO. A CRP rating cannot be utilized for those reporting lines. Next, with regard to investments and tax credits, that guidance was also in effect Jan. 1, 2025. Under that guidance, an investment in a tax credit structure that predominantly provides tax benefits or other tax credit-type items is captured in *SSAP No. 93—Investments in Tax Credit Structures*. There are new reporting lines to capture those items. Under the old

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guidance, a CRP rating was a factor in classification that is no longer a factor with regard to those reporting lines.

The Working Group adopted the collateral loan agenda item, which breaks out the reporting of collateral loans into six more granular lines to look at the underlying collateral. That item is currently exposed at the Blanks (E) Working Group for a comment period ending April 29. A call is scheduled for May 29 to propose a Jan. 1, 2026, effective date. The Working Group is looking at the investment subsidiary category that's a reported-on D-6-1 and flows through to risk-based capital (RBC). That discussion was deferred during the Working Group's call. Instead, the Working Group is looking at a project for residential mortgage loans that are held in trust, which seems to be the key driver of the increase of things reported as investment subcategories. It is asking if other common structures are being reported as investment subcategories that are brought to NAIC staff attention so they can be looked at because there is going to be a review of whether that investment subcategory should be retained.

Next, the Working Group proposed to delete the capital structure code that is currently captured on Schedule D-1-1 and Schedule D-1-2. That code originally came from the Task Force many years ago. It is the reporting of whether an investment is secured, senior, or unsecured. There are inconsistencies in that reporting data and a lot of questions. Working with the SVO, Financial Regulatory Services (FRS) staff realized that that information is not being used from Schedule D, although that information could be used since it comes from the data feeds. The Working Group proposes to remove the Schedule D data if no one is using it. The key thing is to make sure none of the regulators are using that information. Gann asked Task Force members to let FRS staff know if this field is being used. The change is exposed until May 2.

Gann said the last two items were modified coinsurance (modco) and funds withheld assets. The Working Group adopted a restricted asset disclosure to provide more clarity on how those should be reported as restricted assets. There is an exposed Schedule S to detail what those assets are for RBC flow through. The Working Group also exposed another agenda item to identify the modco and funds withheld assets that are affiliated to the reinsurer and then to require note 5L, which is the restricted asset disclosure, both in all quarterly and annual financial statements. Currently, it is only required in the annual financial statements. It is supposed to be included in the quarterly if there have been significant changes, but it is proposed to be required in all instances.

Lastly, there has been much discussion regarding interest maintenance reserve (IMR), which is the result of realized gains and losses from noncredit-related investment sales. This item has been exposed multiple times, and the IMR Ad Hoc Group meets every other week. Those exposures are posted on the Working Group's web page.

6. Received an SSG Staff Report on the Proposed CLO Modeling Methodology and the CLO Ad Hoc Group

Eric Kolchinsky (NAIC) said the Collateralized Loan Obligation (CLO) Ad Hoc Group plans to meet April 2. Kolchinsky said the call is open, so any interested parties should let SSG staff know if they have not received an invitation. The SSG posted new results on the CLO web page using the three-bucket reinvestment methodology, which was proposed by an interested party. The methodology has been incorporated, and the results are available on the SSG's website, dated March 1, 2025. Lastly, the SSG continues its productive collaboration with the American Academy of Actuaries (Academy). NAIC staff participate in weekly calls and will continue to support the effort to ensure that the methodologies dovetail.

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Mears said those projects remain coordinated and will be looked at as a complete package for ultimate recommendation, exposure, adoption, and implementation once complete.

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

[https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2028-08-12 - NAIC Summer NM/01-Minutes/2025-006.01 VOSTF_2025-03-25_Spring_NM_Minutes v6 \(Fina\).docx](https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2028-08-12 - NAIC Summer NM/01-Minutes/2025-006.01 VOSTF_2025-03-25_Spring_NM_Minutes v6 (Fina).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)

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

...

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.

...

