Draft date: 7/23/26

2026 Summer National Meeting
Columbus, Ohio

CREDIT RATING PROVIDER (E) WORKING GROUP
Wednesday, August 12, 2026
2:15 – 3:15 p.m.
Hilton Tower 402—Robinson Ballroom AB—Level 5

ROLL CALL

Jake Garn, Chair	Utah	Cameron Piatt	Ohio
Laura Clements, Vice Chair	California	Amy Garcia	Texas
Ken Cotrone	Connecticut	Dan Bumpus	Virginia
Carrie Mears	Iowa	Steve Drutz	Washington
Cynthia Iu	Nebraska	Amy Malm	Wisconsin

NAIC Committee Support: Jane Ren/Marc Perlman

AGENDA

1. Consider Adoption of its May 4 Minutes—*Jake Garn (UT)* — Attachment A

2. Discuss the Proposed Credit Rating Provider (CRP) Due Diligence Framework and Comments Received—*Jake Garn (UT)* — Attachment B, Attachments B-1–B-11

3. Discuss Any Other Matters Brought Before the Working Group —*Jake Garn (UT)*

4. Adjournment

Draft: 6/2/26

Credit Rating Provider (E) Working Group
Virtual Meeting
May 4, 2026

The Credit Rating Provider (E) Working Group of the Invested Assets (E) Task Force met May 4, 2026. The following Working Group members participated: Jake Garn, Chair (UT); Laura Clements, Vice Chair (CA); Ken Cotrone (CT); Kevin Clark (IA); Cynthia Iu (NE); Jacob Moran (OH); Amy Garcia (TX); Dan Bumpus (VA); Steve Drutz (WA); and Nathan Houdek and Amy Malm (WI).

1. Exposed the Proposed CRP Due Diligence Framework

Jeremy Phillips (PricewaterhouseCoopers—PwC) made a statement before the PwC team walked through the proposed Credit Rating Provider (CRP) Due Diligence Framework (Framework). He said that the NAIC hired PwC as an advisor to assist with developing the proposed Framework. PwC should not be viewed as advocating for any individual regulators or stakeholder views over another relating to the development of such a Framework. The NAIC is responsible for all decisions through the course of the project relating to the adoption of any final Framework.

Philips started the presentation by providing an overview of the design and objectives. He said that a significant portion of the NAIC's designations rely on CRP ratings that are mapped through CRP-provided translation matrices without a formal process to assess whether ratings are truly equivalent across CRPs. The purpose of the Framework is to introduce a structured risk-based approach to better assess the reasonableness and consistency of the ratings. The goal is to evaluate whether ratings that are mapped to the same NAIC designation behave consistently across CRPs. He also listed four key objectives that the Framework sets out to address.

Next, Philips briefly discussed the four components that the Framework is built around: 1) scoping; 2) risk assessment; 3) detailed testing; and 4) governance. Then he noted three guiding principles that are embedded throughout the design: 1) a pragmatic risk-based approach; 2) scalability; and 3) transparency. He also pointed out that the proposed Framework is an initial version. There are certain aspects that require a meaningful amount of information, which has not become fully available yet. As the NAIC progresses towards the adoption of the Framework, data will continue to be analyzed to determine the quantitative and analytical procedures that can be performed.

John Holmes (PwC) continued to provide an overview for scoping assessment. He said that scoping serves as an entry point into a proportionate oversight process that is intended to be scalable, transparent, and responsive to actual risks. Then he discussed each of the three components to the scoping process in more detail: 1), preliminary activities; 2) quantitative activities; and 3) qualitative activities. Holmes noted that qualitative consideration can override quantitative results where appropriate. This is an important safeguard because it recognizes that an effective oversight requires both analytical discipline and informed supervisory judgment. He said that the output of the scoping process will be a clearly documented classification of segments as either in-scope or out-of-scope. The classification will determine where the NAIC should devote its time and efforts, as well as where deeper due diligence is most warranted.

Next, Holmes discussed the risk assessment for in-scope segments, which is intended to evaluate whether ratings that are mapped to the same NAIC designation are equivalent across the CRPs. It starts with defining test segments, which are groupings of securities that are sufficiently comparable to support meaningful analysis. Then the Framework will contemplate a range of quantitative procedures or tests to evaluate rating equivalency and consistency. The first set of analytical tests can be broadly categorized as event-based and predictive equivalence tests. These procedures will examine whether ratings appropriately differentiate risks and whether they align with realized outcomes such as defaults or losses over time. The second set includes descriptive and distributional tests, which will look at how ratings are distributed across comparable populations and how the ratings migrate over time. The third set involves correlation and association tests for jointly rated securities in particular. These tests will examine whether different CRPs align closely when rating the same or similar instruments. The Framework also contemplates time-series equivalence tests, which will look at rating behavior over time. Given that certain analyses may be more practical than others, the Framework is designed to be iterative and scalable so that additional tests and more refined analyses can be incorporated over time. Ultimately, the output of the risk assessment will be used to assign a risk classification to test segments as high-risk, moderate-risk, or low-risk.

Holmes noted that the risk classification will determine the nature and extent of detailed testing that will be the next phase in the Framework. A high-risk segment may indicate potential systematic divergence or uncertainty and, therefore, warrant more intensive review. A low-risk segment may still be subject to oversight, but with a lighter level of subsequent testing.

Then Holmes discussed detailed testing procedures. He said that the purpose of this phase is to evaluate in a more focused and substantive way whether the ratings assigned by a CRP are reasonable, consistently applied, and supportive of the translation matrix outcomes on which the NAIC relies. The extent of detailed testing is also risk-based. High-risk test segments are expected to receive the greatest level of attention, including larger samples and more extensive security-specific reviews. Moderate-risk segments may receive targeted or moderate levels of testing. And low risk-segments may still be subject to methodology walkthrough or limited procedure, but they are not subject to the same degree of security-level review in general. In this way, detailed testing will preserve the overall principle of proportional oversight.

Holmes also discussed the three components of detailed testing. The first component is methodology walkthrough and discussion with the CRPs, which are structured engagements intended to help the NAIC understand how CRP's methodology will operate in practice. The second one may include a security-specific review. The NAIC will perform an independent review of selected securities and compare its assessment to the ratings assigned by CRPs. The objective is to evaluate whether the assigned rating will appear reasonable and consistent when assessed through an independent regulatory lens. The last component includes a security-specific rating methodology review, which will focus not only on the rating outcome, but also on how the outcome has been reached. The NAIC will evaluate whether the methodology selected by the CRP is appropriate for a security, whether inputs and assumptions are accurate and reasonable, and whether the methodology has been applied consistently with the CRP's stated approach. The objective is to look beneath the rating itself and assess the soundness of the analytical process supporting it.

Holmes noted that the key feature of the detailed testing stage is the application of the NAIC's three sub-notch materiality tolerance. Under the Framework, tolerance will serve as a threshold for determining whether a deviation between the NAIC's independent view and the CRP's assigned rating will be considered acceptable or whether it should be escalated. This is important because the Framework is not intended to treat every difference as evidence of a problem. What matters is whether deviations are material, recurring, or indicative of a broader inconsistency. He also noted that detailed testing is not only retrospective but also forward-looking. The results of the walkthrough and security review will help inform whether any future year testing should be expanded, refined, or redirected. The expected output of detailed testing will be a well-documented and independent view of rating reasonableness and consistency for the relevant CRP, asset class, or test segment.

Holmes concluded his presentation with an illustrative example of how the Framework works. He demonstrated how a public corporate debt security that is rated by CRP 2 would move through the sequence of scoping, risk assessment, and detailed testing. The analysis shows a one-notch difference between the CRP-derived rating and the NAIC-derived rating. The difference is considered immaterial because it falls within the NAIC's tolerance threshold. As a result, no remediation action is required.

Lastly, Matt Keller (PwC) walked through the governance procedures. He noted that a well-defined governance structure will facilitate transparency and provide clearly defined roles and responsibilities for both the NAIC stakeholders and CRPs. At the broadest level, the Invested Assets (E) Task Force sits in the oversight role. The Working Group has the primary responsibility for implementing and operating the Framework and will produce an annual report that will be reviewed by the Task Force. Keller pointed out that the annual report may contain recommended remediation actions and forward-looking adjustments. The Framework will divide potential actions into two tiers, where tier 2 actions are more consequential. He noted that the Working Group can recommend actions but cannot unilaterally impose a tier 2 outcome. Tier 2 actions are subject to the Working Group's parent committees (Invested Assets (E) Task Force, Financial Condition (E) Committee, and Executive (EX) Committee and Plenary) for final approval.

Keller concluded the presentation by discussing provisional acceptance. He said that the CRPs are provisionally accepted at implementation, but the acceptance is contingent upon three conditions. Provisional acceptance will be granted for a period of 36 months, which can be extended by the Working Group. Each historically accepted CRP will be assessed on both an organizational and methodological basis during the 36 months. Provisional acceptance will be carried out in two phases. The NAIC will determine the sequence of the reviews considering several factors. After phase two is complete, a determination will be made as to whether each CRP has satisfied the provisional acceptance criteria.

Hearing no objection from the Working Group, Garn exposed the proposed Framework for a 60-day public comment period ending July 3, with written questions submitted by June 3. He said that answers to the written questions can help inform the comment letters that may come in.

Having no further business, the Credit Rating Provider (E) Working Group adjourned.

NAIC Credit Rating Provider (CRP) Due Diligence Framework – Whitepaper

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Executive Summary

U.S. insurers depend on NAIC Designations for statutory reporting and solvency monitoring. A significant portion of those designations are derived from the translation of Credit Rating Provider (CRP) opinions for Filing-Exempt (FE) and Private Letter (PL) securities. Currently, the translation of CRP ratings to equivalent NAIC Designations relies on a mapping provided to the NAIC by each CRP. The NAIC has "blind reliance" on these CRP provided mappings in that the NAIC does not have a due diligence process to assess the reasonableness or equivalency of the CRP provided mapping. In 2024, more than 152,000 securities relied on CRP ratings, underscoring the need for a structured, scalable, and pragmatic due diligence program to support the NAIC's reliance on CRP provided ratings.

This whitepaper sets out a four-part due diligence framework (CRP Due Diligence Framework) including Scoping, Risk Assessment, Detailed Testing Procedures, and Governance (see image below). The framework is intended to corroborate the reasonableness of the translation matrix for NAIC Designations and align with broader objectives to harmonize regulatory oversight related to investments in the insurance industry.

The framework supports consistent translation of CRP ratings to NAIC Designations, focuses due diligence activities where CRP ratings are most consequential on insurer balance sheets and where there are areas of increased risk in CRP provided ratings, and establishes a structured and governed process for remediation activities, monitoring and ongoing maintenance. The framework is led by the Credit Rating Provider (E) Working Group (CRP WG), as supported by NAIC staff, with inputs and information sharing amongst the Invested Assets (E) Task Force (IA TF) working groups including the Investment Analysis (E) Working Group (InvAWG) and Investment Designation Analysis (E) Working Group (IDA WG)[1].

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[1] For additional information on the reorganization of the VOS TF, see the *New Invested Assets Task Force Organization* section.

Preliminary CRP Due Diligence Framework

1. Scoping Assessment	• Preliminary Screening • Quantitative Assessment • Qualitative Assessment
2. Risk Assessment	• Historical Data Analysis
3. Detailed Testing Procedures	• Methodology Walkthrough and Discussion with CRP • Security Specific Rating Review • Security Specific Rating Methodology Review
4. Governance Procedures	• Methodology Walkthrough and Discussion with CRP

Current State & Background

Use of CRP the Translation Matrix

CRPs follow publicly disclosed rating methodologies that combine quantitative analysis, qualitative judgment, and rating-committee governance to form independent credit opinions evaluating credit risk. These methodologies require transparent documentation, reliable data inputs, and ongoing surveillance. Importantly, CRPs say that they do not differentiate their methodologies between public and private assets, however, public and private assets themselves may be very different. Any variations between public and private ratings may reflect differences in available information, as opposed to differences in methodology.

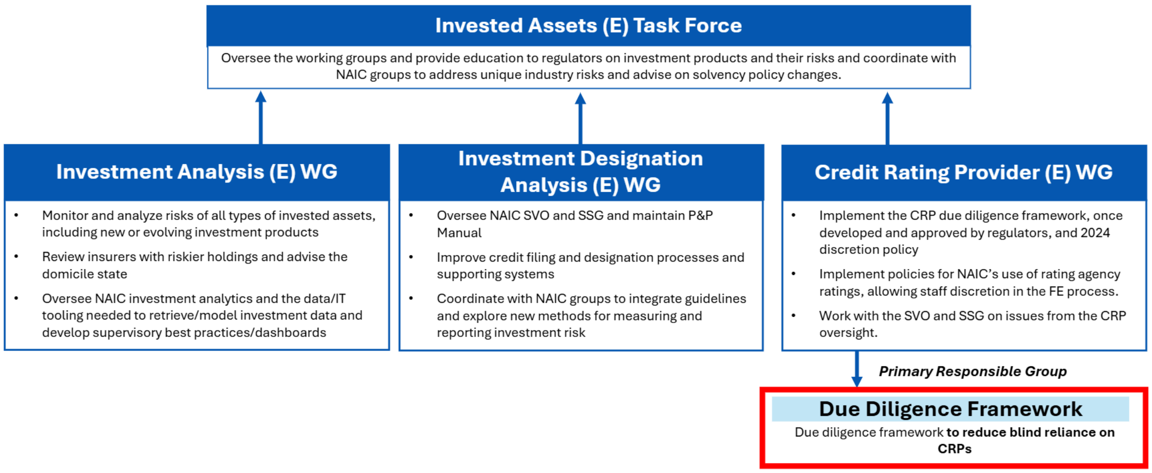
NAIC Designations reflect an assessment of investment risk, as defined in Part One, paragraph 87 of the 2025 P&P Manual, which characterizes investment risk as the likelihood that an insurer will receive the full and timely payment of principal and expected interest. When the NAIC independently determines a designation, they often rely on CRP methodologies as described in Part One - Use of Generally Accepted Techniques or Methodologies of the P&P manual.

For eligible FE/PL securities, the NAIC Designations translation matrix found on the NAIC website, as referenced in the P&P manual is applied to translate eligible assigned ratings from all eight CRPs.

Currently, the translation of CRP ratings to equivalent NAIC Designations relies on a mapping provided to the NAIC by each CRP. The NAIC has “blind reliance” on these CRP provided mappings in that the NAIC does not have a due diligence process to assess the reasonableness or equivalency of the CRP provided mapping.

Organizational Structure – New Invested Assets Task Force Organization

Under the oversight of the Invested Assets (E) Task Force (IA TF), formerly the VOS TF, the Credit Rating Provider (E) Working Group (CRP WG), with the assistance of NAIC staff as deemed appropriate by those NAIC groups, will be responsible for implementing and operating the CRP Due Diligence Framework once developed and approved by regulators, with inputs from Investment Analysis (E) Working Group (InvAWG) and Investment Designation Analysis (E) Working Group (IDA WG). The CRP WG will share results and findings of due diligence activities amongst the IA TF and other NAIC groups on an on-going basis.[2]



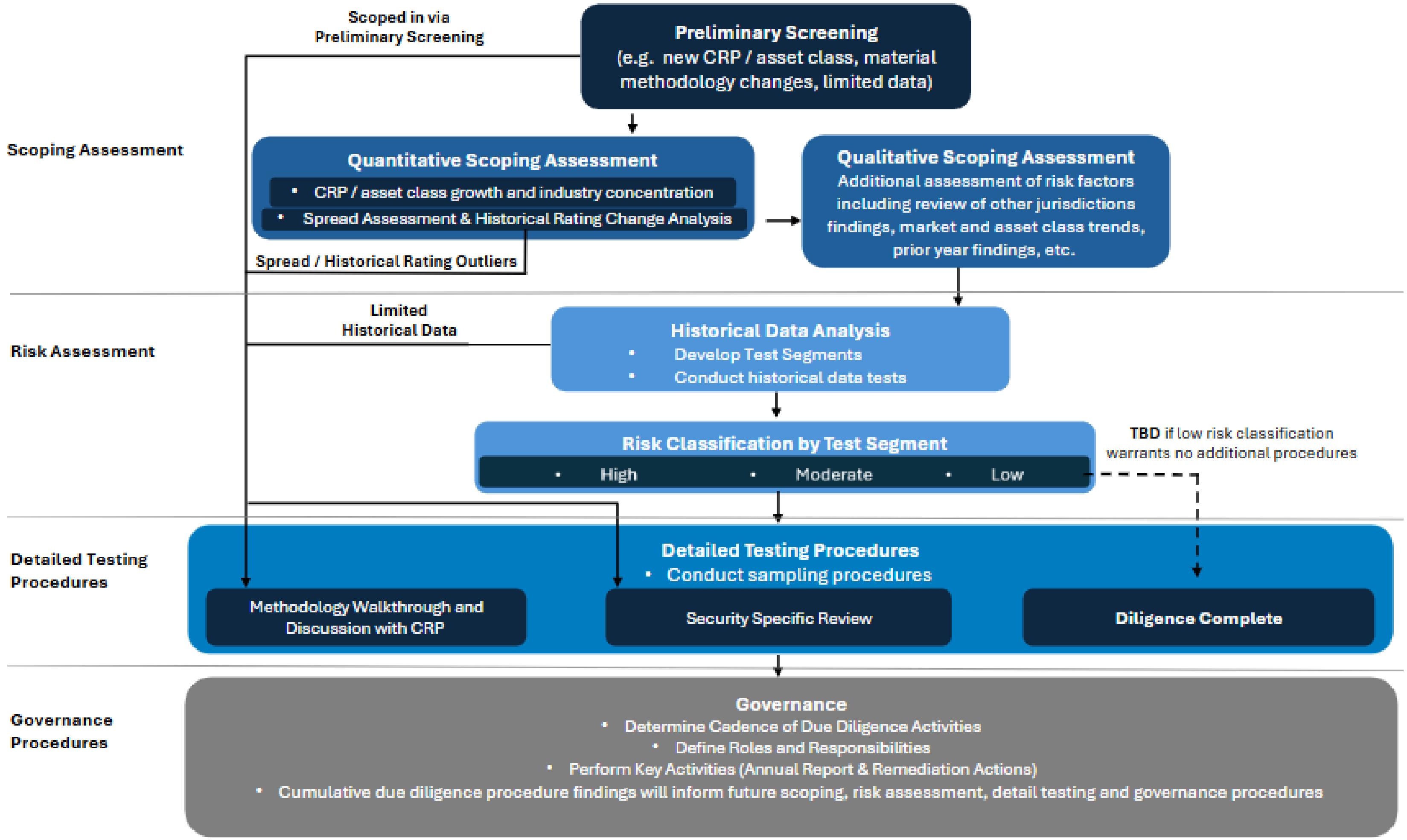
Overview of the CRP Due Diligence Framework

The CRP Due Diligence Framework establishes a structured, scalable, and pragmatic oversight process for the NAIC's reliance on CRP opinions in assigning NAIC Designations through the FE/PL processes. The framework is designed as an ongoing monitoring tool supporting the NAIC and its IA TF working groups. It aims to reduce blind reliance on CRP ratings, promote transparency into the equivalency of CRP ratings as applied to FE/PL securities, and provide disciplined methods for identifying and remediating inconsistencies in ratings outcomes.

The framework primarily applies to assets whose NAIC Designation is derived from a CRP rating, including rated, filing-exempt (FE), and private letter (PL) securities. Its due diligence activities may also inform NAIC consideration of CRP ratings used for other NAIC purposes (e.g., certain non–Schedule D bonds and Subsidiary, Controlled and Affiliated (SCA) and related party investments).

The framework does not assess insurer-specific exposure or opine on whether a given rating is "correct." Instead, it evaluates the risk characteristics of rating cohorts, the degree of alignment or divergence across CRPs, and whether continued reliance on those ratings remains appropriate for regulatory purposes. Please see below a visual illustration of the CRP Due Diligence Framework design, which is discussed in more detail in the following sections.