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

Shannon Jones

Senior Director, Financial Reporting Policy
(202) 624-2029 t
shannonjones@accli.com

June 18, 2025

Ms. Carrie Mears

Chair, Valuation of Securities (E) Task Force (VOSTF)
National Association of Insurance Commissioners (NAIC)
110 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

**Re: Proposed P&P Manual Amendment to Require the Filing of Private Letter Rationale Reports
Within 90-days**

Dear Ms. Mears:

The undersigned (ACLI, PPIA, and NASVA) appreciate the opportunity to comment on the exposure referred to above that was released for comment by the VOSTF on June 4, 2025.

We support the exposure as drafted and are very appreciative that our previous recommendations were both considered and addressed in a constructive manner. We stand ready to continue working collaboratively with the NAIC on these and other important regulatory matters.

If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,



Shannon Jones
ACLI



Tracey Lindsey
NASVA



John Petchler
on behalf of PPIA Board of Directors

cc: Charles Therriault, Director, Securities Valuation Office
Eric Kolchinsky, Director, Structured Securities Group



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

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

...

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.
- 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.

...

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

Shannon Jones

Senior Director, Financial Reporting Policy
(202) 624-2029 t
shannonjones@accli.com

June 18, 2025

Ms. Carrie Mears

Chair, Valuation of Securities (E) Task Force (VOSTF)
National Association of Insurance Commissioners (NAIC)
110 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Proposed P&P Manual Amendment to Require Private Letter Rationale Reports to Contain Analytical Substance

Dear Ms. Mears:

The undersigned (ACLI, PPIA, and NASVA) appreciate the opportunity to comment on the exposure referred to above that was released for comment by the VOSTF on June 4, 2025.

We support the exposure as drafted and are very appreciative that our previous recommendations were both considered and addressed in a constructive manner. We stand ready to continue working collaboratively with the NAIC on these and other important regulatory matters.

If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,



Shannon Jones
ACLI



Tracey Lindsey
NASVA



John Petchler
on behalf of PPIA Board of Directors

cc: Charles Therriault, Director, Securities Valuation Office
Eric Kolchinsky, Director, Structured Securities Group

Submitted Electronically

06/18/2025

Charles Therriault and Denise Genao
National Association of Insurance Commissioners
1101 K Street, N.W., Suite 650
Washington, DC 20005

Morningstar DBRS Comments on NAIC's Proposed Purposes and Procedures Manual Amendment to Require Private Rating Letter Rationale Reports to Contain Analytical Substance

Ladies and Gentlemen:

Morningstar DBRS welcomes the opportunity to comment on the National Association of Insurance Commissioners' Proposed Purposes and Procedures Manual Amendment to Require Private Rating Letter Rationale Reports to Contain Analytical Substance. Morningstar DBRS empowers investor success by bringing more transparency and a much-needed diversity of opinion in the credit rating industry. We appreciate the opportunity to share our thoughts on the best way to improve disclosures from the credit rating industry; however, we have a significant concern about the proposed amendment.

Executive Summary

Credit ratings are opinions reflecting the creditworthiness of an issuer, rated entity, security or an obligation, and only address credit risk. Credit risk represents only one element of investment risk, which encompasses a much broader spectrum that includes market, liquidity, interest rate, operational, regulatory, and concentration risks.

The proposed amendments, if adopted as drafted, would require Credit Rating Providers (CRPs) to include an assessment of "investment risk" in their private rating letter rationale reports. However, the proposed amendment appears to conflate "investment risk" with "credit risk," and fundamentally misaligns regulatory expectations with the purpose of CRP credit ratings.

Furthermore, Morningstar DBRS encourages the NAIC or SVO to provide additional clarity related to the subjective standard that would be applicable to private rating letter rationale reports as part of the proposed amendments. This standard would require these reports to include "sufficient analytical content to enable an independent party to form a reasonable opinion." Without additional guidance, the proposed amendment may create confusion and operational challenges for insurers and other market participants.

I. CRPs Never Opine on Investment Risk

Credit ratings are forward looking opinions about credit risk, which reflect the creditworthiness of an issuer, rated entity, security, or obligation. While credit ratings offer valuable insights into the credit risk component of overall investment risk, they also have important limitations that market participants must understand.

Simply put, credit risk is the risk that interest or principal due on a debt obligation will not be paid on time and in full in accordance with its contractual terms. Credit ratings address only credit risk, which is only one element of investment risk. They do not address other investment risks or any non-credit risks that may be relevant to investors, such as interest rate risk, liquidity risk, or market volatility.

Morningstar DBRS public rating reports and private rating letters are designed to provide sufficient information for investors and other users of Morningstar DBRS credit ratings to understand their associated ratings analysis. DBRS provides consistent transparency for public and private credit ratings, including additional regulatory disclosures even when not required. However, our credit rating letters and reports do not address, or discuss, investment risk.

Given the purpose and limitations of credit ratings, we respectfully recommend the NAIC consider the following changes to the proposed amendment. Our recommended changes to the proposed amendment are reflected below in the strike throughs and text in green font, highlighted in yellow for ease of reference:

“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 understanding of the basis for the CRP’s assessment of investment risk related rating action.**”

II. Market Would Benefit from Clarity

The phrase "sufficient analytical content to enable an independent party to form a reasonable opinion" used in the proposed amendment lacks clarity around specific expectations related to the private rating letter rationale reports for the relevant parties. Adoption of this proposed amendment may present compliance difficulties

for insurers that are investing in the relevant securities and parties involved in the relevant capital market transactions.

We share the NAIC's commitment to ensuring high-quality analytical content in private rating activities. As Morningstar DBRS previously unscored in our prior interactions with the NAIC, we strive towards enhancing the transparency related to our methodologies, analytical process, and credit ratings. Accordingly, we encourage the NAIC or SVO to consider providing clarity to insurers on the specific expectations relating to private rating letter rationale reports. For example, the SVO could share anonymized examples of rating rationale reports that were deemed appropriate in the past or provide illustrative examples of types of information and data that SVO would expect to see in these reports. Morningstar DBRS would welcome this type of feedback that is intended to enhance its disclosures.

We thank the National Association of Insurance Commissioners for the opportunity to comment on the proposed amendment. Should you wish to discuss any of the comments in this letter, please do not hesitate to contact any of us as indicated:

Richard Sibthorpe at Richard.Sibthorpe@morningstar.com

A handwritten signature in black ink, appearing to read 'RS', followed by a horizontal line extending to the right.

Richard Sibthorpe
Head of Canada and Global Investor Strategy
Morningstar DBRS

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: May 15, 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 section.

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 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. 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 ONE

POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE

APPLICATION OF THE FE PROCEDURE TO SPECIFIC POPULATIONS

...

Limitations on the Use of NAIC CRP Ratings

85. **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.

...

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

85. 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.

...



https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-06-04 Interim meeting/04-InvestmentRiskTechnicalAmendment/2025-005.01 PP_Manual_InvestmentRisk_Cap.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 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

...

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. For the avoidance of doubt, the cap described in this section does not apply to NAIC Designations assigned through the Filing Exemption process or by the Structured Securities Group through the financial modeling process.

...

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.

For the avoidance of doubt, the cap described in this section does not apply to NAIC Designations assigned through the Filing Exemption process or by the Structured Securities Group through the financial modeling process.



...

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

**Shannon Jones**

Senior Director, Financial Reporting Policy
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July 7, 2025

Ms. Carrie Mears

Chair, Valuation of Securities (E) Task Force (VOSTF)
National Association of Insurance Commissioners (NAIC)
110 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: P&P Manual Technical Amendment to Caps on NAIC Designations of CRP Rated Securities

Dear Ms. Mears:

The undersigned (ACLI, PPIA, and NASVA) appreciate the opportunity to comment on the exposure referred to above that was released for comment by the VOSTF on June 4, 2025.

We understand that the proposed P&P Manual amendment was intended to be technical in nature and clarify the inverse relationship between higher investment risk and higher credit quality. However, as we discussed this amendment on a joint call with our related organizations, several questions came to light that we believe should be carefully considered. The practical application of the P&P Manual language may result in unanticipated outcomes.

Two sections of the P&P Manual that this exposure looks to be amend are:

- Part One of the P&P Manual – Policies of the NAIC Valuation of Securities (E) Task Force – Application of the FE procedure to Specific Populations, and
- Part Three of the P&P Manual – SVO Procedures and Methodologies for Production of NAIC Designations.