[2] The roles and responsibilities of the working groups under the Invested Asset (E) Task Force have been established as of the January 1, 2026, reorganization date and may be revised in the future.


Scoped in via Preliminary Screening
Preliminary Screening
(e.g. new CRP / asset class, material methodology changes, limited data)
Scoping Assessment
Quantitative Scoping Assessment
• CRP / asset class growth and industry concentration
• Spread Assessment & Historical Rating Change Analysis
Qualitative Scoping Assessment
Additional assessment of risk factors including review of other jurisdictions findings, market and asset class trends, prior year findings, etc.
Spread / Historical Rating Outliers
Limited Historical Data
Risk Assessment
Historical Data Analysis
• Develop Test Segments
• Conduct historical data tests
Risk Classification by Test Segment
• High • Moderate • Low
TBD if low risk classification warrants no additional procedures
Detailed Testing Procedures
Detailed Testing Procedures
• Conduct sampling procedures
Methodology Walkthrough and Discussion with CRP
Security Specific Review
Diligence Complete
Governance Procedures
Governance
• Determine Cadence of Due Diligence Activities
• Define Roles and Responsibilities
• Perform Key Activities (Annual Report & Remediation Actions)
• Cumulative due diligence procedure findings will inform future scoping, risk assessment, detail testing and governance procedures

Provisional Acceptance of CRPs

Historically accepted CRPs will be provisionally accepted under this framework immediately following implementation, provided that:(i) the CRP continues to meet the acceptance criteria established in the P&P Manual; (ii) no materially adverse findings related to a specific CRP are identified in the most recently available SEC (or other applicable jurisdictional) examination reports as of the implementation date, and (iii) the CRP agrees to meet NAIC data call requirements to support the NAIC in the implementation and on-going maintenance of this framework.

Provisional acceptance will be granted for a period of 36 months, which can be extended by the CRP WG, from the implementation date and will be carried out in two phases, during which time all historically accepted CRPs must be assessed on both an organizational and methodological basis, as described below.

Phase 1: Organizational Walkthroughs:

During the Phase 1 following implementation, the NAIC will conduct organizational walkthroughs with each historically accepted CRP to assess organizational approach, processes, and governance related to the assignment of credit risk ratings.

Phase 2: Methodology Walkthrough and Discussion with CRPs:

Following Phase 1, the NAIC will conduct Methodology Walkthroughs and Discussions with CRPs as part of Phase 2 described in section 3 below focusing on the methodologies applied to FE / PL securities. These walkthroughs will leverage Appendix A – CRP Methodology Walkthrough Questionnaire.

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

Following the completion of Phase 2, the NAIC will make a determination as to whether each CRP has satisfied the acceptance criteria. For CRPs that were determined not to satisfy the acceptance criteria, the NAIC will determine the appropriate actions in reference to Section 4.2.2 Remediation Actions of the framework.

Guiding principles

The NAIC CRP Due Diligence Framework is grounded in a set of guiding principles that ensure its design and execution remain pragmatic, scalable and transparent. These principles establish how due diligence activities are prioritized, governed and continuously improved to maintain the framework's relevance as the investment landscape evolves:

1. Pragmatic approach

The framework applies a practical approach to oversight, focusing on areas where the CRP ratings have the greatest potential impact on the insurance industry or an insurance company's solvency. Risk Assessment and Detailed Testing Procedures are aligned to industry exposure, data history and observed rating variability, ensuring that diligence activities are both effective and efficient.

2. Scalable for growth and changing complexity of insurer balance sheets

The framework is designed to scale with the continued growth and changing composition of insurer balance sheets. It accommodates the evolution of new asset classes, emerging risk types and changes in CRP methodologies, ensuring adaptability to shifting industry dynamics and regulatory priorities over time.

3. Transparency

All components of the framework – from data collection through scoping, risk assessment, testing, remediation and governance – are documented and transparent. This ensures that key framework design components, diligence activities, quantitative and qualitative results and remediation actions are communicated clearly, reinforcing confidence in both the process and its outcomes.

CRP Data Requirements for Implementation and On-going Operation of the CRP Due Diligence

Many asset classes – particularly private or emerging asset classes may have limited historical data or inconsistent information, restricting the ability to perform meaningful quantitative testing. In addition, differences in data collection practices, as well as self-reported data by insurers can introduce the potential for misleading quantitative outcomes. The NAIC will require the cooperation of the CRPs to provide the requisite rating data and the NAIC will be responsible for maintaining the technological expertise and infrastructure to consume and standardize the data from various parties. If reliable and standardized data are not available, quantitative due diligence activities may not be possible. As a result, additional Detailed Testing procedures including security specific reviews and Methodology Walkthrough and Discussions with CRPs may be required as further detailed in section 3 below. As the NAIC gains more experience with the framework and to address data gaps and other issues that may arise, the NAIC may adjust this framework to utilize other tests and processes as appropriate.

1. Scoping Assessment

Preliminary CRP Due Diligence Framework

1. Scoping Assessment	• Preliminary Screening • Quantitative Assessment • Qualitative Assessment
2. Risk Assessment	• Historical Data Analysis
3. Detailed Testing Procedures	• Methodology Walkthrough and Discussion with CRP • Security Specific Rating Review • Security Specific Rating Methodology Review
4. Governance Procedures	• Methodology Walkthrough and Discussion with CRP

1.1 Scoping Assessment Overview

The Scoping Assessment procedures will be carried out by the NAIC. The scoping procedures include:

- **Preliminary scoping activities** - designed to target new CRPs, new asset classes, CRPs and asset classes with limited data or revisions to CRP asset class methodologies deemed significant.
- **Quantitative scoping activities –** designed to identify areas of elevated risk across CRPs, asset classes, or securities based on insurance industry exposure, growth trends, spread outliers, limited rating comparability and material changes in ratings or SVO or SSG designations over time.
- **Qualitative scoping activities –** designed to assess the reliability of CRP ratings using regulatory review findings and other qualitative risk factors, including rating methodologies, market conditions, and asset class trends, to determine whether additional targeted procedures are warranted.

1.2 Key Activities

1.2.1 Preliminary Scoping Activities

The preliminary scoping activities are designed to assess either a) new NRSROs for acceptance as accepted CRPs by the NAIC, or b) instances where previously accepted CRPs have introduced a new and / or a materially changed methodology for a legacy or new asset class. This process will be carried out by conducting interviews with each CRP on an annual basis to understand if there are new assets classes or significant changes to methodologies. (Refer to *Appendix A – CRP Methodology Walkthrough Questionnaire)* This preliminary scoping process establishes a baseline understanding of the CRP's methodologies, data history and analytical transparency before inclusion in the broader due diligence cycle.

In cases where either a) a new CRP or b) a new and / or a materially changed methodology for a legacy or new asset class is introduced, that CRP or asset class will automatically proceed to Section 3. Detailed Testing Procedures for targeted methodology walkthroughs and additional security specific testing procedures. Similarly, if a CRP or asset class has fewer than two years of historical data, it bypasses the Risk Assessment entirely and proceeds directly to Section 3. Detailed Testing Procedures, where additional testing can be performed based on available ratings information and supplemental CRP data.

1.2.2 Quantitative Scoping Activities

Quantitative scoping activities are made up of four component assessments, CRP Scoping, Asset Class Scoping, Spread Comparison, and Historical Rating Change Analysis. It is expected that the availability, volume, and quality of data will improve over time, potentially enabling a broader range of quantitative scoping activities to be performed.

1.2.2.1 Quantitative Attribute Analysis

Quantitative scoping activities will first compare key attributes and metrics at the rating, CRP, and asset class level using a binary assessment against thresholds to determine whether each CRP or asset class segment is "In Scope" or "Out of Scope."

For the CRP scoping assessment, activities include reviewing aggregate insurance sector balance sheet exposure by individual CRPs (as measured by Book Adjusted Carrying Value) to identify exposure risk and analyzing the growth of CRPs that provide ratings for FE/PL securities to detect rapid expansion relative to peer CRPs.

Category	Attribute	Thresholds*
CRP	Insurance Industry Exposure	Low – Within 1st quartile of distribution High – Above 1st quartile of distribution
	Growth	Low - Within 1st quartile of year over year growth relative to peers High – Above 1st quartile of year over year growth relative to peers

* These thresholds are preliminary and will require further discussion and refinement

Similarly, the Asset Class Scoping activities include reviewing aggregate insurance sector balance sheet exposure by individual asset classes (as measured by book adjusted carrying value) to identify exposure risk and analyzing the growth of asset classes that were FE or PL rated to detect rapid expansion relative to other asset classes. Asset classes used for scoping purposes will be defined based primarily on insurer statutory filing categories, supplemented where appropriate by CRP methodology classifications and available external data sources (see Appendix B). The level of granularity applied will reflect data availability, recognizing that overly granular segmentation may limit the ability to draw meaningful conclusions. Asset class definitions may evolve over time as data quality and availability improve.

Category	Attribute	Thresholds*
Asset Class	Insurance Industry Exposure	Low – Within 1st quartile of distribution High – Above 1st quartile of distribution
	Growth	Low – Within 1st quartile of year over year growth relative to peers High – Above 1st quartile of year over year growth relative to peers

* These thresholds are preliminary and will require further discussion and refinement

If *either* attribute for the CRP or Asset Class is deemed high risk, then the corresponding scoping segment will be "In Scope". In instances where both the CRP and Asset Class attributes are deemed low risk, then the corresponding scoping segment will be "Out of Scope".

Illustrative 1.2.2 Quantitative Scoping Activities Outcome

		Corporate Debt	
Scoping Segment		Insurance Industry Exposure	Growth
Example CRP	Insurance Industry Exposure	In Scope	In Scope
	Growth	In Scope	Out of Scope

Result: Example CRP, Corporate Debt: In Scope

1.2.2.2 Spread Comparison

The next quantitative scoping activity involves a spread comparison at the security level. In scope securities will be segmented by rating band. Origination spreads for the in scope securities will be compared to the overall spreads within a given rating band. The process will include:

- Identification of individual security outliers within the rating band. Thresholds to determine outliers will be monitored overtime but may include statistical measures such as standard deviations from the mean, quartile outliers or alternative approaches.
- Review of the asset classes that the individual outlier securities fall into to determine if additional asset class qualitative scoping assessment is warranted. Individual security outliers will be subject to Detailed Testing Procedures as outlined in section 3.

1.2.2.3 Historical Rating Change Analysis

The final quantitative scoping activity, historical rating change analysis, involves comparison of the following for in scope securities:

a) Securities previously assigned a designation by the SVO or SSG
b) Securities previously rated by one CRP now rated by another CRP

These securities will be reviewed to determine whether there has been a material increase in rating from the prior rating or designation provider. Those securities that have a more than 3 sub notch improvement compared to the prior rating or designation will be subject to Detailed Testing Procedures as outlined in section 3 below.

1.2.3 Qualitative Scoping Activities

1.2.3.1 SEC Assessment and Monitoring Over Rating Agencies

Under the Credit Rating Agency Reform Act (2006) and Section 15E of the Exchange Act, the SEC (through the Office of Credit Ratings) examines each NRSRO annually. Importantly, the SEC cannot regulate the substance of ratings or methodologies, but it can enforce compliance with laws, rules, and governance standards.

In order to not duplicate efforts under the SEC regulatory oversight, the NAIC will utilize the outcomes of the SEC assessment to inform the Due Diligence Framework Scoping Assessment. SEC assessment findings that are published publicly are anonymized and not attributable to a specific CRP. The NAIC will therefore require each accepted CRP to agree to confidentially share their annual SEC assessment findings with the NAIC to inform the NAIC's Scoping Assessment. The NAIC will confidentially review the SEC assessment findings and will make a judgement as to whether the findings constitute a material risk to ratings of a given CRP. We expect that to constitute a material risk to ratings of a given CRP, the findings of the SEC assessment would need to be significant and that a conclusion that would impact scoping, within the CRP Due Diligence Framework, based on the findings of the report are likely to be rare.

At their discretion the NAIC may also utilize findings or data from other jurisdictions including but not limited to the Bermuda Monetary Authority (BMA), the European Securities and Markets Authority (ESMA), the Financial Conduct Authority (FCA) and the Japanese Financial Services Agencies (JFSA) to make a qualitative judgement about whether findings under other jurisdictions indicate material risk to ratings of a given CRP. If that determination is "yes", that CRP will be assessed as "In Scope" across all asset classes.

1.2.3.2 Additional Qualitative Assessment

The CRP working group may also utilize additional qualitative assessments to inform their scoping conclusions for CRPs and asset classes. These qualitative factors include but are not limited to:

- CRP methodologies with significant qualitative approaches in their methodology (e.g. lack of specific factors, thresholds and defined weightings in publicly available methodology documentation)
- CRP methodologies with significant qualitative adjustments to quantitative approaches included as part of the overall rating methodology
- Market driven events or emerging asset class trends that can be reasonably expected to have an impact of risk in ratings by CRPs or for asset classes
- Results of a prior year Due Diligence Risk Assessment or Detailed Testing Procedures that indicate elevated risks of a given CRP or asset class
- Information from regulators or relevant NAIC groups, for example, findings from the Financial Analysis Working Group

PROPOSAL – For Discussion Purposes Only

1.3 Expected Outcome

The results from the CRP and Asset Class scoping activities are then combined to determine which CRP/asset class intersections, or **"Scoping Segments"**, should be prioritized for further analysis, based on cumulative results of the Scoping Assessment.

Final Scoping Activity Outcomes:

Scoping Activity	Outcome Categories	Logic	Final Scoping Outcome
1.2.1 Preliminary Scoping Activities	- New CRP - New Asset Class - Material Methodology Change - CRP or asset class with <2 years of historical data	If any condition is met, the Scoping Segment automatically qualifies for Section 3 Detailed Testing procedures	Automatically **"In Scope"**
1.2.2 Quantitative Scoping Activities	CRP Scoping: • Insurance Industry Exposure (High/Low) • Growth (High/Low) Asset Class Scoping: • Insurance Industry Exposure (High/Low) • Growth (High/Low) Spread Comparison • Outlier • Non-outlier Historical Rating Change Analysis	A scoping segment is "In Scope" if either the CRP or Asset Class has a high risk outcome in any attribute (Insurance Industry Exposure or Growth). If all attributes for both CRP and Asset Class are Low Risk, then segment is "Out of Scope." A security specific origination spread is determined to be an outlier within a specific rating band if the spread is materially higher or lower than the population average. Comparison of an individual security rating or SVO or SSG designation as the rating or designation provider has changed to determine when material improvements have occurred with the change in provider.	**"In Scope"** if any attribute is high risk **"Out of Scope"** only if all four attributes are low risk **"Outliers"** if the spread difference is above tolerance threshold, securities bypass risk assessment and are subject to Detailed Testing Procedures **"Material Rating Change"** Individual securities with a rating change of 3 rating sub-categories are subject to Detailed Testing Procedures
1.2.3 Qualitative Scoping Activities	-SEC or other jurisdiction findings indicate material risk to ratings of a given CRP -Additional qualitative assessment	If NAIC review of SEC findings or findings across other jurisdictions indicate material risk, the entire CRP is deemed "In Scope," across all asset classes, irrespective of preliminary or quantitative results. If additional qualitative assessment indicates risk to a specific CRP or asset class the entire	SEC or other jurisdiction findings: CRP **"In Scope"** across all asset classes Additional qualitative assessment: entire CRP, asset class for a given CRP or entire

		CRP, specific asset classes for a given CRP, or an entire asset class may be deemed "In Scope"	asset class determined to be **"In Scope"**

2. Risk Assessment

Preliminary CRP Due Diligence Framework

1. Scoping Assessment	• Preliminary Screening • Quantitative Assessment • Qualitative Assessment
2. Risk Assessment	• Historical Data Analysis
3. Detailed Testing Procedures	• Methodology Walkthrough and Discussion with CRP • Security Specific Rating Review • Security Specific Rating Methodology Review
4. Governance Procedures	• Methodology Walkthrough and Discussion with CRP

2.1 Risk Assessment Overview

In the Risk Assessment, quantitative methods are used to facilitate the assessment of the equivalency, potential inappropriateness, and consistency, of the CRP ratings. The goal of these procedures is to assess the CRP equivalency of ratings that is implied by the CRP rating to NAIC designation mapping (the "NAIC Translation Matrix"). Using quantitative methods designed to accept or reject either the hypothesis of equivalency or non-equivalency of ratings across comparable Test Segments allows the NAIC to focus its detailed testing efforts on Test Segments of securities that exhibit the potential for systematic disagreement across the CRPs. Systematic disagreement across comparable Test Segments of securities implies that the CRP ratings that are mapped to analogous NAIC designations may not be equivalent. The Risk Assessment functions as the analytical bridge between Scoping (what to examine) and Detailed Testing Procedures (how to examine), enabling the NAIC to apply data-driven rigor in determining which CRP-ratings within comparable Test Segments of securities present elevated risk.

By assessing rating equivalence, Risk Assessment provides empirical evidence to support supervisory decisions, enhance transparency, and ensure proportional regulatory focus. The goal is to establish a quantitative foundation for risk tiering that can be used to define which Test Segments warrant further testing (and the extent of that testing).

Using historical CRP and asset class data, NAIC applies time-series, cross-sectional, and pooled-time-series descriptive and statistical analyses to evaluate rating performance across time and between rating providers. (Refer to *Appendix B - Preliminary Asset Class Segmentation*)

The outcome of this process includes:

- A quantitative assessment of rating alignment, across CRPs for Test Segments (as defined below) of securities.
- Identifying potential systematic differences that may indicate misalignment across CRPs within certain Test Segments.
- Classification of Test Segments (as defined below) into High, Moderate, or Low Risk, setting thresholds for further diligence procedures.

2.2 Defining the Test Segments for Quantitative Risk Assessment

Defining the appropriate segments for quantitative testing (the "Test Segments") is a foundational part of the Risk Assessment. While an idealized set of Test Segments can be defined for the purposes of developing the Risk Assessment framework, in practice, there are limitations due to a) the availability of certain data attributes, b) the reliability of certain data attributes, c) the limited history associated with certain data, and d) the number of available observations available to make meaningful statistical inferences.

For the purposes of this CRP Due Diligence Framework, the data used to perform the quantitative risk assessment procedures is limited to a) data supplied by the rating agencies to the NAIC, b) data reported to the NAIC by insurance companies, and c) data the NAIC licenses. Due to limitations in the available data, it may be necessary to segment the data in a way that produces larger Test Segments than would be ideal in a more refined segmentation analysis (e.g. more granular homogenous Test Segments). Once the Test Segments are determined, if those Test Segments result in population sizes that do not meet minimum viable sizes to inform statistically significant findings, the Test Segments may be grouped into larger populations as needed. As a result, this may impact the level of detailed testing that is performed. Additionally, it may be necessary to extrapolate results across Test Segments (e.g. applying findings from jointly rated securities to comparable single-rated securities).

The table below presents an illustrative, idealized set of fields considered when defining Test Segments for equivalency testing. Certain idiosyncratic characteristics of the securities (such as borrower financial information) are excluded, as obtaining this data from each CRP, for each security, over a meaningful time period is not practical or feasible. Augmentation of the data with publicly available and vendor data sources can and should be considered to the extent that they are practical, facilitate the refinement of the Test Segments, and expand the population of securities available for quantitative testing.

Segmentation	Description	Potential Limitations
Public / Private	Indicates whether a rating is publicly available (public) or not publicly disclosed (private)	The population of privately rated securities with ratings from multiple CRPs is limited.
Asset Class or Security Type	e.g. Corporates, CLOs, etc.	Granularity is limited in the available data, particularly amongst privately-rated securities. Self-reported data can be inconsistent across institutions and may be subjective in some cases.
Industry	e.g. Financial, Technology, etc.	Self-reported data can be inconsistent across institutions and may be subjective in some cases. When including Industry, certain Test Segments may have limited observations.
Investment Grade (IG) vs Non-Investment Grade	Test Segments may consider the bifurcation of securities into investment grade and non-investment grade tiers for analysis. Non-IG ratings may exhibit more ratings volatility and/or a higher risk of non-equivalency across CRPs.	Further segmentation into IG vs Non-IG ratings could further reduce the observations available for testing purposes.
Jointly Rated / Single Rated	Test Segments can be divided into groupings with one CRP rating vs multiple CRP ratings	There are a significant amount of single rated securities, which limits the available tests that can be performed
CRP	The rating agency that provided a given credit score.	The time series associated with certain credit rating providers in certain Test Segments may be limited

2.3 Key Activities

The Key Activities table below presents the following:

- **Activity –** A high-level overview of the types of statistical tests that would be conducted to evaluate rating equivalence across predefined Test Segments is provided below. The feasibility of each activity will depend on data availability. It is expected that the availability, volume, and quality of data will improve over time, enabling a broader range of activities to be performed. Upon adoption of the framework, testing may be limited to analyses that can be conducted on jointly rated securities. As indicated above, as the NAIC gains more experience with the framework, it may determine that it needs to utilize other tests and processes it deems appropriate to determine the reasonableness of a CRP's ratings.
- **Data Requirements –** A high level description of the data required from each CRP to perform the activity

- **Example Tests –** Examples of descriptive and/or statistical tests designed to test CRP equivalency/Non-equivalency across each Test Segment. The universe of tests (descriptive or statistical) within each "Activity" area will be refined and is a function of the available data within each Test Segment. Given the data limitations, not all of the example tests will be utilized in the Risk Assessment of the framework.
- **Illustrative Thresholds** – Hypothetical thresholds related to the Example Tests that can be used to classify the Test Segments into risk cohorts (e.g. low, moderate, high) and ultimately determine the level of detailed testing that may be required. The thresholds presented below are illustrative statistical thresholds for consideration and will ultimately be refined.
- **Expected Outcomes –** The potential outcomes of the tests that would allow for the classification of each cohort into their respective risk buckets (low, moderate, high)

PROPOSAL – For Discussion Purposes Only

Activity[3]		Data Requirements[4]	Example Tests	Illustrative Thresholds[5]
Event-Based and Predictive Equivalence Tests	1) Identification of deviations between CRP ratings and realized default frequency or losses. 2) Assessment of whether CRP ratings rank-order risk appropriately.	Historical ratings and realized default data (binary outcomes) over time.	- ROC & AUC analysis; - CAP / Accuracy Ratio	- AUC > 0.7 = good discrimination. - AR/CAP > 0.6 = strong predictive power.
Descriptive and Distributional Tests	Compare rating distributions and migration patterns across CRPs to test alignment in rating philosophy (equivalency) and stability.	Long-term historical ratings from multiple CRPs and relevant rating change/review dates.	- Comparison of Transition matrices and Ratings histograms; - Chi-square test - Kolmogorov–Smirnov (KS) test;	- KS test: $p \geq 0.05 \rightarrow$ no significant difference. - Chi-square: $p \geq 0.05 \rightarrow$ independent distributions. - Kullback-Leibler (KL) divergence (> .05 higher risk of divergence).
Correlation and Association Tests of jointly rated securities	Detect divergence or systemic biases in jointly rated securities.	Matched security ratings from multiple CRPs.	- Spearman's ρ; - Kendall's τ; - Cohen's κ; - Concordance Correlation Coefficient (CCC)	- Spearman's ρ / Kendall's τ > 0.8 = strong agreement. - Cohen's $\kappa > 0.8$ = high; 0.6–0.8 = moderate; < 0.6 = weak. - CCC $\approx 1 \rightarrow$ high equivalence.
Time-Series Equivalence Tests	Identifying equivalency in ratings over time (changes in ratings)	Time-series issuer ratings from multiple CRPs that includes specific rating review/change dates.	- Cointegration (Engle–Granger, Johansen); - Cross-correlation functions; -	- Cointegration $\rightarrow$ shared long-run equilibrium. - CCF: peaks near lag 0 $\rightarrow$ no leader/laggard; lag > 0 $\rightarrow$ leader/laggard exists. -

Benchmark Comparison Test compare spreads at origination to ratings as of origination across the Test Segment to assess outliers spread at origination and benchmark spreads by Test Segment

Test Segments that lack sufficient data or reliable history will initially default to High Risk status and proceed to qualitative review or Detailed Testing.

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[3] Initial testing may be limited to tests of jointly rated securities ("Correlation and Association Tests of jointly rated securities")
[4] The use of particular activities / tests may depend on the nature and scope of the data received from CRPs.
[5] Concluded thresholds and resulting Risk Assessment outcomes to be finalized once additional data analysis is performed.

2.4 Expected Outcome

The Risk Assessment should result in a risk classification for each Test Segment that is based on tests that result in quantifiable outcomes with pre-defined thresholds.

It provides:

- A clear High / Moderate / Low risk rating, by Test Segment.
- Identification of cohorts requiring detailed testing or additional qualitative review.
- Analytical insights into CRP rating behavior, performance alignment, and systemic differences.
- A composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification.

The expected outcome of the Risk Assessment is to ensure that subsequent due diligence activities are proportionate to the level of risk, forming a cornerstone for the NAIC's risk-based oversight of CRP reliance.

Illustrative 2.4.1 Risk Assessment Activities Outcome

For a hypothetical Test Segment, the risk assessment procedures will categorize each security and CRP combination within that Test Segment as high, moderate, or low risk, as illustrated in the table below. In the case below, CRP X ratings are statistically different from the other CRP ratings in the example Test Segment, signaling that CRP X ratings may be systematically not equivalent to the other CPR ratings.

Correlation and Assocation Test of Jointly Rated Securities (Example Results by Illustrative Test Segment)						
Public Private	**Asset Class**	**Industry**	**IG/Non-IG**	**Jointly Rated**	**Test Result**	**Outcome**
Public	Corporate	Drilling Oil and Gas	Non-IG	Y	CRP X > Threshold	High
Public	Corporate	Drilling Oil and Gas	Non-IG	Y	CRP Y < Threshold	Low
Public	Corporate	Drilling Oil and Gas	Non-IG	Y	Low Threshold < CRP Z < High Threshold	Moderate

The Asset Class "Corporate" being a security issued by an operating entity consistent with the Statement of Statutory Accounting Principles (SSAP) No. 26 – Bond definition for an issuer obligation.

3. Detailed Testing Procedures

Preliminary CRP Due Diligence Framework

1. Scoping Assessment	• Preliminary Screening • Quantitative Assessment • Qualitative Assessment
2. Risk Assessment	• Historical Data Analysis
3. Detailed Testing Procedures	• Methodology Walkthrough and Discussion with CRP • Security Specific Rating Review • Security Specific Rating Methodology Review
4. Governance Procedures	• Methodology Walkthrough and Discussion with CRP

3.1 Detailed Testing Procedures Overview

Detailed Testing Procedures due diligence activities are performed when Scoping and Risk Assessment indicate elevated risk. Detailed testing includes methodology walkthroughs and security specific rating reviews that focus on verifying the reasonableness and consistency of CRP ratings. Its primary purposes are to determine future on-going due diligence activities and potential remediation actions, ensuring that the reliance on CRPs and translation matrix outcomes are governed by sufficient NAIC oversight and are well substantiated.

3.1.1 Sampling Approach

Sampling for Detailed Testing Procedures will be directly informed by the risk classifications of High Moderate or Low established during the Risk Assessment.

The sampling methodology will emphasize that higher risk Test Segments require larger sample sizes and lower tolerable unreasonable results in Detail Testing Procedure results. While final sample sizes are still to be determined, the approach may leverage statistical or judgmental (nonstatistical) sampling techniques depending on the characteristics of Test Segments and data availability. Risk-based sampling is expected to be informed by both the risk classifications (High, Moderate and Low) in the current year and the outcomes of the prior year Detailed Testing Procedures (reasonable vs. unreasonable and Translation Matrix equivalency findings). Test Segments from the prior year where Detailed Testing Procedures determined results were unreasonable or Translation Matrix equivalency was at risk for a CRP or asset class, will be expected to be subject to increased sampling.

Sampling is intended to produce findings that can inform views for each Test Segment.

3.2 Key Activities

The Detailed Testing Procedures outlined below will be conducted by the NAIC in coordination with the CRPs. These procedures are designed to evaluate consistency of CRPs. All data requests, follow-up analyses, and methodological discussions related to these procedures will be managed directly between the CRP WG and the respective CRPs.

3.2.1 Detailed Testing Procedures

(a) **Methodology Walkthrough and Discussion with CRP** — Conduct technical walkthroughs to understand asset class scope for the methodology, methodology design, input assumptions, and quantitative and qualitative analysis conducted by a CRP for given asset class(es) to understand details of the CRP methodology and determine appropriate level of subsequent Security-Specific Review. (See *Appendix A – CRP Methodology Walkthrough Questionnaire)* for example questionnaire for guiding methodology walk-through with CRPs.)

(b) **Security-Specific Rating Review:** Perform an independent rating analysis.

  a. NAIC to perform rating analysis, leveraging an acceptable methodology (as outlined in the P&P Manual) and an independent approach, to assess the reasonableness of the CRP rating provided.
  b. When performing an independent rating analysis, the NAIC will consider the most recent available public rating and any changes in rating from the latest insurer filing. When performing an independent rating analysis for a private security, the NAIC will request the most recent private rating letter from the CRP to perform the analysis.
  c. Materiality: When performing ratings review, apply the NAIC's three sub-notch materiality tolerance—as defined under the Ratings Challenge Authority in the P&P Manual—as the acceptable deviation threshold between independent and CRP-assigned ratings. Deviations beyond this tolerance will be flagged for escalation.

(c) **Security-Specific Rating Methodology Review:** Perform an independent rating methodology review for a sample security that includes the reasonableness of the methodology selected by the CRP, accuracy of inputs, reasonableness of assumptions, and model accuracy to assess for reasonableness of the CRP rating provided for the sample security.

3.2.2 Detailed Testing Procedures Application

3.2.2.1 Test Segments in Scope based on 1.2.1 Scoping Activities

When Scoping Activities, as described above in section 1.2. indicate "In Scope", Detailed Testing Procedures will include a Methodology Walkthrough and Discussion with CRP as described above. The results of those procedures will determine what level of additional security specific Detailed Testing are appropriate, if any.

3.2.2.2 Test Segments In Scope and Categorized based on 2. Risk Assessment Procedures

Following the Scoping Assessment determination of "In Scope" as described in section 1 above, the nature and extent of Detailed Testing Procedures will be determined based on the outcome of the Risk Assessment for each identified Test Segment as follows:

- Low risk Test Segments are expected to be subject to Methodology Walkthrough and Discussions with CRPs with no additional security specific Detailed Testing

- Moderate risk Test Segments are expected to be subject to moderate security specific Detailed Testing
- High risk Test Segments are expected to be subject to the highest level of security specific Detailed Testing

3.3 Expected Outcome

Detailed Testing Procedures develop an independent and well-documented view on the reasonableness of CRP asset class ratings to inform views on translation matrix equivalency or risk of a given CRP or asset class.

4. , Governance Procedures

Preliminary CRP Due Diligence Framework

1. Scoping Assessment	• Preliminary Screening • Quantitative Assessment • Qualitative Assessment
2. Risk Assessment	• Historical Data Analysis
3. Detailed Testing Procedures	• Methodology Walkthrough and Discussion with CRP • Security Specific Rating Review • Security Specific Rating Methodology Review
4. Governance Procedures	• Methodology Walkthrough and Discussion with CRP

4.1 Governance Overview

Governance ensures that the CRP Due Diligence Framework activities are successfully implemented, sustained and evolve as needed overtime via appropriate review processes and feedback loops. A well-defined governance structure will facilitate needed transparency and provide clearly defined roles and responsibilities for both NAIC stakeholders and CRPs. Lastly, a robust governance structure enables timely and effective risk mitigation via remediation actions, when appropriate.

4.1.1 CRP Due Diligence Framework Activities

The below outlines the cadence of the CRP Due Diligence Framework procedures, beginning with data collection, followed by risk assessment and quantitative testing, and culminating with detailed testing and governance procedures.

Activity
Scoping Assessment
Data Receipt from InvAWG and IDA WGs
Quantitative and Qualitative Scoping Analysis
Risk Assessment
Defining Test Segments
Conducting Quantitative Tests
Risk Classification Results
Detailed Testing Procedures
CRP Methodology Walkthrough and Discussion with CRPs
Sampling Procedures
Security Specific Sample Reviews
Governance Procedures
Produce Annual Report Summarizing CRP Due Diligence Findings
Review and Approval of Remediation Actions
Updates and Enhancements to CRP Due Diligence Framework

4.1.2 Roles and Responsibilities[6]

The overall interaction model among the working groups that make up the IA TF in support of the CRP Due Diligence Framework will be defined in their annual charges and posted on their respective web pages on the NAIC's website.

The CRP WG is currently charged with primary responsibility for the oversight and execution of the CRP Due Diligence Framework activities including coordination with CRPs to obtain necessary data to execute the due diligence activities. The application of the framework—including data collection, analysis, testing activities, and preparation of materials – may be performed by a combination of CRP WG regulators, NAIC staff overseen by the CRP WG, and may leverage additional NAIC staff resources as appropriate.

On an annual basis the CRP WG will prepare a report to be presented to the IA TF that summarizes key findings, observed trends and adopted remediation actions as further detailed below in section 4.2.1 Annual Report, for the IA TF's consideration. The CRP WG will review and maintain key design decisions (e.g. thresholds, quantitative tests) that make up the CRP Due Diligence Framework and adjust the design as needed on an on-going basis.

[6] The roles and responsibilities of the working groups under the Invested Asset (E) Task Force have been established as of the January 1, 2026, reorganization date and may be revised in the future.

The IA TF will review the annual report produced by the CRP WG. The CRP WG's parent committees (IA TF, E Committee, Plenary) are responsible for final approval of all Tier 2 remediation actions, as defined below, to maintain independence and impartiality. The CRP WG shall have authority as it relates to Tier 1 remediation actions, as defined below.

4.2 Key Activities

4.2.1 Annual Report

The CRP WG Annual Report may include, but is not limited to:

- **<u>Scoping Assessment</u>**: Summary of observations and trends: providing insights into– new or developing asset classes and CRP methodologies, insurer CRP and asset class insurance industry exposure and growth and SEC review findings by CRP.
- **<u>Risk Assessment</u>**: Identification and risk classification of Test Segment results to determine in scope population for detailed testing activities – a composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification that results in analytical insights into CRP rating reasonableness and equivalency.
- **<u>Detailed Testing Procedures</u>**: Summary of findings and trends observed through methodology walkthroughs and detailed security specific reviews and the implications on the translation matrix equivalency or risk of a given CRP or asset class.
- **<u>Governance Procedures</u>**:
    - Recommended remediation actions: providing remediation actions for approval based on the findings of the preceding CRP Due Diligence Framework procedures
    - Forward-looking Adjustments: providing insights into how findings impact future year activities and recommend changes (e.g. procedures, thresholds, etc.)

Aspects of the CRP WG Annual Report may include confidential information that will be provided to the IATF in a regulator-only meeting in accordance with the NAIC's Open Meetings Policy on such issues.

4.2.2 Remediation Actions

Remediation actions represent the critical enforcement mechanism within the NAIC CRP Due Diligence Framework - translating analytical findings into actionable outcomes. They ensure that any identified deficiencies, methodological inconsistencies, or rating outcome deviations are addressed promptly and proportionately. The goal of remediation actions is to address inconsistencies in rating practices or translation-matrix outcomes.

The application of remediation actions will reflect both the severity and persistence of issues observed during the Risk Assessment and Detailed Testing Procedures. Remediation may range from heightened monitoring and data clarification requests to more consequential interventions, such as translation matrix adjustments or removal of a CRP or asset class from FE/PL eligibility, or removal of ratings assigned under a specific CRP methodology. Possible remediation actions may include but are not limited to:

<u>Tier1: Remediation Actions:</u>

1. **Watchlist / Enhanced Monitoring** – applied in cases for minor deviations or data limitations where further observation is warranted before taking further remediation actions.
2. **Additional Detailed Testing Scope** – additional testing assigned to specific CRPs or asset classes where data is limited or preliminary findings indicate emerging risk or inconsistency or lack of comparability.

Tier 2: Remediation Actions:

1. **Require more than one Rating** – In the event rating inconsistencies are identified and persist, the NAIC may require additional ratings to support PL and or FE submission(s).
2. **Translation Matrix Adjustment** – implemented when systemic rating inconsistencies are observed for a given CRP or asset class, indicating misalignment between CRP ratings and NAIC Designations
3. **Removal of Filing Exempt Status for an Asset Class** – triggered by repeated inconsistencies in CRP ratings for a given asset class.
4. **CRP De-admittance** – considered in cases of persistent inconsistencies with rating methodology or outcomes.

For CRP WG remediation action determinations that are materially adverse to a CRP, a confidential and detailed explanation of the decision shall be provided to the subject CRP, prior to any adverse decision being made public. The CRP shall be able to present its opposition to the CRP WG determinations in a regulator-only session, including explanatory context and any new materials. Recommended remediation actions, if any, by the CRP WG will then be subject to the CRP WG's parent committees (IA TF, E Committee, Plenary), as described above.

Once the remediation action is finalized, a defined notice period – generally expected to range from three to six months, depending on the materiality of impacted filings – may be provided prior to implementation to mitigate large market impact. This remediation adjusting period is intended to support timely implementation.

CRPs subject to de-admittance may be permitted to re-apply for CRP status at a later date, subject to applicable acceptance criteria.

All public communications related to CRP WG remediation action determinations shall be specific enough to relay the primary rationale for the decision while remaining sufficiently general to protect confidential information.

4.3 Expected Outcome

Governance and remediation activities are designed to support a transparent oversight framework that ensures due diligence findings translate into timely, transparent, and proportionate actions.

Expected outcomes include:

- Structured, scalable and pragmatic oversight to support the NAIC's reliance on CRP provided ratings including a process for identifying and escalating rating inconsistencies.

Appendices

Appendix A – CRP Methodology Walkthrough Questionnaire

Methodology Walkthrough Questionnaire
This illustrative questionnaire is designed to guide the NAIC's walkthrough with CRPs during detailed testing. It is understood that certain information about CRP methodologies is available publicly. The purpose of this questionnaire is to facilitate discussion between the CRPs and NAIC and to allow the NAIC an opportunity to ask questions about publicly available methodologies and gain a deeper understanding of CRP approaches.

The end objective is to validate that CRP methodologies used in rating securities are transparent, consistently applied, and conceptually aligned for purposes of determining NAIC designations based on the Translation Matrix.

1. *Scope and Applicability*
    - What asset classes does this methodology cover?
    - When was the methodology last materially updated or recalibrated?
    - What triggers a formal methodology review or updates internally (e.g., market change, data availability, regulatory feedback)?
2. *Governance Oversight*
    - Describe the internal governance process for methodology approval and change control.
    - Which committees or governing bodies are responsible for approving updates?
    - How are changes communicated to external stakeholders (e.g. issuers, investors, and regulators)?

A) Analytical Framework and Inputs

3. *Model Structure*
    - Please discuss the core model architecture (e.g., scorecard, regression, cash flow simulation, expert judgment).
    - What are the primary input assumptions and drivers of rating outcomes (e.g., leverage, coverage, collateral type, tranche structure)?
    - How are qualitative factors (management quality, governance, ESG considerations) incorporated or weighted?
4. *Data and Assumptions*
    - What data is used to determine the rating methodology approach? How is it sourced, how frequently is it updated and how is it reviewed or validated?
5. *Sensitivity and Backtesting*
    - How does the CRP validate the predictive performance of the model?
    - Provide results from the most recent backtesting, calibration, or validation cycle.
    - Describe how stress testing or scenario analysis is incorporated to assess model robustness.

B) Rating Process and Application

6. Analyst Judgment and Overrides

- o Under what conditions may an analyst override a model outcome?
- o How are overrides documented, reviewed, and approved internally?
- o What percentage of ratings historically involved an override?