Related to Part One, it appears this exposure is intended to address situations where the SVO does not produce a designation for particular securities, but rather the securities are filing exempt and the NAIC Designations for RBC purposes are determined as follows:

- One CRP rating – NAIC Designation is determined using that CRP rating.
- Two CRP ratings – NAIC Designation is determined using the lowest of the two ratings.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

- Three or more CRP ratings – NAIC Designation is determined using the second lowest of all CRP ratings.

As it is unclear to us as to whether the original language that this exposure proposes to update precedes the aforementioned P&P Manual rules, it is also unclear if this language is even needed in the P&P Manual (i.e., by default the NAIC designation is capped to the highest of the NAIC CRP Rating).

Related to Part Two, it appears this exposure is intended to address situations where the SVO produces a security designation (whether through fundamental security evaluation if filed directly with the SVO, or through modeling). If this is correct, it would appear that, when modeling CLOs for example (which generally carry CRP ratings), any tranche rating would be capped at the CRP rating.

If so, this could have concerning outcomes. Consider, for example, a scenario where CLO modelling determines that risk is lower in the senior-most tranches of the structure than the ratings assigned by a CRP. Meanwhile, that same CLO modelling determines that risk in the lower tranches is greater than the ratings assigned by the CRP. Applying the proposed capping language from the P&P Manual would mean that NAIC designations on the senior tranches of this CLO are capped at the CRP ratings, while the NAIC-designations on the junior tranches of the CLO are based on the model's more conservative assessment of risk. In total, looking at a vertical slice of such a CLO, the weighted average NAIC designation would then be lower than both the weighted average rating assigned by the CRP for the vertical strip and the weighted average risk assessment determined by the model. Would it not be more appropriate that the actual risk of the modeling be applied consistently across all tranches of securities within a structured securities package? The undersigned suspect that this outcome was not the intent of the proposed language changes, but we think more clarification is merited.

While the two issues highlighted above may not be capturing the intent of these two paragraphs, and the undersigned may have potentially made some faulty assumptions, we feel that both issues are worth highlighting and discussing. Given the evolution of the P&P Manual and rule changes over time, it is sometimes a complex document to navigate. With the NAIC's increased oversight of CRP ratings use and expected increased use of modeling (e.g., CLOs), our real ask is to get a better understanding of the practical implications of these two paragraphs before any proposed changes, such as when (and extent) that these caps are currently being used in practice, when they would be anticipated to be used in the case of modeling or for other reasons, and/or if the language is even needed.

As always, we appreciate the VOSTF and SVO in their endeavors to keep pace with market evolutions and their willingness to be transparent in proposed rule changes as well as a history of working collaboratively with industry. If you have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,



Shannon Jones
ACLI



Tracey Lindsey
NASVA



John Petchler
on behalf of PPIA Board of Directors

cc: Charles Therriault, Director, Securities Valuation Office
Eric Kolchinsky, Director, Structured Securities Group



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 Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “Purposes and Procedures Manual”) to Permit a 30-day Grace Period to File a Private Rating Letter Annual Update

DATE: July 7, 2025

Summary: At the NAIC’s 2024 Fall National Meeting the Task Force agreed to permit insurers a 30-day grace period after an NAIC Credit Rating Provider (CRP) renews a private letter rating (PLR) to provide the annual update to the SVO. The objective of the grace period was to avoid the need to deactivate PLRs that received an annual update close to year-end. This amendment would update the PLR instructions to permit a 30-day grace period for PLR annual updates, regardless of when during the year they occur.

Recommendation – Insurers need time to provide PLR annual updates to the SVO after they receive them from the CRPs. The SVO recommends granting insurers a 30-day grace period to provide the PLR annual update to it. This will primarily impact manually filed PLRs as the ratings received through the credit rating provider (CRP) electronic data files include the rating update date and will be automatically updated in the NAIC’s systems upon processing the data file.

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

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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. Annual updates to existing private rating letters shall be filed with the SVO no later than 30-days following the date of the CRP’s annual update (i.e. no later than 395-days following the date of the prior calendar year’s initial private rating letter or annual update) 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.