7. Consistency and Transparency

- o How does the CRP ensure consistency in ratings across analysts, geographies, or time periods?
- o Are internal audits, peer reviews, internal challenge, etc. conducted on rating application consistency?

C) Performance Monitoring and Review

8. Ongoing Monitoring

- o How frequently is rating performance monitored against realized outcomes (defaults, transitions)?

- What performance metrics are tracked (e.g., accuracy ratio, Gini, drift metrics)?
- If applicable, how are outcomes used to refine methodologies?

9. Weakness Identification and Remediation

- o How are methodology weaknesses or data gaps identified internally?
- o What internal escalation or remediation protocols exist?

D) NAIC-Specific Alignment and Transparency

10. Data Provision and Accessibility

- Can you meet the data requirements requested by the NAIC to support on-going due diligence on a go forward basis? Identify any confidentiality or intellectual property constraints that may limit full transparency.

E) Summary and Supporting Materials

11. Supporting Documentation

- o Attach the most recent methodology document, and evidence of internal review and challenge, as available.
- o Feedback from SEC Office of Credit Ratings examinations.

12. Attestation

- o Confirm that the responses provided herein are complete and accurate to the best of the CRP's knowledge.
- o Provide name, title, and contact information for the responsible officer.

Appendix B - Preliminary Asset Class Segmentation

The following section outlines potential approaches for identifying the asset class of individual securities for purposes of segmentation. The approaches are not mutually exclusive and may be applied on a standalone basis or in combination, depending on data availability / quality. Collectively, these options are intended to provide a pragmatic basis for consistent asset class identification across insurer holdings while allowing flexibility in implementation.

1. **Option 1** - Leverage existing Insurer Statutory Filings
    a. *Pre-2024 Data*
        i. Current data segmentation

Current Data Segmentation
Commercial Paper
Corporate Bonds / Notes
Credit Facilities
Term Loans
Depository Receipts
Municipal Debt
Sovereign or Government Agency Debt
MBS*
Structured Products
Syndicated Loan Deals

*-Limitation – Current state information is not detailed enough to segment out of scope RMBS and CMBS that are not filing exempt.

    b. *Post-2025*
        i. Enhanced Insurer Schedule D1.1 (ICOs) and D1.2 (ABS) Filing Segmentation

D1.1 (ICOs)	D1.2 (ABS)
U.S. Government Obligations (Exempt from RBC)	Agency Residential Mortgage-Backed Securities - Guaranteed (Exempt from RBC)
Other U.S. Government Securities Obligations (Not Exempt from RBC)	Agency Commercial Mortgage-Backed Securities - Guaranteed (Exempt from RBC)
Non-U.S. Sovereign Jurisdiction Securities	Agency Residential Mortgage-Backed Securities - Not/Partially Guaranteed (Exempt from RBC)
Municipal Bonds - General Obligations (Direct and Guaranteed)	Agency Commercial Mortgage-Backed Securities - Not/Partially Guaranteed (Exempt from RBC)
Municipal Bonds - Special Revenue	Non-Agency Residential Mortgage-Backed Securities (Unaffiliated)
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	Non-Agency Residential Mortgage-Backed Securities (Affiliated)
Project Finance Bonds Issued by Operating Entities (Affiliated)	Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated)
Corporate Bonds (Unaffiliated)	Non-Agency Commercial Mortgage-Backed Securities (Affiliated)
Corporate Bonds (Affiliated)	Non-Agency - CLOs/CBOs/CDOs (Unaffiliated)
Mandatory Convertible Bonds (Unaffiliated)	Non-Agency - CLOs/CBOs/CDOs (Affiliated)
Mandatory Convertible Bonds (Affiliated)	Other Financial Asset-Backed Securities - Self-Liquidating (Unaffiliated)

Single Entity Backed Obligations (Unaffiliated)	Other Financial Asset-Backed Securities - Self-Liquidating (Affiliated)
Single Entity Backed Obligations (Affiliated)	Subtotals - Financial Asset-Backed Securities - Self Liquidating
SVO-Identified Bond Exchange Traded Funds - Fair Value	Equity Backed Securities (Unaffiliated)
SVO-Identified Bond Exchange Traded Funds - Systematic Value	Equity Backed Securities (Affiliated)
Bonds Issued by Funds Representing Operating Entities (Unaffiliated)	Other Financial Asset Backed Securities – Not Self-Liquidating (Unaffiliated)
Bonds Issued by Funds Representing Operating Entities (Affiliated)	Other Financial Asset Backed Securities – Not Self-Liquidating (Affiliated)
Bank Loans - Issued (Unaffiliated)	Subtotals – Financial asset Backed Securities – Not Self-Liquidating
Bank Loans - Issued (Affiliated)	Lease-Backed Securities - Practical Expedient (Unaffiliated)
Bank Loans - Acquired (Unaffiliated)	Lease-Backed Securities - Practical Expedient (Affiliated)
Bank Loans - Acquired (Affiliated)	Other Non-Financial Asset-Backed Securities - Practical Expedient (Unaffiliated)
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	Other Non-Financial Asset-Backed Securities - Practical Expedient (Affiliated)
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	Lease-Backed Securities - Full Analysis (Unaffiliated)
Certificates of Deposit (Unaffiliated)	Lease-Backed Securities - Full Analysis (Affiliated)
Certificates of Deposit (Affiliated)	Other Non-Financial Asset-Backed Securities - Full Analysis (Unaffiliated)
Other Issuer Credit Obligations (Unaffiliated)	Other Non-Financial Asset-Backed Securities - Full Analysis (Affiliated)
Other Issuer Credit Obligations (Affiliated)	

2. **<u>Option 2</u>** - Supplement Insurer Statutory Filing with CRP Data
    a. CRP identified methodology applied (pending information available upon receipt of CRP data)
        i. Will require asset class mapping across CRP methodologies given known differences in naming conventions
    b. SIC Code for corporate filings

3. **<u>Option 3</u>** - Supplement Insurer Statutory Filings and CRP Data with external market subscriptions

To: **The Credit Rating Provider Working Group**
Invested Assets Task Force, National Association of Insurance Commissioners

Re: **Comments on the Proposed Credit Rating Provider Due Diligence Framework**

From: **2GenPen LLC - Cross Asset Credit Analytics & Structured Finance Innovation**

Dear Members of the Credit Rating Provider Working Group and the Invested Assets Task Force:

2GenPen LLC appreciates the opportunity to comment on the proposed Credit Rating Provider Due Diligence Framework.

We believe the Working Group has undertaken one of the most important regulatory initiatives affecting insurance portfolio risk management since the financial crisis of 2008. By seeking to reduce blind reliance on external credit ratings through independent evaluation of Credit Rating Provider methodologies, the proposed framework represents a significant evolution in the manner in which regulatory confidence is established.

We strongly support that objective. At the same time, we believe the significance of the framework extends beyond the evaluation of Credit Rating Providers themselves.

The framework introduces a more fundamental principle: that regulatory confidence should be earned through independent analytical evaluation rather than assumed through institutional convention. In our view, that principle naturally extends beyond the comparison of rating providers to the broader question of how relative default risk itself should be understood as analytical methods, data availability, and computational capabilities continue to evolve.

For more than three decades, our work has focused on municipal finance, structured finance, and the design of capital market structures intended to improve long term credit stability. More recently, that work has expanded into the development of analytical methodologies capable of evaluating relative default risk across multiple asset classes through a common quantitative framework. This perspective has led us to view the proposed Due Diligence Framework not simply as an oversight mechanism for existing ratings, but as an important foundation upon which future advances in credit analysis may naturally build.

Our comments are therefore offered in the spirit of collaboration.

We do not view the described framework as requiring fundamental revision. To the contrary, we believe it establishes many of the principles necessary for the next generation of regulatory oversight. Our recommendations are intended only to strengthen that foundation by suggesting ways in which the framework might continue to evolve as analytical methodologies, market structures, and available technologies advance.

We respectfully submit the following observations for the Working Group's consideration and would welcome the opportunity to discuss them further should that be helpful.

POINT 1: FROM BLIND RELIANCE TO MAXIMUM INFORMEDNESS

Framework Reference: Executive Summary; Current State; Guiding Principles

The Working Group's central objective - to reduce blind reliance on Credit Rating Provider (CRP) opinions through independent analytical due diligence - represents a significant advance in the evolution of insurance investment regulation. By recognizing that regulatory confidence should be earned through independent evaluation rather than assumed through institutional convention, the proposed framework establishes an important new principle for the assignment of NAIC Designations.

We strongly support that principle but at the same time, we believe the significance of the framework extends beyond the evaluation of CRP methodologies themselves. The framework establishes a broader regulatory philosophy: that decisions affecting insurer capital should be informed by the best available analytical evidence rather than by reliance upon any single external opinion or methodology. Properly understood, this principle naturally encourages the continual incorporation of improved data, empirical research, and analytical techniques as they become available.

In our view, this suggests that the long term objective of regulatory due diligence is not simply to determine whether Credit Rating Provider opinions are internally consistent or reasonably equivalent. Rather, the objective should be to develop the most informed understanding of relative default risk that available evidence and analytical capability can provide. We refer to this objective as maximum informedness.

Maximum informedness does not imply certainty. Investment decisions will always be made under conditions of uncertainty and no analytical framework can eliminate the possibility of unexpected outcomes. Rather, maximum informedness recognizes that the quality of those decisions depends upon how effectively available information is identified, evaluated, and incorporated into the assessment of relative default risk.

From this perspective, independent due diligence becomes a dynamic rather than static process. As empirical evidence expands, computational methods improve, and new analytical approaches emerge, the information available to regulators should likewise improve. A framework designed to reduce blind reliance should therefore also encourage the continual evolution of informed reliance.

We believe this interpretation is entirely consistent with the Working Group's stated objectives. Throughout the proposed framework and accompanying responses to stakeholder comments, the Working Group recognizes that insurer portfolios, asset classes, Credit Rating Provider methodologies, and market practices will continue to evolve over time. The framework is therefore designed not as a fixed endpoint, but as an adaptive process capable of incorporating better information as markets themselves evolve.

POINT 2: THE INFORMATION PROBLEM - From Asset Class Histories to Common Risk Characteristics

Framework Reference: Data Quality, Granularity, and Asset-Class Specific Testing

Throughout the proposed framework, the Working Group appropriately recognizes that the quality and availability of historical data may vary substantially across asset classes. Where empirical performance data are limited or emerging asset classes lack sufficient history to support robust quantitative testing, the framework contemplates additional qualitative review and enhanced due diligence procedures. This is a prudent and practical approach given the analytical tools historically available to regulators and market participants.

We respectfully suggest, however, that the limiting factor may not always be the availability of historical information itself. Increasingly, the more fundamental question is how that information is organized.

Historically, credit analysis has largely organized empirical evidence according to legal or market classifications. Municipal revenue bonds are evaluated within municipal finance. Corporate obligations are evaluated within corporate credit. Structured finance securities are evaluated within structured finance. Sovereign obligations are evaluated within sovereign risk. Each analytical discipline has developed its own methodologies, assumptions, and historical databases, generally independent of the others.

That approach has served the capital markets well for decades. At the same time, advances in computational analytics and machine learning increasingly make it possible to organize historical information in a different way; not according to asset labels, but according to the underlying characteristics that influence credit survivability.

From this perspective, a newly emerging asset class may possess little history as an asset class while simultaneously exhibiting numerous credit characteristics that have been observed, measured, and evaluated across other sectors of the capital markets for many years.

Accordingly, the absence of asset class specific history does not necessarily imply the absence of relevant historical information. Rather, it may indicate that the relevant information resides within multiple existing asset classes whose common credit characteristics can now be evaluated together.

This distinction will become increasingly important as financial innovation accelerates. Historically, new asset classes have often been treated as analytically unique until sufficient performance history accumulated to permit conventional statistical evaluation.

Advances in computational analytics increasingly make it possible to identify recurring combinations of credit characteristics that influence survivability across asset classes that have heretofore been analyzed in isolation, thereby allowing historical experience to be organized according to common patterns of risk rather than legacy asset class classifications.

These multidimensional combinations of credit characteristics, not simply asset class labels, provide a more informative basis for organizing historical evidence as analytical methodologies continue to evolve.

Stated differently, historical experience need not be limited to the history of an asset class. It may instead be drawn from the history of comparable risk characteristics observed across many asset classes.

In our view, this represents a natural extension of achieving maximizing informedness. If the purpose of due diligence is to develop the most informed understanding of relative default risk attainable, then all relevant empirical evidence should be considered, regardless of the asset class in which that evidence was originally observed.

Such an approach does not diminish the importance of asset specific expertise. To the contrary, specialized knowledge remains essential for understanding legal structures, operating environments, and sector specific risks.

Rather, it recognizes that advances in analytical capability increasingly allow those sector specific insights to be supplemented by broader empirical evidence reflecting common patterns of credit survivability wherever they occur.

Insurance companies do not assume risk one asset class at a time. They assume risk one portfolio at a time.

As analytical capabilities continue to evolve, the opportunity exists to evaluate those portfolios through increasingly consistent measures of relative default risk that draw upon the fullest body of relevant empirical evidence available, regardless of the asset class from which that evidence originated.

The proposed framework repeatedly acknowledges that both asset classes and analytical methodologies will continue to evolve.

We respectfully suggest that future iterations of the framework may therefore benefit from recognizing that analytical evolution is no longer driven solely by the accumulation of additional historical observations within an individual asset class. It is also being driven by the growing ability to identify and evaluate relevant historical experience across the broader capital markets through common credit characteristics.

Such an evolution would further advance the framework's objective of reducing blind reliance by expanding the range of information available to regulators, thereby moving closer to achieving maximum informedness.

POINT 3: INDEPENDENT MEASUREMENT - From Consensus to Calibration

Framework Reference: Executive Summary; Due Diligence Objectives; Tiered Review Process

One of the proposed framework's most important contributions is its recognition that regulatory confidence should not depend solely upon the existence of external consensus. By establishing an independent due diligence process, the Working Group acknowledges that confidence in regulatory outcomes should be based upon analytical evaluation rather than institutional acceptance alone.

We believe this principle represents one of the framework's greatest strengths. History has demonstrated that broad agreement among market participants does not necessarily imply accurate assessment of underlying risk.

Periods of significant financial stress have shown that analytical consensus may persist even when the underlying assumptions supporting that consensus later prove to be incomplete or incorrect. In such circumstances, the principal challenge is not disagreement among opinions. It is widespread agreement around assumptions that have not been independently evaluated against observed outcomes.

Accordingly, independent measurement should be viewed as complementary to, rather than competitive with, traditional credit opinions.

The proposed framework appropriately seeks to improve consistency among Credit Rating Provider opinions within individual asset classes. As analytical methodologies continue to evolve, we believe consideration should also be given to the broader question of analytical consistency across asset classes where empirical performance suggests that instruments with similar credit characteristics are not being evaluated on a consistent basis.

The municipal securities market provides one important example where this broader question warrants continued examination, as decades of empirical performance suggest that cross asset analytical consistency deserves continued attention alongside consistency within individual asset classes alone.

The purpose of independent measurement is not to replace the judgment of Credit Rating Providers, nor to diminish the value of sector specific expertise. Rather, its purpose is to provide an additional analytical reference point against which existing methodologies, assumptions, and conclusions may be evaluated.

From this perspective, due diligence becomes more than an exercise in comparing one opinion with another. It becomes an ongoing process of testing whether current analytical conclusions remain consistent with the best empirical evidence available.

This distinction is particularly important because financial markets continually evolve. New asset classes emerge. Existing asset classes change. Economic relationships develop in ways that historical models may not fully anticipate. A due diligence framework founded upon independent analytical evaluation is therefore inherently more adaptable than one based solely upon the continued consistency of existing opinions.

We believe this principle is already reflected throughout the proposed framework. The Working Group repeatedly emphasizes that the framework should evolve as markets, methodologies, and available information evolve. Independent measurement provides the analytical mechanism through which that evolution can occur.

Ultimately, the objective of independent due diligence is not to determine whether existing opinions agree with one another. It is to determine whether those opinions remain calibrated to observed reality.

As analytical methods continue to advance, the ability to perform that calibration will continue to improve, thereby further achieving the maximum attainable informedness regarding relative default risk.

POINT 4: AN ADAPTIVE FRAMEWORK - Preserving a Pathway for Future Innovation

Framework Reference: Guiding Principles — Scalability; Framework Governance; Future Evolution

One of the proposed framework's most important characteristics is its recognition that financial markets are continually evolving. Throughout the proposal, the Working Group acknowledges that insurer portfolios, asset classes, Credit Rating Provider methodologies, and market practices will continue to change over time. The framework is therefore intentionally designed to be scalable, adaptable, and capable of evolving alongside the markets it oversees.

We believe this design philosophy is one of the framework's greatest strengths.

History demonstrates that many of the most significant developments in capital markets originate outside existing regulatory and analytical frameworks. New investment structures emerge. Analytical methodologies improve. Computational capabilities advance. Financial markets themselves adapt to changing economic conditions, technologies, and investor needs.

Accordingly, the long-term effectiveness of the framework will depend not only upon the quality of its initial implementation, but also upon its ability to incorporate new analytical insights as they become available.

We respectfully suggest that consideration be given to establishing a clear pathway through which market participants, researchers, and other stakeholders may present emerging analytical methodologies, empirical performance studies, and other relevant evidence for consideration by the Working Group as the framework continues to evolve.

Such a process would not imply regulatory endorsement of any particular analytical approach or investment structure. Rather, it would provide a transparent mechanism through which new ideas may be evaluated, challenged, refined, and better understood before they become widely embedded within insurer portfolios or broader capital markets.

We believe such engagement is particularly important because advances in data science, computational analytics, and machine learning are expanding the range of analytical tools available to market participants in ways that were not previously possible. Many of these developments will complement, not replace, existing analytical practices by providing additional empirical perspectives through which relative default risk can be evaluated.

Maintaining an open process through which these developments can be thoughtfully considered would further advance the framework's broader objective of reducing blind reliance while encouraging continual improvements in the quality of regulatory decision making.

Ultimately, we believe the framework's greatest contribution may extend beyond improving oversight of today's capital markets. Its lasting contribution may be the establishment of a regulatory process capable of learning alongside the markets themselves.

A framework that continually incorporates better information, improved analytical methodologies, and expanding empirical evidence will naturally move toward the objective identified throughout these comments; achieving the most informed understanding of relative default risk that contemporary analytical capabilities can provide.

For that reason, we respectfully encourage the Working Group to preserve not only the framework's analytical rigor, but also its capacity to evolve.

Conclusion

We commend the Working Group for undertaking an initiative that we believe represents a significant advance in the evolution of insurance investment regulation.

The proposed framework moves regulatory oversight beyond blind reliance on external credit opinions and establishes an independent due diligence process grounded in transparency, empirical evaluation, and analytical accountability.

In our view, the framework also establishes something even more significant; a regulatory philosophy that recognizes informed decision making as a dynamic process rather than a static one.

As financial markets evolve, analytical methodologies improve, and computational capabilities continue to expand, the opportunity exists to strengthen regulatory confidence not by replacing existing institutions, but by continually improving the quality of information upon which regulatory judgments are based.

We respectfully believe that the long term objective of the framework should therefore be to maximize informedness regarding relative default risk by encouraging the thoughtful incorporation of better empirical evidence, improved analytical methodologies, and independent measurement as they become available.

In this way, the framework's enduring contribution may ultimately be measured not by how effectively it evaluates today's analytical methodologies, but by how effectively it enables tomorrow's.

We appreciate the Working Group's willingness to invite public comment on this important initiative and thank you for your consideration of these observations.

Sincerely

Laurence H. Wadler
Co-Founder and CEO, 2GenPenLLC

July 3, 2026

Jake Garn, Chair
Laura Clements, Vice Chair
Credit Rating Provider (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106

Re: CRP Due Diligence Framework — Comment Letter

Dear Chair Garn and Vice Chair Clements:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the Credit Rating Provider (CRP) Due Diligence Framework.

ACLI members continue to support the NAIC's efforts to ensure that CRP ratings and NAIC designations accurately measure credit risk, through a more structured and transparent CRP due diligence program. We view this initiative as an important step in strengthening the NAIC designation process.

ACLI believes that industry participants will benefit if risk is properly calibrated and capital reserves appropriately reflect investment risk. We also believe it is important that the framework be implemented in a thoughtful manner to minimize ratings uncertainty and disruption across credit markets wherever possible. The proposed framework appears comprehensive in nature and thoughtfully considered; however, many of the framework's operational details are yet to be determined, including how assets will be segmented for risk assessment purposes, how ratings bands will be defined, how spread-to-ratings comparisons will be performed, and the criteria underlying remediation decisions. As the NAIC and PwC continue to refine the framework and work through implementation details, we encourage continued transparency of process and opportunities for public comment.

ACLI also appreciates the NAIC's use of an initial question phase to solicit stakeholder input on the framework. The comments below build on the themes raised in that submission and are intended to provide constructive input to support effective implementation as the framework continues to evolve.

1. Segmentation

The framework contemplates segmentation of assets for purposes of scoping, risk assessment, and testing, which ACLI agrees is a foundational component of the due diligence approach.

ACLI believes that the methods by which assets are segmented will be critical in determining whether meaningful ratings patterns are observed. Segment cohorts will need to be granular enough to find commonality in CRP methodologies and ratings scales, yet large enough to have multiple similarly rated assets to compare against. Absent such a balance, it will be difficult to identify clear outliers. For example, if assets are segmented solely by public vs. private securities cohorts, it is unlikely that any meaningful conclusions can be drawn, given the broad range of heterogeneous assets within those segmentation categories. However, by adding filters, such as asset class type, ratings methodology, and ratings band distinctions, segmented cohorts may become more homogeneous, making it easier to determine commonalities (and outliers) among CRP ratings. As segmentation work becomes more defined, ACLI would appreciate the opportunity to comment and provide input.

At the same time, ACLI recognizes that segmentation may appropriately evolve over time as data availability, asset classes, and market dynamics continue to develop. As such, we suggest that the framework balance the need for initial clarity with flexibility for future refinement, including a transparent process for updating segmentation definitions as the framework matures.

2. Spread Comparisons

ACLI understands the inclusion of spread comparison as part of the framework's quantitative assessment tools and recognizes its potential to provide useful insights across CRPs and asset classes.

To enhance the effectiveness and interpretability of these comparisons, ACLI recommends that the framework explicitly consider key structural and market factors when evaluating spread differentials. Comparisons should, where practicable, account for differences in origination timing, deal tenors, structural features, underlying collateral, and prevailing market conditions. In addition, ACLI believes that spread-to-ratings assessments are most valuable as scoping tools used to determine outliers, which can then merit further study. Spread outliers in isolation may not be the best determinant of whether a methodology or CRP is inappropriate for regulatory objectives. However, when coupled with supporting data analysis and a detailed review of a CRP's methodology and process, spread assessment can be a useful approach for identifying outliers, particularly when searching for large spread deviations vs. more minor spread differences. (For example, a 25-50 bps difference within a segment cohort could be expected, but differences of 100-200 bps might merit further analysis.)

Further, ACLI believes that diversity in CRP methodologies, rather than standardization, benefits markets and appreciates the NAIC's stated intent to neither impose methodology requirements on CRPs nor impinge upon their independence. ACLI acknowledges that further input from PwC and the NAIC may inform the development of these methodologies and looks forward to reviewing additional detail as it becomes available.

3. CRP Ineligibility + Timely Alternative

The framework contemplates scenarios in which a CRP may be determined to be ineligible or not reliable for a particular asset class. ACLI believes it is important to further clarify how such determinations would be operationalized, particularly with respect to existing ratings and ongoing insurer reporting.

In these scenarios, ACLI emphasizes the importance of ensuring the availability of a timely and operationally feasible alternative for affected securities. This is particularly critical in cases where a given CRP is the only available rating provider for a specific asset class or segment.

Without a clearly defined and timely alternative process, there is a risk of disruption to insurer reporting and capital treatment. Accordingly, ACLI recommends that the framework clearly articulates the process, responsible parties, and expected timing for establishing alternative designations in such circumstances. ACLI also notes that 3-6 months of response time may be insufficient, where remediation decisions impact large numbers of securities or a unique asset class that is not rated by multiple CRPs. In such instances, it could take a year or more to obtain alternative CRP ratings or SVO-assigned ratings designations.

4. Data and Analytics Transparency

The framework, as proposed, does not contemplate sharing ratings data and analytical calculations publicly. ACLI understands the sensitivities around keeping private ratings data confidential, but perhaps data confidentiality could be preserved by anonymizing or summarizing CRP data. ACLI believes that providing transparency into the data used and the quantitative techniques applied would help foster confidence in the framework's application. Allowing interested parties to review such analyses, ask questions and offer observations early in the framework's implementation could also help minimize ratings uncertainty and disruption across credit markets, if remediation actions should subsequently be announced. ACLI encourages regulators to consider whether some transparency for data and quantitative testing can be publicly disclosed.

5. Remediation Process

The framework contemplates remediation actions when a CRP's ratings or methodology are determined to be inappropriate for regulatory use. ACLI understands the need for a structured remediation process within the framework and believes additional clarity would be helpful with respect to how remediation actions would be implemented in practice. Specifically, ACLI believes that some modest changes to the proposed remediation process would help improve transparency and due process for insurers, as outlined in sections 5a to 5d.

5a. Remediation – Notice and Input

As currently proposed, it is unclear whether insurers would be provided with advance notice when a Tier 2 remediation action is contemplated for a CRP or for a specific rating methodology. ACLI members believe it is important that such notice be provided before any final decisions are made. We hope to avoid a situation where remediation actions are highly likely, but insurers are caught off-guard and have invested in assets that will be adversely affected shortly before a Tier 2 remediation decision is final and announced. This situation would only add to market uncertainty and could dislocate credit markets to the detriment of policyholders.

In addition, ACLI members believe it is important for insurers to have input during the remediation decision-making process. Insurers may be able to provide key data or analyses that would help regulators in their assessment of whether and how to remediate. Insurers can also share with regulators what they believe the industry impacts of a remediation decision might be, prior to such decision being finalized. If insurers are not provided notice of a potential Tier 2 remediation action until after Plenary approval, then it will be too late for such critical information to be shared. ACLI members feel that advance notice of potential Tier 2 remediation actions and an opportunity for public comment are important due process steps that will help inform insurers' investment decisions and minimize market uncertainty.

That said, ACLI also understands the need for a balanced approach. We recognize that review of a CRP's methodologies, process, or ratings output will not always result in remediation actions, and we understand regulators' reluctance to prematurely alarm markets by communicating a potential remediation decision too early in the process. Considering this need for balance, ACLI suggests that insurers be made aware of potential Tier 2 remediation discussions at the Invested Assets Task Force (IATF) level – after the IATF has discussed the ratings issue with the SVO and the CRP Working Group – but before taking a vote on Tier 2 remediation actions. ACLI members feel that the likelihood of a Tier 2 remediation decision would be high enough at the IATF level to merit soliciting comments from insurers, but there would be enough runway in the decision-making process, such that any information insurers choose to share with IATF could appropriately inform the final outcome.

5b. Remediation – Communication

ACLI encourages the NAIC to provide further clarity on how remediation actions will be communicated to affected parties. Specifically, ACLI believes that it would be appropriate for the SVO or the CRP Working Group to publicly disclose in writing their concerns with CRP ratings or methodologies when providing notice to insurers that Tier 2 remediation actions are under consideration. As a best practice, such disclosure would include a rationale documenting the regulatory concern, the recommended remediation actions, and any relevant supporting data.[1] Such a document would help insurers understand regulators' concerns and take regulators' sensitivities into account when making future investment decisions. It would also help insurers determine what, if any, information they would like to share with the IATF during the public comment period. Given the potential meaningful impacts from Tier 2 remediation actions on CRPs, insurers, and broader credit markets, ACLI believes it is important for the NAIC's thought processes to be well-documented and shared publicly.

5c. Remediation – Tier 2 Options

Considering the proposed Tier 2 remediation options, ACLI believes that de-admitting a CRP altogether or requiring additional ratings alongside a CRP's work product would be most disruptive to credit markets. While the translation matrix adjustment option would still cause some market friction, ACLI believes that it is a less disruptive option than other Tier 2 remediation options, as insurers would not need to immediately obtain new CRP ratings or SVO designations. Avoiding situations where insurers must obtain additional ratings for large swaths of assets will minimize negative impacts for insurers and credit markets overall.

5d. Remediation – De-admission and Re-admission Criteria

ACLI believes that the framework should articulate the criteria used to determine when a CRP may be de-admitted for regulatory purposes and re-admitted. If a CRP is de-admitted, the framework should also articulate the process for re-admission, including the timing for initiating such a process. Establishing clear expectations for both de-admission and re-admission would support transparency, consistency, and market stability.

6. Independent Review

Once the framework is fully developed and implemented, ACLI suggests that the process be subject to a regular review, conducted by an independent third-party. The review could consider whether processes were conducted in accordance with key framework tenets, the extent to which decisions were data-driven and transparent, and how NAIC staff ensured that the framework was applied fairly. By performing a regular review and sharing those results publicly, the NAIC could bolster public confidence in the framework's application.

ACLI appreciates the opportunity to engage with the NAIC and looks forward to continued dialogue as the CRP Due Diligence Framework develops. Should you have further questions, please do not hesitate to contact us.

Sincerely,

Adam Knepp	Joshua Winchester	Tracey Lindsey
Adam Knepp, CPA ACLI	Joshua A. Winchester, CFA On behalf of PPIA Board of Directors	Tracey Lindsey NASVA

[1] An example of such a disclosure document would be the SVO's July 2, 2019, memo to the Valuation of Securities Task Force detailing why Principal Protected Notes (a.k.a. PPNs or PPS) should not be filing exempt-eligible assets. This was a simple, succinct summary that laid out the regulatory issue and demonstrated why the SVO believed that reliance on CRP ratings was inappropriate for that particular asset class.

FISD SIIA

July 2, 2026

National Association of Insurance Commissioners
1101 K Street, N.W. Suite 650
Washington, DC 20005
Attn: Jane Ren and Denise Genao

RE: NAIC CRP Due Diligence Framework

Ms. Ren and Ms. Genao,

After reviewing the proposed NAIC-CRP Due Diligence Framework (the "Framework"), a number of credit rating agencies that are registered as NRSROs with the United States Securities and Exchange Commission, that are also members of the Financial Information Services Division of the Software & Information Industry Association (the "CRA-CG Subgroup")[1] collectively provide the below comments on the Framework. Please note however, that members who are participating in these collective comments may also submit individual comment letters. Additionally, while the NAIC recently published responses to a range of stakeholder questions on the Framework, the CRA-CG Subgroup notes that the timing for submission of a comment letter regrettably prevents the members of the CRA-CG Subgroup from taking those responses into account in this comment letter. Accordingly, members of the CRA-CG may provide additional feedback in the future.

The CRA-CG Subgroup appreciates the opportunity to comment on the Framework and commends the NAIC for its continued focus on strengthening the integrity and reliability of the use of credit ratings in NAIC processes. In that spirit, the CRA-CG Subgroup respectfully offers the following comments and suggestions, which we hope will assist the NAIC as it further develops the proposed Framework. The comments focus on preserving diversity of opinion and methodological independence, recognizing analytical limitations in private markets, ensuring appropriate confidentiality and information governance safeguards, addressing limitations inherent in the use of examination findings, and strengthening due process protections for CRPs affected by the framework.

1. <u>Preservation of Diversity of Opinion and Methodological Independence</u>

Members of the CRA-CG Subgroup support a proportionate, risk-based due diligence process focused on how CRP ratings translate to NAIC designations, informed by the NAIC's own methodology for assessing investment risk. Those Subgroup members note that the proposal

[1] The members of the CRA-CG Subgroup are as follows: Morningstar DBRS, Egan-Jones Ratings Co., HR Ratings, LLC, KBRA, Moody's Investors Service, Inc. and S&P Global Ratings.

places significant emphasis on concepts such as "alignment," "equivalency," and "consistency" of CRP ratings. While these objectives may have meaning in the context of solvency oversight, the CRA-CG Subgroup members emphasize that "consistency of ratings", if taken to mean that ratings share similar outcomes, should not be an objective of the framework and that differences in credit ratings outcomes do not necessarily indicate inappropriate credit ratings or lack of comparability.

Under current regulatory requirements, CRPs must publish their credit rating methodologies. Different CRPs have different methodologies, different rating philosophies, different surveillance approaches, and different analytical assumptions. Therefore, the resulting differences in credit ratings do not inherently indicate flawed ratings. Likewise, differences in credit ratings outcomes should not be viewed, by themselves, as evidence of insufficient comparability or methodological inconsistency. Independent analytical judgment necessarily permits reasonable differences in assumptions, methodologies, and ratings outcomes, particularly across complex or evolving asset classes. Moreover, CRA-CG Subgroup members believe that standardization of credit rating outcomes should not be an objective of the NAIC's Framework. Direct methodology-to-methodology comparisons are inherently limited and should not drive the NAIC's analysis. The NAIC's approach should also recognize that mappings between individual CRP rating levels and NAIC designations may vary across sectors and between securities rated by a single CRP and those rated by multiple CRPs. The Framework itself acknowledges limitations associated with data availability, market segmentation, and statistical aggregation, underscoring the need for caution when drawing conclusions regarding rating equivalency or methodological consistency. Any comparison should therefore be undertaken with appropriate context and recognition that different methodologies may reasonably employ different approaches while remaining analytically rigorous.

Methodological diversity and independent analytical judgment are important features of the U.S. credit ratings framework, a core strength of the U.S. capital markets helping to mitigate information asymmetry and prompting further due diligence, as appropriate, thereby supporting resilience across the financial system. Any final framework should, therefore, avoid unintentionally encouraging convergence or homogenization of methodologies or ratings outcomes.

2. Private Market Security Ratings

CRA-CG Subgroup members support the NAIC's efforts to develop a data-driven framework and encourage continued consideration of the unique characteristics of private market securities. Many privately rated securities are frequently rated by only a single CRP. As a result, direct comparisons across different securities may not always provide a reliable basis for assessing rating equivalency or methodological consistency.

The CRA-CG Subgroup members suggest that the NAIC consider these limitations when developing quantitative testing approaches, escalation criteria, and equivalency assessments, so that supervisory conclusions remain appropriately calibrated to the quality and availability of the underlying data and with consideration of proper qualitative context.

3. Confidentiality and Information Governance

Members of the CRA-CG Subgroup expect that the purpose of the NAIC's data requests and the intended use of requested data will be explained clearly at the time of each data request and that the NAIC will allow adequate time for discussion with the CRP. Data requests should be reasonable, targeted, proportionate and subject to adequate confidentiality and information security protection, recognizing that some information may be subject to legal or contractual limitations or not informative for purposes of the Framework. Data requests should also be limited to information that is reasonably necessary to achieve the Framework's stated objectives and should not extend to confidential supervisory materials that are not publicly available or otherwise distributed to users of credit ratings, such as the NAIC.

The Framework contemplates the use of confidential and proprietary information, including, but not limited to, U.S. SEC Office of Credit Ratings ("OCR") findings, supervisory materials, and significant CRP data submissions. As addressed more fully below, the CRA-CG Subgroup members believe that the NAIC's review of CRP rating methodologies does not require the disclosure of non-public or proprietary information, and that disclosure of such information should not be considered a condition of acceptance or continued participation as a CRP. Such information is not necessary to evaluate a CRP's rating methodologies under the Framework and is highly confidential and commercially sensitive. The Framework should therefore expressly confirm that disclosure of underlying non-public or proprietary methodological information is not expected and will not be a condition of acceptance or continued participation as a CRP.

Given the sensitivity of the information that may be requested and the evolving cybersecurity threat environment, it is paramount that the NAIC provides detailed and clear safeguards regarding the treatment of confidential CRP data and information, including cybersecurity protections, information segregation controls, third-party consultant access, and any potential use of artificial intelligence tools in connection with submitted information. CRPs are subject to extensive contractual confidentiality obligations and must have confidence that the NAIC will not jeopardize the CRPs' ability to uphold those obligations by maintaining information security and cybersecurity safeguards that provide an equivalent level of protection for any confidential information shared through the due diligence process.

4. Regulatory Examination Materials and Findings

CRA-CG Subgroup members support appropriate coordination between the NAIC and existing federal oversight frameworks governing NRSROs. However, regulatory examination materials are generated within a distinct supervisory context and are not designed to serve as standalone indicators of rating quality or methodological reasonableness.

Many observations contained in these reports concern documentation practices, internal procedures, disclosures, or remediation efforts that may not be directly relevant to the NAIC's stated objectives under the Framework. Moreover, many such examination observations or findings may be resolved to the satisfaction of the regulator prior to conclusion of the examination. As such, CRA-CG Subgroup members are concerned that nonpublic regulatory observations which may have scope, context and procedural limitations, will be considered by the NAIC. The CRA-CG Subgroup therefore respectfully recommends that Framework should only reference published, adjudicated Commission actions.

To the extent that the NAIC maintains the view that regulatory findings or other related confidential supervisory materials are necessary for purposes of the Framework, the members of the CRA-CG Subgroup request clarity regarding the circumstances under which such findings constitute a material concern. The existing regulatory frameworks applicable to CRPs already require CRPs to make extensive public disclosures regarding their methodologies, governance, controls, and rating performance. Those disclosures are designed to provide market participants and users of credit ratings, such as the NAIC, with the information necessary to assess the quality and reliability of credit ratings. The Framework should likewise rely on this robust body of publicly available information, rather than contemplate the use or disclosure of non-public regulatory examination findings or other confidential or proprietary information that is neither publicly available nor required to be disclosed under the existing regulatory regime. The CRA-CG Subgroup respectfully recommends that the NAIC not pursue an approach that creates information asymmetry, and that is misaligned with existing disclosure frameworks for CRPs.

5. Need for Formalized Process/Protections

Remedial actions may result in serious market implications, and therefore require transparent standards, clear and consistent application and meaningful notice, appeal, and response rights before any adverse action. The Framework contemplates a range of potentially significant remediation actions, including requiring additional ratings, translation matrix adjustments, removal of filing-exempt status for an asset class, and CRP de-admittance. The CRA-CG Subgroup members respectfully suggest that remediation actions should be appropriate and proportionate to the relevant issue, and as such, consequential actions should be reserved only for major breaches of standards. The Framework would also benefit from greater clarity regarding whether remediation actions affecting CRP mappings, Filing Exempt eligibility, or NAIC designations would apply prospectively or could affect existing holdings. The treatment of legacy holdings could have materially different implications for insurers and broader market participants.

Given the potentially significant market implications associated with the more consequential remediation actions, CRA-CG Subgroup members believe the Framework would benefit from clearly defined procedural safeguards and formalized protections. CRA-CG Subgroup members also encourage the NAIC to provide greater clarity regarding the standards that would support remediation actions. CRPs should receive timely notice of concerns, access to the information and analyses supporting any proposed actions, a meaningful opportunity to respond and provide additional context, and a clearly defined process for review prior to the implementation of any materially adverse action. Where quantitative screening thresholds are utilized, they should serve as preliminary indicators warranting additional review rather than evidence of rating deficiencies in and of themselves. Remediation measures should be based on transparent, objective, and well-defined criteria and should focus on persistent and demonstrated concerns rather than isolated rating differences or methodological divergence.

Moreover, considering the potentially significant consequences associated with remediation actions, CRA-CG Subgroup members further encourage the NAIC to establish a transparent process for periodic reassessment of such actions. The Framework would benefit from greater clarity regarding the duration, review cycle, and circumstances under which remediation measures may be modified, lifted, or reversed based on new information, improved performance, additional analysis, or corrective actions. A transparent process for reassessment would promote confidence in the Framework and help to ensure that outcomes remain predictable, consistent with the Framework's objective of risk-based oversight and appropriately calibrated over time.

Thank you for your consideration of the foregoing on behalf of CRA-CG Subgroup members and we look forward to continued engagement with the NAIC on these important matters.