- In instances where a private letter and private rating letter rationale report is filed, the SVO shall evaluate the private letter and private rating letter rationale report to determine whether the security has been assigned an Eligible NAIC CRP Rating and if the privately rated security is eligible to receive an NAIC Designation with a NAIC CRP Credit Rating. Similar to public securities where a rating is received directly from the CRP via electronic feeds, there is a similar assumption for the PL security, that the rating meets the definition of an Eligible NAIC CRP Rating as a normal part of the CRP rating process, absent evidence to the contrary in the rating letter or private rating letter rationale report (e.g., evidence that the rating applies only to principal or interest, in a deviation from the normal CRP rating process).
- If the SVO verifies that the security has been assigned an Eligible NAIC CRP Rating and if the SVO deems the privately rated security eligible to receive an NAIC Designation with a NAIC CRP Credit Rating, it assigns an NAIC Designation in accordance with the policy and procedure specified in this Manual. The assumption in the application of this step of the procedure is that **PL** securities are typically assigned a credit rating by only one NAIC CRP. However, if this assumption is inaccurate for any **PL** security, the SVO applies the same procedure specified for FE securities.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2028-08-12 - NAIC Summer NM/05-PLR 30-day Grace Period/2025-008.01 PP_Manual_PLR_Update_30-day_Grace.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: Recommendation to Add a Common Security ID Field on the Annual and Quarterly Financial Statements

DATE: July 23, 2025

Summary: The annual and quarterly financial statement investment schedules have a Committee on Uniform Securities Identification Procedures (CUSIP) field that includes the CUSIP International Numbering System (CINS), and Private Placement Number (PPN) and a separate electronic only field for International Securities Identification Number (ISIN). Having these security identifiers in separate fields makes efficient reporting, analysis and validation difficult.

The NAIC is integrating into its systems S&P Global's Global Instruments Cross Reference Service (GICRS) database of global security identifiers that cross-references approximately 92 million instruments. GICRS includes the identifiers currently used in NAIC reporting (e.g. CUSIP, CINS, ISIN, and PPN) along with other identifiers. The SVO has been working on integrating GICRS into its VISION and AVS+ systems for several years. GICRS is now being used in some of the Jump Start Exception Reports to reduce errors.

Recommendation: The SVO recommends combining the CUSIP and ISIN fields into a single Security ID field and adding a new field to identify the Security ID Type with a smart code like the following: C=CUSIP and CINS (including syndicated loans with an CUSIP), I=ISIN (including syndicated loans with an ISIN), and P=PPN. Combining security identifiers into a single field will align with the NAIC's integration of GICRS in its systems, simplify the NAIC's data validation processes (i.e. confirming that the security identifier appears in the GICRS database) and permit the possible inclusion, with

Security ID	Security ID Type	Security ID Validation Exception
123456AB7	C	
U12345ABX	C	*
US123456AB79	I	
123456#B7	P	



regulatory approval, of additional security identifiers such as Bloomberg FIGI and Markit LoanX that are available in the GICRS database. The table in this paragraph shows how this might be displayed.

The SVO also recommends developing a new reporting field to clearly identify when a security identifier has not been validated on a financial statement investment schedule submission. This validation field could be included on an insurer's financial statement investment schedule as an additional reporting field and aggregated in a footnote or just used within the NAIC for regulator reporting. The SVO worked with the Financial Regulatory Services (FRS) staff to quantify the number of invalid or missing security identifiers that were reported on Schedule D as of December 31, 2024, when compared to the GICRS database along with the associated book adjusted carry value (BACV). A summary of that review is below. There were 10,053 missing or invalid security identifiers that collectively represented \$55 billion in BACV.

Exception Type	Count of Unique Securities	Book Adjusted Carrying Value
Missing CUSIP/CINS and invalid ISIN	541	\$2,230,792,136
Missing CUSIP/CINS and missing ISIN	1,628	\$11,497,712,295
Invalid CUSIP/CINS and missing ISIN	7,113	\$38,973,030,638
Invalid CUSIP/CINS and invalid ISIN	771	\$2,299,282,036
Grand Total	10,053	\$55,000,817,105

The SVO requests the Task Force's approval to submit a referral to the Blanks (E) Working Group to draft a Blanks change to affect these security identifier updates.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-08-12 - NAIC Summer NM/06-Blanks Update for Security IDs/2025-009.01 Blanks_Update_for_SecurityIDs v2.docx