Sincerely,

Thomas J. Davin, III
Managing Director
FISD/SIIA

Cc: Lainie Kernis
Morningstar DBRS
Egan-Jones Ratings Co.
HR Ratings, LLC
KBRA
Moody's Investors Service, Inc.
S&P Global Ratings.

Egan-Jones RATINGS Founded 1995

July 3, 2026

Via email
Ms. Jane Ren
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Ms. Denise Genao
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RE: Proposed NAIC Credit Rating Provider (CRP) Due Diligence Framework "Framework")

Dear Ms. Ren and Ms. Genao

We want to thank the Credit Rating Provider Working Group ("Working Group"), the Invested Assets (E) Task Force, and the NAIC staff for the opportunity to comment on the proposed Framework.

Egan-Jones Ratings Company ("Egan-Jones") participated in the process for the comment letter submitted by the credit rating agencies that are registered as NRSROs with the United States Securities and Exchange Commission ("SEC"), which are also members of the Financial Information Services Division of the Software & Information Industry Association ("Trade Association"). This letter is submitted by Egan-Jones and supplements the comment letter submitted by the Trade Association.

We compliment the Working Group on using an independent third party (i.e., PwC) in formulating the Credit Rating Provider ("CRP") proposed Framework. Egan-Jones supports regulators' efforts to enhance their understanding of the risks associated with investments held by regulated insurance companies. We believe the Framework can strengthen confidence in the use of ratings and improve overall transparency within the regulatory process.

As the Framework transitions from development into implementation and administration, we also believe that maintaining independence is equally important for regulators and adds credibility to the process. We also believe there is a potential gap that regulators may wish to consider addressing. Specifically, regulators should make use of its independent resources to have visibility into the performance and analytical basis of designations issued by the NAIC Securities Valuation Office ("SVO"). That independence would provide regulators with a more comprehensive view of investment risk and avoid even an appearance of preferential treatment of the SVO, which issues designations that have the same effect as CRP ratings for certain purposes.

Thank you for allowing us the opportunity to submit this comment letter. We welcome additional engagement with the Working Group and appreciate your consideration of these comments.

Sincerely

Eric Mandelbaum

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Cc: Mr. Charles A. Therriault
Director, NAIC Securities Valuation Office

FitchRatings

July 2, 2026

Jane Ren (jren@naic.org)

Denise Genao (dgenao1@naic.org)

Marc Perlman (mperlman@naic.org)

Charles Therriault (ctherriault@naic.org)

National Association of Insurance Commissioners

BY EMAIL

Re: NAIC Credit Rating Provider (CRP) Due Diligence Framework – Whitepaper (the "Whitepaper")

Dear Ms Ren, Ms Genao, Mr Perlman and Mr Therriault:

Fitch Ratings Inc. ("Fitch") appreciates the opportunity to provide its observations with respect to the Whitepaper. We agree that the NAIC must have confidence in the results of its process to map the credit ratings provided by Credit Rating Providers ("CRPs"), used for Filing Exempt and Private Letter securities held by insurers, on to the NAIC Designations. It is therefore crucial that the proposed due diligence process with respect to CRPs (the "Process"), outlined in the Whitepaper, be based on sound principles consistent with the goal of the Process.

We note that, by its own terms, the Whitepaper indicates that the proposal is (understandably) still in its initial phase. For example, the statistical tests which are at the heart of the proposed quantitative analysis are described in the Whitepaper as "examples", with "hypothetical" thresholds. For that reason, Fitch will generally focus its response on the conceptual framework underpinning the Process, rather than its specifics. We look forward to working closely with the NAIC as it further develops the Process.

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Regulatory Environment for CRPs

It is important to note at the outset that the NAIC does not regulate CRPs. CRPs that are nationally recognized statistical rating organizations ("NRSROs"), such as Fitch, are supervised in the US at the federal level by the SEC. One of the key principles of the supervision of CRPs under US law – and under similar laws in other jurisdictions – is that of non-interference in the content of the credit ratings of the CRPs or of the methodologies/criteria used to produce these ratings, to preserve the independence of CRPs. Specifically, 15 U.S.C. § 78o–7(c)(2) provides, among other things, that "neither the Commission nor any State (or political subdivision thereof) may regulate the substance of credit ratings or the procedures and methodologies by which any nationally recognized statistical rating organization determines credit ratings". Fitch is concerned that some aspects of the Process as currently proposed may not be consistent with this statutory requirement.

Fitch therefore believes it is helpful to consider how other non-CRP regulators, subject to these same regulatory boundaries, have addressed the issue of how to map credit ratings to the credit quality scales used by these regulators to assess risk-based regulatory capital – such as the "Credit Quality Steps" under the Basel-based regulations related to the determination of required regulatory capital. For example, to establish the EU's mapping table, the Joint Committee of European Supervisory Authorities (the "Joint Committee") started with the benchmark default rate values (expressed as a range) assigned by the Basel Committee on Banking Supervision to each "Credit Quality Step" (which are broadly comparable to the NAIC Designations). The Joint Committee then performed a quantitative analysis for each credit rating level used by each CRP by comparing historically observed 3-year default rates (for entities or issuances with an initial credit rating at each level used by each CRP) to the benchmark default rate values. Finally, the Joint Committee considered qualitative factors it deemed relevant for each credit rating level for each CRP – such as the pool of issuers that the CRP covered, the range of credit ratings that the CRP assigned, and the rating definitions of the CRP. This process included a public consultation as well as discussions with the relevant CRPs. The Joint Committee has subsequently periodically updated its quantitative and qualitative analysis for each credit rating level for each CRP and proposed changes it considered necessary, after discussions with the relevant CRPs. The UK's Prudential Regulation Authority has adopted a similar mapping as the Joint Committee.

We set out below our analysis of the Process, in light of these two framing considerations, as well as our suggested amendments to the Process.

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The Process should be Consistent with CRP Regulations and CRP Operations

There are three key focus areas for the Process:

- The credit ratings of individual securities;
- The "reasonableness" of those ratings; and
- Whether those ratings are "comparable" or "equivalent" to, or "consistent" with, other CRPs' credit ratings for those or similar securities – i.e., within a three-notch band – and whether those ratings are consistent, based on some kind of statistical measure, with the market spreads at the same rating level for the same or similar securities.

We believe the proposal to base the Process on these three areas is not consistent with how CRPs operate and with the regulatory obligations applicable to CRPs, as explained below.

Given the prohibition on interfering with the content of credit ratings and related methodologies/criteria, CRP regulations (and supervision thereof) focus on the robustness of a CRP's operational processes, including, inter alia, the robustness of the CRP's methodologies – but not the content of those methodologies or of the credit ratings produced by applying those methodologies. For example, Article 8(3) of both the EU Credit Rating Agency Regulation and the UK Credit Rating Agency Regulation specifies that methodologies must be "rigorous, systematic, continuous and subject to validation based on historical experience, including back-testing". Furthermore, these methodologies (including any related models and key rating assumptions), and any significant changes thereto, must be assessed by a review function which is independent of the analytical group and which reports to the CRP's board (see Annex I(A)(9) of each of the regulations).

CRP supervisors assess, in the first instance, the manner in which a CRP's methodology is created and amended. But they also look at the robustness of the aggregated output of these methodologies, grouped by asset classes. This output is measured through historical backtesting. This backtesting includes a CRP's transition and default studies ("T&D studies"), which demonstrate, by asset class and over varying time periods, whether the relative ranking[1] of the credit ratings within each asset class is generally maintained and whether the ratings are comparatively stable (that is, how much transition, up or down, is there from one rating level to another, and is there greater stability at the higher rating levels versus the lower rating levels). For example, the SEC requires that each NRSRO annually publish, through Exhibit 1 of its Form NRSRO, "performance measurement statistics consisting of transition and default rates" for each class and subclass of credit ratings for which it is registered as an NRSRO, which publication must follow the rules set forth by the

[1] Credit ratings measure relative – not absolute – creditworthiness, using a consistent scale. In Fitch's case, that scale ranges from AAA to D. Users (and CRP supervisors) therefore expect that issuers and instruments rated at one level of the scale should default less frequently than issuers and instruments rated below that level – that is, AAA-rated issuers should default less often than those rated AA, which in turn should default less often than those rated A, and so on down the rating scale.

SEC to ensure that these statistics are comparable as between NRSROs. Market participants can then use these statistics to assess the robustness of an NRSO's methodologies.

Some CRP supervisors also review the results of additional statistical tests conducted by the CRPs on the aggregated outputs of a given methodology (or group of methodologies related by asset class). For example, in accordance with EU and UK requirements, Fitch assesses the following:

- Discriminatory power of credit ratings (i.e., testing the ability of Fitch's credit ratings to rank order creditworthiness) – this is tested by calculating the Gini coefficient (which evaluates the ability of Fitch's credit rating system to rank order entities against an optimal rating system) and by conducting a Kolmogorov-Smirnov test (which looks at a credit rating portfolio over a specified period of time, split into defaulted entities and non-defaulted entities, to determine whether there is a significant ratings difference between the two groups of entities); and
- Predictive power of credit ratings (i.e., the ability of credit ratings to predict default) – this is tested by calculating a Brier Score (which measures the accuracy of Fitch's predictions of default for the credit ratings portfolio against the ideal prediction) and conducting a binomial test (which assesses whether Fitch's probability of default boundaries assigned to each credit rating category are statistically correct based on the observed number of defaults for a given credit rating category).

Fitch's criteria review function uses Fitch's T&D studies and these statistical tests to evaluate the performance of Fitch's criteria as part of regular reviews and to evaluate proposals to change criteria.

Fitch notes two key elements driving this regulatory approach. First, a CRP's methodologies are assessed as against its own credit ratings, not the credit ratings of other CRPs. Second, the assessment is conducted with aggregated data, rather than focusing solely on individual credit ratings, which may exhibit idiosyncrasies. Supervisors may question a CRP about an individual credit rating that appears to be an outlier when compared to both the CRP's own similar credit ratings or those of other CRPs. In such a case, the CRP must explain how the credit rating is consistent with the CRP's relevant methodology, as applied to the relevant facts, data and information available to the CRP at the time of the credit rating being queried. This approach is premised on the CRP supervisor having already determined that the relevant methodology is robust.

It is clear from this supervisory approach to CRPs that there is no requirement, or even expectation, that CRPs will have the same or similar methodologies. Instead, the regulations require that, whatever the content of a given methodology, it must be developed and amended in a rigorous manner, with independent oversight, and be applied consistently in light of the relevant data available to that CRP. A CRP does not produce methodologies with the objective of determining credit ratings that are the same as those of other CRPs. Instead, regulations regarding CRPs recognize and foster a diversity of views – provided those views, i.e., the credit ratings, are consistently determined and the reasoning behind them is clearly explained. Credit ratings are thus not produced, and indeed cannot be produced, to any kind of "reasonableness" standard and therefore cannot be assessed against what would be an arbitrary standard of reasonability – that is, "reasonable" compared to what? Another CRP's credit ratings, and if so, which CRP or CRPs and which ratings? Credit ratings can also not be judged, on a like-for-like basis, as against interest rate spreads or

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other market-based indicators of risk. Specifically, given that credit ratings are intended to be a pure measure of creditworthiness, they cannot be compared with market-determined spreads/indicators – which reflect a variety of factors unrelated to creditworthiness.

Fitch's Proposed Changes to the Process

Based on the preceding explanation, Fitch urges the NAIC to modify the conceptual framework of the Process to align more closely with the approach taken by the CRPs' own supervisors and with the approach taken by regulatory bodies in the EU and the UK when mapping credit ratings to categories of regulatory capital requirements. Fitch would recommend the following as the key steps for the revised Process:

- The NAIC should confirm that each CRP has a robust process for developing new, and amending existing, methodologies, including review by a body that is independent of the analytical team that develops and uses the methodologies.
- The NAIC should review each CRP's backtesting[2] and statistical testing for each relevant methodology (or group of related methodologies), rather than a review of individual credit ratings. To the extent needed for the NAIC's understanding of this material, each CRP should make its subject matter experts available to answer the NAIC's questions. This NAIC review should also be conducted when a new relevant methodology is introduced, and in the event of a significant change[3] to an existing relevant methodology. If the NAIC has particular concerns about a CRP's private ratings as a result of this review, the NAIC could consider asking the relevant CRP to produce and publish T&D studies related to their private corporate ratings, thereby increasing transparency for all market participants.
- If the NAIC believes that an individual credit rating issued by a CRP is an outlier (when compared to other similar credit ratings of that CRP or other CRPs), then the NAIC should notify that CRP and obtain from it an explanation as to why such rating is consistent with its applicable methodology. As part of this review, the NAIC should review the CRP's T&D studies relevant for that credit rating.

If the result of the above review causes the NAIC to question the robustness of a CRP's methodology and/or its aggregated outputs, the NAIC could map that CRP's credit ratings produced under any such methodology to a lower NAIC Designation. In an extreme case, the NAIC could determine that it will grant no capital relief based on the relevant CRP's credit ratings produced under the relevant methodology. In either case, the CRP should be notified of the issues identified by the NAIC, and given the chance to rebut the NAIC's conclusions. Fitch notes that the Proposal also recognizes the importance of due process prior to it taking any remediation action.

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[2] To assess a CRP's backtesting, Fitch suggests that the NAIC use the performance measurement statistics reported by each NRSRO in Exhibit 1 of its Form NRSRO for the initial mapping and ongoing monitoring, given that the production and presentation of these statistics have been designed by the SEC to result in comparable data (as explained earlier).
[3] Fitch proposes, based on its experience, that a modification to a methodology constitutes a "significant change" if 25% or more of the credit ratings that fall under that methodology are changed as a result of such modification.

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Additional Observations

Regulatory Findings: Fitch would be willing to consider providing information on regulatory findings issued by its relevant CRP supervisors. If Fitch agreed to provide this information, we would expect the NAIC to agree to, and implement, robust confidentiality protections for this information. However, as an alternative approach, we encourage the NAIC to rely on the actual decisions of the CRP's relevant regulatory supervisor with respect to any such findings, rather than the NAIC making its own assessments and determinations. This approach would ensure consistency of treatment for CRPs, especially because not all findings are determined by a CRP's supervisor to be material enough to merit action against the CRP (such as removing the ability of that CRP to issue certain categories of credit rating), beyond the supervisor requiring the CRP to remedy the findings.

Provision of Data by the CRPs: Fitch would be willing to provide further data to the NAIC, provided that such data requests are reasonable, proportionate and relevant and necessary for the NAIC's use case.

*   *   *

Fitch thanks the NAIC for the opportunity to review and provide its comments related to the Whitepaper. Please feel free to contact the undersigned, at susan.launi@fitchratings.com, should you have any questions. In the meantime, we look forward to engaging in a constructive dialogue as you refine the Process.

Sincerely,

Susan Launi

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July 2, 2026

Members of the Credit Rating Provider (E) Working Group
National Association of Insurance Commissioners
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Re: KBRA Comment Letter on Proposed NAIC Credit Rating Provider Due Diligence Framework White Paper

KBRA appreciates the opportunity to provide comments on the proposed National Association of Insurance Commissioners' ("NAIC") Credit Rating Provider Due Diligence Framework White Paper (the "Framework").

KBRA supports the NAIC's objective of developing a structured and risk-based process for evaluating its use of Credit Rating Provider ("CRP") credit ratings used within the Filing Exempt ("FE") and Private Letter Rating ("PLR") processes. We recognize the importance of maintaining confidence in the NAIC designation framework and support efforts designed to promote transparency, consistency of process, and informed use of CRP credit ratings. We support the NAIC in its efforts to develop an effective set of tools to meet those objectives.

Although the Framework has evolved considerably from the initial proposal and suggests an ongoing commitment to developing a practical and risk-based approach to evaluating CRPs[1], its primary objective remains both ambitious and insufficiently defined. Without clearer parameters regarding the specific questions the Framework is intended to answer, the proposed information collection, quantitative analyses, testing procedures, and governance requirements risk becoming an open-ended exercise that is unnecessarily complex, resource-intensive, and difficult to implement effectively. For instance, the proposal suggests that it is intended to assess rating equivalency, rating reasonableness, process integrity, investment risk, and consistency across CRPs. These are distinct concepts that require different analytical approaches and may lead to different regulatory outcomes. Greater clarity regarding the Framework's primary objective would materially improve both its design and implementation.

The Framework would also materially improve with clear definitions for key concepts such as "reasonableness," "equivalency," "consistency," and "systematic disagreement". Without clear definitions and explanations of how those standards will be applied in practice, including how they relate to the Framework's overarching objective, there is a risk that differences in credit rating outcomes will be interpreted as evidence of deficiencies in credit rating quality. The existence of diverse analytical perspectives is a core feature of healthy and competitive credit markets and contributes to market efficiency, innovation, and resilience. A more effective risk-based approach to the Framework would focus

1 *See* KBRA Comment Letter - Request for Comment on the Draft Request for Proposal – Credit Rating Provider Due Diligence Framework (October 14, 2024), *available at* https://content.naic.org/sites/default/files/call_materials/E%20Committee%20Materials_0.pdf?utm.

on the integrity of CRP governance, transparency, surveillance, controls, and rating processes rather than on convergence of rating outcomes.

More broadly, the Framework is a highly complex and resource-intensive oversight structure that appears disproportionate to its stated purpose. If the objective is to inform the NAIC's reliance on CRP ratings for insurance regulatory purposes, a more targeted framework focused on governance, historical rating performance, publicly available disclosures, and targeted reviews would likely achieve that objective more efficiently, with greater transparency, while preserving analytical independence and minimizing unnecessary operational burdens. Rather than recreating information that already exists, the NAIC should first rely on the extensive public disclosures that CRPs already provide to regulators and market participants. Doing so would streamline implementation, reduce unnecessary burden, and ensure that any additional information requests are targeted to issues that cannot be addressed through existing public materials. Such an approach would also reduce the volume of confidential and proprietary information that must be collected, transmitted, and maintained by the NAIC. Recent cybersecurity events underscore the importance of carefully calibrating any expansion of confidential data collection and ensuring that it is accompanied by robust information security, governance, and implementation planning.[2]

While we encourage continued clarification and refinement of the Framework, KBRA notes and appreciates the additional guidance provided through the NAIC's recently published responses to stakeholder questions.[3] At the same time, they make clear that many of the Framework's core analytical concepts, methodologies, implementation standards, and governance procedures remain under development. The observations below are intended to further strengthen the Framework's effectiveness in meeting its objectives.

I. Use of SEC and Other Regulatory Examination Findings

KBRA recognizes the NAIC's efforts to leverage existing regulatory oversight frameworks to avoid duplicating supervisory activities over CRPs. Nevertheless, the Framework's proposal to utilize confidential SEC examination findings, as well as findings from other domestic and foreign regulators, as part of the Scoping Assessment would benefit from additional refinement and clarity. Although the NAIC has stated that the Framework is intended to inform its reliance on CRP ratings rather than establish a separate supervisory regime, the incorporation of confidential supervisory findings from multiple regulatory authorities could, in practice, create overlapping regulatory expectations unless the Framework more clearly articulates the categories of findings that are relevant, the purposes for which they may be considered, and the principles governing how they will be evaluated.

NRSROs are subject to extensive regulatory oversight and supervision. The SEC's supervisory framework was specifically developed to assess the integrity of rating processes while preserving analytical

[2] An Important Security Update from the NAIC, *available at* https://content.naic.org/about/security-update.

[3] NAIC Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (June 25, 2026), *available at* https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf.

independence and methodological diversity.[4] Through its Office of Credit Ratings ("OCR"), the SEC conducts annual examinations designed to assess compliance with applicable securities laws, internal controls relating to the credit rating process, governance requirements, conflicts management, operational resilience, information security, documentation practices, and other supervisory obligations. Similarly, CRPs operating in other jurisdictions are subject to comprehensive supervisory frameworks administered by authorities such as the European Securities and Markets Authority ("ESMA") and the U.K. Financial Conduct Authority ("FCA"), each pursuing their own statutory mandates and supervisory objectives. As a result, examination findings are generated within a distinct supervisory context and for purposes that may differ significantly from the objectives of the Framework.

Against this backdrop, the Framework would benefit from a clearer articulation of the specific role examination findings are intended to serve within the Scoping Assessment and the incremental value they are expected to provide relative to other information already available to the NAIC.

The Framework would also benefit from additional clarity regarding the criteria used to determine when supervisory findings constitute a "material risk" to ratings. The proposal does not provide objective standards, illustrative examples, or a defined analytical framework for distinguishing routine supervisory observations from findings that warrant CRP-wide scoping consequences. Materiality should be evaluated based on whether a finding could reasonably be expected to impair the integrity of the credit rating process or materially affect the reliability of credit ratings relied upon for insurance regulatory purposes.

This distinction is important because many examination observations may have little or no direct connection to rating quality, rating performance, or the reliability of ratings used within the Filing Exempt and Private Letter processes. Examination findings frequently address matters such as documentation practices, internal procedures, recordkeeping, disclosures, remediation efforts, or other supervisory issues that may be significant within the context of a regulator's examination program but provide limited insight into the questions the Framework is seeking to evaluate.

These concerns are amplified by the proposal to consider findings from multiple domestic and foreign regulatory authorities, each operating under distinct legal mandates, supervisory priorities, and examination frameworks. Without clearly defined criteria governing which categories of findings are relevant and how they will be evaluated, there is a risk that unrelated and immaterial findings would serve only to distract and undermine the NAIC's objective to apply a risk-based approach to CRP assessments while providing little incremental insight into rating integrity or reliability. Additional guidance regarding which categories of supervisory findings are relevant, how those findings will be weighted, and how confidential information will be protected and utilized would materially improve transparency and predictability.

[4] The Credit Rating Agency Reform Act expressly provides that neither the SEC nor any state may regulate the substance of credit ratings or the procedures and methodologies by which an NRSRO determines credit ratings. Securities Exchange Act of 1934 § 15E(c)(2), 15 U.S.C. § 78o-7(c)(2). This principle remains a cornerstone of credit rating agency oversight globally and reflects the importance of preserving independent analytical judgment.

To the extent examination findings are incorporated into the Framework, they should be used in a narrowly tailored manner and limited to significant governance, control, compliance, or process deficiencies that could reasonably be expected to affect rating integrity or reliability. The Framework should otherwise prioritize indicators that are more directly aligned with its stated objectives, including rating performance data, transition studies, default studies, publicly available methodology disclosures, and other measures that bear more directly on the reliability of credit ratings used for insurance regulatory purposes.

II. The Framework Should More Clearly Define "Reasonableness," "Equivalency," and "Systematic Disagreement"

A central feature of the Framework is the use of concepts such as reasonableness, equivalency, consistency, inappropriateness, and systematic disagreement. These concepts appear throughout the Scoping Assessment, Risk Assessment, Detailed Testing Procedures, and Governance components of the Framework. However, the proposal provides limited guidance regarding how these standards will be interpreted and applied in practice. In fact, the Framework does not provide a clear explanation of what "equivalent" means in this context.

In its published responses to stakeholder questions, the NAIC indicates that it intentionally declined to define these concepts in order to preserve flexibility.[5] The absence of clearly defined standards and goals is particularly challenging because many of the Framework's most significant consequences ultimately rely upon conclusions regarding whether credit ratings are sufficiently equivalent or reasonable. While flexibility may be appropriate in some contexts, a framework that can result in translation matrix adjustments, removal of filing-exempt status, or CRP de-admittance requires sufficiently objective standards to ensure predictability, consistency, and procedural fairness.

This issue is especially relevant in private markets, where many securities are rated by only a single CRP and where transactions often exhibit highly bespoke structural, collateral, and informational characteristics. As a result, conclusions drawn from comparisons across different securities rather than jointly rated identical securities may not provide a reliable basis for assessing credit rating equivalency across CRPs.

The Framework itself acknowledges many of these limitations, including limited data availability, challenges associated with segmentation, and the need to aggregate test populations to support statistical analysis. These limitations underscore the need for caution when drawing conclusions regarding rating equivalency or systematic disagreement.

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[5] Clarification of Concepts/Undefined Terminology, Question 2, NAIC Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (June 25, 2026), *available at* https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf ("The NAIC's intent is for these concepts to guide a risk-based due diligence framework, not to prescribe automatic or formulaic outcomes. Terms such as "equivalency," "reasonableness," "material risk," "systematic disagreement," "misalignment," "high risk," and "significant qualitative approaches" should retain sufficient flexibility to be applied overtime across the framework. Overly rigid definitions could limit the NAIC's ability to consider the full set of relevant facts, including changing data availability, methodologies, and practices.").

III. Credit Rating Divergence Thresholds Should Not Be Treated as Evidence of Credit Rating Deficiencies

The standardization of credit rating outcomes should not be the objective of the Framework but may be an unintended consequence of the Framework in its current form. The existing regulatory framework for NRSROs reflects congressional intent to support and encourage competition in the credit rating agency market. In the wake of the Global Financial Crisis (the "GFC"), the Dodd-Frank Act introduced new measures to both improve the quality of NRSRO credit ratings, enhance market trust, and support further competition in the credit rating agency market.[6] This competition fosters diversity of opinion among credit rating agencies, provides investors with more options, and reduces the risk that credit rating agencies move in lockstep with one another.

The Framework's reliance on credit rating divergence thresholds, most notably the three sub-notch threshold, as a trigger for escalation into Detailed Testing Procedures risks creating an implicit expectation that independent CRPs should arrive at similar credit rating outcomes. While practical screening tools may be appropriate within a risk-based framework, credit rating divergence alone does not indicate inconsistency, methodological weakness, or unreasonable credit ratings. Differences in credit ratings may arise from a variety of legitimate factors, including differences in methodologies, surveillance approaches, timing of rating actions, information availability, analytical assumptions, transaction structures, and views regarding future performance. These differences are particularly common in private markets, where transactions often exhibit unique characteristics and limited comparability.

The value of multiple independent CRPs is not that they necessarily arrive at identical conclusions, but that they provide distinct analytical perspectives on credit risk. Therefore, exceeding a rating divergence threshold should not, in and of itself, be viewed as evidence of credit rating deficiencies or non-equivalency. Rather, such thresholds should serve only as preliminary screening tools that identify transactions warranting further review. To the extent credit rating divergence thresholds are retained, the Framework should also recognize that credit rating dispersion may vary meaningfully across asset classes, transaction structures, and market segments. A single uniform threshold may therefore not be appropriate in all circumstances.

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6 For example, by making NRSRO methodologies and rating histories more transparent, it is easier for investors to compare ratings from different agencies and may encourage the use of a broader set of NRSROs. *See* Section 932 of the Dodd-Frank Act. The Dodd-Frank Act also required reduced regulatory reliance on credit ratings to, among other things, encouraging market participants to perform independent credit analysis rather than relying exclusively on ratings embedded in regulatory frameworks. *See* Section 939A of the Dodd-Frank Act. Further, the Dodd-Frank Act included a proposal for the SEC to study the feasibility of a rule that would require issuers of securities to periodically rotate the credit rating agencies they use. *See* Section 939F of the Dodd-Frank Act. This measure considered long-term relationships between issuers and particular rating agencies and how to foster more competition by giving smaller agencies opportunities to enter the market. *Id*.

IV. The Framework Risks Disadvantaging and Discouraging Innovation, Emerging Asset Classes, and New Market Entrants

Several aspects of the Framework create a structural bias toward established asset classes, legacy methodologies, and incumbent market participants. While the objective of directing additional scrutiny toward areas where data is limited or uncertainty is greater is understandable, the Framework treats characteristics associated with innovation and market development as indicators of elevated risk.

For example, the proposal automatically escalates new CRPs, new methodologies, new asset classes, and segments with limited historical data into more intensive review procedures. Similarly, the Framework repeatedly identifies growth, concentration, spread outliers, and limited comparability as factors supporting heightened scrutiny. We are encouraged by the NAIC's recent feedback that "a high risk designation does not, in itself, indicate a deficiency or adverse finding," but instead "reflects that limited data or performance history may warrant additional review procedures."[7] While these characteristics may warrant additional review in certain circumstances, the Framework itself should not be applied in such a way that suggests they are inherently indicative of elevated credit risk or deficiencies in methodological rigor and credit rating quality.

Many of the sectors that have experienced the most significant growth in insurer portfolios over the past decade are, by definition, newer asset classes with shorter performance histories, evolving structures, and less extensive performance data than more traditional sectors. The same is true of many private market investments, where transaction structures are often bespoke and directly comparable securities may be limited. A framework that systematically treats limited history, growth, or lack of comparability as indicators of elevated risk may operate to create a feedback loop in which newer asset classes are subject to greater scrutiny precisely because they are newer, irrespective of their actual credit characteristics.

The absence of extensive performance history should not, by itself, be treated as evidence of deficient credit rating quality or elevated risk. Emerging asset classes frequently develop more quickly than the historical datasets available to evaluate them. KBRA appreciates the NAIC's acknowledgement in its published responses that proxy data may, in appropriate circumstances, support credit analysis and that the relevance of such proxy data, together with any conservatism incorporated to address uncertainty, should be considered.[8] This reflects a practical recognition that emerging asset classes frequently require informed analytical judgment in the absence of extensive historical performance data. The use of relevant proxy data, appropriately applied, is a well-established feature of credit analysis and should not by itself be viewed as indicative of heightened analytical risk.

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[7] Detailed Testing Procedures, Question 6, NAIC Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (June 25, 2026), *available at* https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf.

[8] Detailed Testing Procedures, Question 6, NAIC Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (June 25, 2026), *available at* https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf.

More generally, whether sufficient information exists to support a reasoned credit assessment is a matter of credit rating methodology and analytical judgment. Different CRPs may reasonably reach different conclusions regarding the adequacy of available information, consistent with their methodologies and analytical approaches. The NAIC is not best positioned to make case-by-case determinations regarding the sufficiency of historical or proxy data and should instead focus on evaluating whether CRPs have appropriate processes, controls, and analytical frameworks for reaching such determinations. Substituting the NAIC's judgment for that of CRPs would risk undermining the independent analytical role that CRPs are intended to perform.

The proposal presents a similar challenge for newer CRPs. Newer and growing CRPs will naturally have shorter operating histories, different portfolio compositions, and higher growth rates than incumbent CRAs that are historically entrenched in capital markets. These characteristics are often a function of market structure rather than indicators of deficiencies in governance, methodology, surveillance, or rating quality. To the extent growth, limited historical data, or concentration are repeatedly used as escalation triggers, the Framework further entrenches incumbent CRPs and established methodologies over newer entrants and innovative analytical approaches.

More broadly, the Framework may have unintended consequences for insurer investment flexibility. If certain asset classes, methodologies, or CRPs become associated with heightened regulatory scrutiny primarily because they are newer, growing, or less comparable to existing markets, insurers may become less willing to invest in those sectors regardless of the underlying credit quality of the investments. Over time, this could reduce insurer access to a broader range of investment opportunities and discourage the development of emerging sectors that may provide attractive risk-adjusted returns, portfolio diversification, and important sources of financing within the broader economy.

The availability of multiple independent CRPs, diverse methodologies, and evolving asset classes has contributed to the depth and resilience of U.S. capital markets. The Framework should therefore distinguish between factors that genuinely indicate elevated credit risk and characteristics that are simply associated with innovation, market development, or increased competition. Growth, limited historical data, emerging asset class participation, or methodological differences should be viewed as factors that may warrant additional inquiry, rather than presumptive indicators of heightened risk.

V. The Framework Should Better Align the NAIC's Analytical Process with Its Objectives

The Framework contemplates a broad range of quantitative testing, security-level reviews, statistical analyses, methodology assessments, and ongoing monitoring activities. While these analytical tools may provide useful information in particular circumstances, the proposed Framework would benefit from a more clearly articulated analytical strategy that aligns the scope of those activities with the NAIC's stated objective of informing its reliance on CRP ratings.

Many of the questions the Framework seeks to address can already be evaluated through established regulatory oversight and publicly available measures of rating performance. These include, among other things, information disclosure forms that accompany credit rating actions, transition studies, cumulative default studies, historical rating performance, and publicly available methodologies. Collectively, these provide a well-established foundation for evaluating CRP governance, analytical processes, and rating performance.

Accordingly, the Framework should seek to leverage these existing sources of information as the foundation for ongoing monitoring and reserve more resource-intensive analytical procedures, including detailed testing, methodology reviews, and security-specific analyses or circumstances in which those existing indicators identify potential concerns or heightened risk. Such an approach would better align the Framework with its stated objective of informing the NAIC's reliance on CRP ratings while promoting more efficient use of regulatory resources and reducing unnecessary operational burdens on both the NAIC and participating CRPs.

Once the analytical process has been appropriately calibrated, greater transparency regarding the methodologies employed by the NAIC would further improve predictability, facilitate constructive engagement with CRPs, and strengthen confidence in the Framework's operation. KBRA therefore encourages the NAIC to consider providing greater detail regarding a range of areas, including quantitative thresholds used throughout the Framework; statistical methodologies and sampling procedures; criteria for determining materiality; application of qualitative judgments; weighting of various analytical factors; and procedures for modifying the Framework over time. The Framework should not become effective until these analytical procedures, criteria, and methodologies have been finalized and made available for public review and comment.

VI. Remediation Should Be Supported by Objective Standards and Robust Procedural Protections

KBRA appreciates the Framework’s recognition that remediation actions should be proportionate and accompanied by procedural safeguards. Nevertheless, the proposed remediation authorities remain broad and could have significant consequences for CRPs, issuers, insurers, and market participants.

The proposal contemplates a range of remediation actions, including additional rating requirements, translation matrix adjustments, removal of filing exempt status, and CRP de-admittance. While KBRA recognizes that remediation mechanisms may be appropriate in certain circumstances, the standards governing these actions should be clearly articulated and supported by objective evidence. Remediation should be reserved for situations involving persistent, demonstrated, and material deficiencies rather than isolated rating differences, methodological divergence, or analytical disagreement.

KBRA would encourage consideration of a range of enhancements to the Framework, including: clear evidentiary standards for remediation actions; objective and transparent decision-making criteria; requirements that findings be persistent, statistically robust, and supported by written findings identifying the factual and analytical basis for any materially adverse determination; clearly articulated standards governing the review process; meaningful opportunities for CRPs to respond to preliminary findings before decisions are finalized; defined review and appeal mechanisms for significant remediation actions; and appropriate implementation periods to mitigate market disruption. The Framework should also provide greater transparency regarding how qualitative assessments, findings from domestic and foreign regulators, and other discretionary inputs will be evaluated, weighted, and incorporated into remediation decisions.

VII. Effective Implementation of the Framework Requires Additional Operational Detail

The Framework contemplates significant data collection, quantitative testing, and ongoing reporting obligations for CRPs. While the proposal provides a detailed description of the analytical activities the NAIC intends to perform, substantially more operational and technical detail will be necessary before CRPs can reasonably develop, test, and implement the reporting processes required to support the Framework.

The NAIC indicates that "the [F]ramework appropriately leaves room for refinement over time."[9] As discussed in more detail below, KBRA recommends that adoption of the Framework be accompanied by publication of an implementation guide addressing statistical methodologies, segmentation, data specifications, governance procedures, remediation standards, and technical reporting requirements prior to implementation.

Effective implementation will also require that the Framework be appropriately scoped and designed so that it can be consistently administered using analytical resources, staffing, technology, and operational capabilities that are commensurate with its objectives.

Confidentiality, Data Governance, and Information Security

The Framework contemplates the submission of significant volumes of sensitive, confidential, and proprietary information by CRPs. Following the recent security breach at the NAIC involving CRP ratings data,[10] additional transparency regarding the confidentiality, data governance, and information security protections applicable to submitted information is critically important. Regrettably, the NAIC's published responses to stakeholder questions on the Framework specifically regarding cybersecurity fall far short of providing necessary transparency and assurances that appropriate measures will be in place.[11]

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9 *See e.g.,* Scoping Assessment and Data, Question 8, NAIC Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (June 25, 2026), *available at* https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf ("The NAIC expects that these decisions will be informed by actual implementation experience, including the quality and completeness of the data received from CRPs, insurer reporting, and other sources available to the NAIC. For that reason, the framework appropriately leaves room for refinement over time rather than attempting to fix all segment definitions in advance without the benefit of operational experience.").

10 An Important Security Update from the NAIC (June 23, 2026), *available at* https://content.naic.org/about/ security-update.

11 *See e.g.,* Confidentiality/Security of Information/Data Retention, Question 1, NAIC Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (June 25, 2026), *available at* https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf ("Question 1: "What cybersecurity, confidentiality, and information segregation controls will govern CRP submissions, including any use of artificial intelligence tools or access by external consultants and third parties? NAIC Response: Only Regulators and NAIC staff have access to CRP submissions.").

In particular, the implementation process would benefit from additional clarity regarding how submitted information will be stored, accessed, utilized, retained, and protected within the Framework. This includes information regarding data segregation practices, access controls, retention and deletion policies, incident response procedures, third-party access, and other safeguards designed to protect confidential and proprietary information.

Given the Framework's reliance on non-public information and confidential regulatory materials and the recent infiltration of NAIC systems compromising confidential CRP ratings data, a clear understanding of the controls governing the handling of submitted information will be important to ensuring appropriate protection of sensitive data and promoting confidence in the Framework's operational processes.

Data Specifications and Definitions

Many aspects of the Framework, including the quantitative scoping activities, risk assessment procedures, equivalency testing, and detailed testing processes, depend on the collection, transmission, standardization, and analysis of large volumes of data from CRPs. The proposal, however, does not yet provide sufficient detail regarding the specific data requirements that will support those activities.

Given the complexity of the quantitative testing contemplated by the Framework, the implementation process would benefit from a formal data dictionary and construction guide that clearly specifies required data fields, population scope, lookback periods, permissible values, field definitions, and any derivation logic associated with calculated fields. Without such guidance, similarly situated CRPs may reasonably interpret reporting requirements differently, potentially affecting the consistency and comparability of analytical outcomes.

Data Submission Requirements

Additional clarity will also be necessary regarding the mechanics of data submission. The proposal does not currently address the technical specifications that will govern the exchange of data between CRPs and the NAIC, including file formats, submission methods, transport mechanisms, security requirements, reporting frequency, validation protocols, or procedures for correcting errors and resubmitting data. These operational details will be essential to implementation and will require sufficient lead time for CRPs to design, build, test, and validate reporting processes before any production reporting obligations become effective.

Pilot Testing and Parallel Runs

Given the central role that data plays throughout the Framework, a pilot or parallel-run period would provide significant benefits to both the NAIC and participating CRPs. Such a testing period would allow data specifications, submission processes, ingestion procedures, and data quality controls to be validated before submitted information is used for scoping determinations, risk classifications, detailed testing procedures, or remediation actions. A structured testing phase would also provide an opportunity to identify interpretive questions, operational challenges, and data-quality issues before the Framework becomes fully operational.

Opportunity for Industry Review

The implementation process would also benefit from a formal opportunity for CRPs to review and provide feedback on the data specifications, reporting requirements, and submission procedures before they are finalized. In recognition of the complexity of the Framework and its reliance on quantitative analysis, early engagement on implementation issues would improve data quality, reduce operational risk, and promote more consistent application of the Framework across all participating CRPs.

The effectiveness of the Framework will ultimately depend not only on the analytical methodologies adopted by the NAIC, but also on the quality, consistency, and reliability of the underlying reporting architecture. Additional implementation guidance, adequate development timelines, opportunities for testing, and stakeholder engagement will therefore be important components of a successful implementation process.

VIII. Conclusion

KBRA supports the NAIC’s efforts to establish a structured and risk-based due diligence framework and appreciates the progress reflected in the current proposal.

The Framework should be calibrated to its stated purpose of informing the NAIC's reliance on CRP ratings used for insurance regulatory purposes. It should adopt a more targeted, proportionate, and efficient approach that leverages existing measures of rating performance, focuses on process integrity rather than outcome convergence, preserves analytical independence, and provides greater transparency regarding the analytical methodologies used to administer the Framework.

Significant remediation actions should be supported by objective evidence and robust procedural protections. The Framework should also remain appropriately scoped and calibrated to the NAIC's analytical resources and operational capacity so that it can be implemented efficiently, administered consistently, and sustained over time.

KBRA appreciates the opportunity to provide comments on the Framework and looks forward to continued engagement with the NAIC as the Framework develops.

MOODY'S RATINGS

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July 2, 2026

Via Email (jren@naic.org; dgenao1@naic.org)

Jake Garn, Chair
Credit Rating Provider (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Comments on the NAIC Credit Rating Provider (CRP) Due Diligence Framework – Whitepaper

Dear Chair Garn and Members of the Credit Rating Provider (E) Working Group:

Moody's Ratings ("Moody's") appreciates the opportunity to comment on the proposed Credit Rating Provider (CRP) Due Diligence Framework Whitepaper (the "Framework") circulated for discussion in connection with the May 4, 2026 meeting of the Credit Rating Provider (E) Working Group ("CRP WG"). We commend the CRP WG, NAIC staff, and PricewaterhouseCoopers (PwC) for the substantial analytical and organizational work reflected in the Framework.

We have engaged constructively with the NAIC on the use of credit ratings in the insurance sector over several years. In our 2023 Letter[1], we supported the concept of a CRP due diligence process. We recommended that the process focus on developing a framework to inform the NAIC's Securities Valuation Office's exercise of discretion regarding potential differences in the meaning of ratings across CRPs, sectors, asset classes, and public versus private ratings[2], while also strengthening oversight of insurers' use of ratings to mitigate the risk of rating shopping. In our 2024 Letter, we expressed support that the mapping of CRP ratings to NAIC Designations should be independently reviewed and validated for appropriate alignment, both across investment classes and between public and private ratings.[3]

[1] See Letter (p.93) from Moody's Investors Service, Inc. to the Financial Condition (E) Committee on the Proposed Framework for Regulation of Insurer Investments (Oct. 9, 2023) ("2023 Letter").

[2] For recent academic research analyzing potential differences between public and private ratings, see "Rating Without Market Discipline," Xuelin Li et al., Columbia Business School, June 2026, and "Giving Life to Private (Rated) Credit", Isabella Gschossmann et al., Imperial College Business School, June 14, 2026.

[3] See Letter (p.85) from Moody's Ratings to the Financial Condition (E) Committee on the Draft Request for Proposal – Credit Rating Provider Due Diligence Framework (Oct. 14, 2024) ("2024 Letter").

While Moody's generally supports the Framework, we believe it will be most effective if it is paired with several complementary measures we have recommended in prior comment letters:

- Harness market discipline by encouraging greater reliance on public ratings over private ratings for risk-based capital (RBC) purposes and, when private ratings are still relied upon, increasing transparency around the key characteristics of the rated instrument and the identity of the CRP. In addition, we recommend that the NAIC consider further measures related to private ratings, including adopting a more conservative mapping[4] and requiring disclosure of each insurer's reliance on different CRPs;
- Enhance the oversight of insurers' risk management and rating selection practices by focusing state insurance regulators' examinations on how insurers select CRPs and the governance and controls they maintain to safeguard against rating shopping and regulatory capital arbitrage;
- Explicitly account for the implications of different structured finance rating methodologies, i.e., expected-loss-based vs. probability-of-default-based, in the mapping of CRP ratings to NAIC Designations and in the resulting RBC charges[5]; and
- Avoid duplication of existing regulatory oversight of CRPs.[6] The Framework should not replicate the oversight of CRP policies, procedures and internal controls already performed by the SEC and credit rating agency supervisors in other jurisdictions, allowing the NAIC to focus its resources on its distinct role as a user of ratings.

With that context, we respectfully offer two additional recommendations to strengthen the Framework, each described in the sections below:

1. Focus the review process under the Framework on whether the Translation Matrix (as this term is defined in the Framework) appropriately maps each CRP's ratings to NAIC Designations; and
2. Strengthen the Framework's implementation safeguards and due process protections.

1. Focus the review process on mapping equivalency

We believe the Framework should focus on whether a CRP's ratings are appropriately mapped to NAIC Designations, rather than focusing on whether a CRP's rating methodology is analytically sound. Differences in ratings from different CRPs may reflect differing analytical judgments, assumptions, or data inputs rather than methodological deficiencies. Where, however, ratings from different CRPs are systematically higher or lower in a given sector, an appropriate response would be to address those differences through adjustments to the Translation Matrix, reserving other potential remedial

[4] To address concerns regarding the consistency of private ratings, the NAIC could consider applying a more conservative mapping to private ratings than to comparable public ratings. Such an approach could strengthen the RBC framework and encourage greater reliance on public ratings, while preserving the availability of private ratings where confidentiality considerations warrant their use.

[5] See Moody's Ratings Comment Letter (p.90) to the NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, *Re: American Academy of Actuaries CLO RBC Proposal* (April 16, 2026).

[6] See Moody's 2023 Letter.

measures for process and other deficiencies that might render a CRP's ratings unsuitable for regulatory use.

The Framework contemplates assessing whether CRP ratings are "aligned" and "consistent," without explicitly defining those terms. We recommend that the CRP WG clarify that the Framework's objective is to ensure that each CRP's ratings are consistent and appropriately aligned with the NAIC Designations to which they are mapped through the Translation Matrix.

The CRP WG should also clarify the benchmark it intends to reference when validating the mapping of CRP ratings to NAIC Designations. We believe the appropriate benchmark is the credit loss experience of rated securities in the U.S. public corporate bond market, against which the NAIC's "filing-exempt" (FE) process has been anchored for decades.

In relying on this benchmark, the CRP WG should consider the following:

1. The appropriate ratings performance benchmark should reflect credit loss experience, rather than default experience alone, because ratings on corporate securities are intended to capture both default risk and loss severity.[7]
2. Historically, the quantitative "meaning" of NAIC Designations has been more conservative than the credit loss experience associated with the ratings of any single CRP because, where ratings differ between two providers, we understand the FE process selects the lower of the two ratings.
3. The benchmark dataset, which consists largely of publicly rated securities rated by multiple CRPs, may not be representative of the future performance of privately rated or single-rated instruments. Accordingly, quantitative analysis of jointly rated securities should be interpreted with caution, and any conclusions regarding a CRP's rating performance or the equivalency of its rating-to-designation mapping should account for sample representativeness and clearly justify any broader extrapolation.

We further caution that the Framework's proposed threshold of more than three sub-notches for identifying rating uplifts is unlikely to capture many systemic differences that merit closer examination. Much more modest rating improvements occurring with a change in provider could raise questions regarding potential rating shopping or capital optimization strategies, depending on the facts and circumstances.[8] We therefore encourage the NAIC to consider whether a lower threshold for systemic rating differences, or a more principles-based review standard, would be more effective in identifying sectors that warrant priority consideration for detailed testing.

[7] CRPs typically adjust ratings to account for differences in expected recovery arising from a security's priority of claim and collateral protections.

[8] A rating notch is generally associated with between 20% and 50% or more required risk-based capital, depending upon where the rating falls along the NAIC designation scale. A systemic difference of a rating notch is potentially "material" if it affects a large portion of the investment portfolio. Moreover, small systematic differences in ratings may strongly impact the demand for ratings from specific CRPs and undermine the integrity of the market's reputation-based, competitive equilibrium. In contrast, the higher "three-notch gap" threshold that forms the basis for the NAIC's recently adopted "ratings challenge" process may nonetheless be appropriate for determining materiality because only a single security is at issue.

2. Strengthen the Framework's implementation safeguards and due process protections

The remediation actions proposed in the Framework could have significant consequences for CRPs, insurers, issuers, and the broader marketplace. Given the potential impact of these actions, the Framework would benefit from additional procedural safeguards and greater transparency regarding the remediation process:

Limit reliance on regulatory findings to material and final actions. The proposed Framework would require each CRP to "confidentially share" its annual SEC examination findings, potentially alongside findings from other regulators globally. We believe that any information sharing of non-public regulatory information should occur through direct engagement between the NAIC and the SEC, or a non-U.S. regulator. Particularly for the SEC, these are nonpublic, point-in-time staff observations and not adjudicated findings, final agency actions, and are not binding. If the NAIC obtains SEC examination findings, using them to drive remediation actions would extend the weight of SEC staff views beyond what federal law contemplates and would be inappropriate for the Framework. For the same reasons, findings from non-U.S. regulators should be understood in proper context, as those regimes differ in scope and standard from the SEC's NRSRO oversight.

Data requests must be protected and phased. The Framework should establish clear requirements governing the storage, access, onward sharing, and public disclosure of information submitted by CRPs. In particular, it should provide reasonable assurances regarding data security, including periodic security attestations and other protections for confidential information. Data collection requirements should also be phased and developed in collaboration with CRPs, beginning with information that can reasonably be provided and allowing time to identify data gaps and establish consistent reporting standards. This approach would reduce unnecessary complexity and help avoid inconsistent disclosures across multiple regulatory reporting regimes.

Clarify asset-class boundary determinations. The Framework should specify how the NAIC will independently determine the admissibility of assets that fall near the boundary between approved asset classes or rating methodologies, rather than relying solely on insurer or CRP classifications. Given the absence of an industry-wide asset-class taxonomy, a defined approach would ensure that regulatory capital outcomes are driven by credit risk rather than classification.

Treat data limitations and quantitative testing proportionately. Quantitative testing may be less informative in segments with limited historical data, including IG sectors with few defaults, emerging asset classes, and newer methodologies. In these cases, limited data should lead to qualitative review rather than remediation actions based solely on the absence of sufficient data, which could discourage CRPs from rating emerging asset classes and deter insurers from participating in innovative markets.

Preserve analytical independence for conservative ratings. Where ratings are found to be more conservative relative to the NAIC's definition of investment risk, there should not be remediation actions against a CRP. Conservative ratings do not understate risk and therefore should not be treated as evidence of poor performance under the Framework.

*   *   *

Moody's appreciates the NAIC's efforts to develop a sound basis for its reliance on CRP ratings. We respectfully request that the CRP WG consider the recommendations outlined above and look forward to continued, constructive engagement as the Framework evolves. We would welcome the opportunity to provide additional perspective in support of this process.

Sincerely,

/s/ Nick Miller

Nick Miller
Managing Director – Global Regulatory Affairs

July 3, 2026

Via Electronic Submission

Mr. Jake Garn, Chair, Ms. Laura Clements, Vice Chair
Credit Rating Provider (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, Missouri 64106

Re: Credit Rating Provider Due Diligence Framework Whitepaper – Request for Additional Analysis, Stakeholder Engagement, and Redesign Prior to Adoption

Dear Chair Garn and Vice Chair Clements:

Pinpoint Policy Institute is a nonpartisan, pro-growth 501(c)(4) nonprofit organization dedicated to promoting free markets, limited government, and the rule of law.[1] We appreciate the National Association of Insurance Commissioners ("NAIC") Credit Rating Provider (E) Working Group's ("Working Group") engagement on the important question of how NAIC Designations rely upon credit rating provider ("CRP") ratings, and we submit these comments in a constructive spirit. We recognize the Working Group's desire to assess how CRP ratings are used for insurance regulatory purposes.[2]

Our comments focus on the substance of the Credit Rating Provider ("CRP") Due Diligence Framework Whitepaper ("Framework Whitepaper," "Framework," or "Whitepaper") and on several underexamined consequences for the insurance marketplace, capital formation and capital markets, and the broader financial system. Our concern, as outlined in this letter, is that the proposed Framework appears to move beyond oversight of rating use in the NAIC designation process and toward de facto oversight of CRPs and rating methodologies, security-level rating judgments, and other NAIC actions that could materially affect insurance companies and policyholders.

That is a consequential shift – *one which we do not believe is warranted, but in any event should not be adopted without a clearer legal foundation, a more developed basis for acting, a cost-benefit analysis, and stronger confidentiality and process safeguards*. For this reason, we respectfully urge the Working Group to (i) defer adoption, (ii) re-examine the legal architecture in which the Framework must operate, (iii) address several technical and operational concerns identified below, (iv) conduct additional engagement with affected stakeholders and relevant federal authorities, and (v) redesign and re-expose the Framework for further public comment prior to adoption.

The Framework rests on three independent defects, any one of which would justify withdrawal and re-proposal:

First, the Framework assumes authority Congress withheld from even the SEC. The NAIC is asking accepted CRPs to "confidentially share their annual SEC assessment findings with the NAIC,"[3] converting an anonymized federal examination regime into a non-anonymized NAIC channel with no basis in federal law and no clearly cited statutory authority in state law. In the Credit Rating Agency Reform Act of 2006, Congress charged the SEC with NRSRO oversight and expressly prohibited even that agency from regulating "the substance of the credit ratings or the procedures and methodologies by which any nationally recognized statistical rating organization determines credit ratings."[4] The NAIC now proposes to assume, without any statutory mandate, a function materially similar to the methodology-level oversight Congress withheld from the SEC. By proposing to distinguish, and potentially notch, rating agency ratings based on methodology, the NAIC would de facto be regulating the content of methodologies. This is inappropriate and contravenes federal law.

Second, the Framework lacks the procedural safeguards and accountability appropriate for decisions with market wide consequences. The NAIC is a private, tax-exempt organization that operates without the basic accountability structures Americans expect of any entity wielding regulatory power. Since 1955, it has been exempted from filing IRS Form 990, an exception the Government Accountability Office confirmed in a report published just days ago.[5] It is not subject to administrative due process protections nor are the national rules it establishes subject to appeal by affected stakeholders.

The NAIC's most consequential deliberations routinely occur in "regulator-only" sessions closed to the public, a practice that has drawn sustained criticism from industry, consumer representatives, and independent watchdogs alike.[6] Yet the Framework would permit the removal of filing-exempt status and de-admit CRPs without notice and comment, without a documented cost-benefit analysis, and without a stated legal basis.

Third, the Framework would expand confidential data transfers to the NAIC at the precise moment its data-steward role is under public scrutiny. On June 11, 2026, an unauthorized third party breached the NAIC's environment through an Oracle PeopleSoft zero-day vulnerability.[7] The NAIC did not disclose the incident publicly until June 17, a delay of roughly six days,[8] from an organization whose own Model Law #668 imposes a 72-hour notification standard on the licensees it oversees.[9] The NAIC has since confirmed that data taken during the incident was published online and included credit rating agency rating determinations of insurer investments, the precise category of information the Framework proposes to expand.[10] Independent forensic verification remains ongoing.[11]

Each one of these defects would independently justify withdrawal. Together, they make continued development indefensible. Pinpoint's comments below explain these considerations and recommended changes in greater detail.

NAIC Credit Rating Provider (CRP) Due Diligence Framework Whitepaper – Policy Analysis and Considerations

Defect One: The Framework assumes authority Congress withheld from even the SEC.

<u>Section 15E(c)(2) of the Exchange Act contains an express statutory firewall prohibiting both the SEC and States from regulating the substance or methodologies of NRSRO credit ratings.</u>

Congress has spoken twice, clearly, on federal credit rating oversight, providing a thoughtfully considered twenty-year-old framework for NRSRO oversight. In 2006, Congress enacted the Credit Rating Agency Reform Act, adding Section 15E to the Securities Exchange Act of 1934.[19] Section 15E vests examination authority over NRSROs in the SEC and requires the SEC's Office of Credit Ratings to conduct annual examinations of each registered NRSRO.[20] Section 15E(c)(2) contains an notable — and expressly clear — statutory limitation. It provides, in full:

"Notwithstanding any other provision of this section, or any other provision of law, neither the Commission nor any State (or political subdivision thereof) may regulate the substance of credit ratings or the procedures and methodologies by which any nationally recognized statistical rating organization determines credit ratings."

These words matter. Congress did not merely leave the substance of credit ratings unregulated; Congress affirmatively prohibited such regulation, and did so as against both the SEC and "any State (or political subdivision thereof)." Section 15E(c)(2) is a statutory firewall. It cannot fairly be evaded by relabeling substantive review as "due diligence." It cannot be evaded by routing that review through a private standards body funded by regulated entities through which states act – this constitutes state action in violation of federal law. Congress enacted this prohibition to protect diversity in credit opinions and prevent states, acting directly or through a body setting rules that are implemented in the states, from regulating the content of CRP methodologies.

To be specific, the Framework's Section 3.2.1 proposes precisely the type of activity that Section 15E(c)(2) forbids: (i) NAIC staff "Methodology Walkthrough[s] and Discussion[s]" with each accepted CRP; (ii) "Security-Specific Rating Review[s]" evaluating whether individual ratings meet NAIC-defined thresholds; and (iii) "Security-Specific Rating Methodology Review[s]" that judge "reasonableness of the methodology selected by the CRP."

- The Framework contemplates NAIC staff conducting "Methodology Walkthrough[s] and Discussion[s]," "Security-Specific Rating Review[s]," and "Security-Specific Rating Methodology Review[s]" of CRPs.[11] These functions closely resemble the substantive-review activities Congress placed beyond the SEC's reach.

- The Framework's "Remediation Actions" include translation-matrix adjustments, removal of filing-exempt status for an asset class, and CRP de-admittance.[12] While the NAIC does not directly de-register an NRSRO under federal law, the effect of removing a CRP from the NAIC Designation regime could be commercially significant and functionally analogous to de-certification, particularly for CRPs whose principal utility to the insurance market is Designation eligibility.
- The Framework relies on confidential SEC examination findings to inform NAIC scoping determinations,[13] a workflow that has no obvious parallel in federal-state financial regulation and that would benefit from formal coordination with the SEC before adoption.

These are, on any fair reading, actions to regulate ratings, rating agencies, and the methodology of ratings. That the review is characterized as internal, non-binding, or "due diligence" does not alter the substantive character of the activity. And if NAIC staff conclude a methodology is unsound, the "remediation" tools in Section 4.2.2 (e.g., asset removal from FE status; CRP de-admittance) create commercial consequences that a federal agency itself may not lawfully impose.

The NAIC may respond that the Framework does not regulate CRPs at all but merely determines whether particular CRP ratings should receive treatment within the state-based insurance system. That distinction does not cure the defect. The Framework's operative substance is methodology level review: it calls for methodology walkthroughs, security-specific methodology reviews, and NAIC staff judgments about the reasonableness of the methodology a CRP selected.[16] Its practical effect is to condition filing-exempt status, continued CRP acceptance, and market access on those judgments. A process with those consequences requires clear legal authority, transparent standards, procedural safeguards, and a demonstrated evidentiary basis. The exposed Framework supplies none of them.

We respectfully recommend that the Working Group engage withdraw the Framework until the NAIC conducts a thorough legal analysis, put out for public comment, as to how the Framework does not violate the federal statutory prohibition on regulating the content of methodology, including an analysis of how and why the Framework does not interfere with the SEC's role as the sole regulator of CRPs.

Defect Two: The Framework lacks procedural safeguards and accountability its market-wide consequences demand.

<u>The NAIC does not operate under sound principles of due process under well-established principles of Administrative law.</u>

The Framework was exposed for a 60-day informal comment period. It was not published in any Federal Register-equivalent, is not subject to APA notice-and-comment procedures under 5 U.S.C. §§ 551–559, and will not be subject to judicial review under APA "arbitrary and capricious" standards.43 Its "governance" section names the CRP Working Group as decisionmaker and identifies internal escalation paths (to the Financial Condition (E) Committee and, at the highest tier, to the Executive (EX) Committee), but no external appeal, no judicial review, and no formal recordkeeping analog to APA § 706.44 As Pinpoint has previously observed, "unlike governmental regulatory bodies subject to checks and balances, the NAIC operates without direct oversight from elected officials." Similarly, The Framework does not contain and the NAIC is not required to perform a cost-benefit analysis, an economic impact assessment, a competition effects review, an assessment of pass-through effects on the availability and affordability of insurance.

This lack of transparent, consistent, and accountable rulemaking process is critical as there are also several technical and operational elements that would benefit from further refinement; under current NAIC operating standards, it's unclear such issues would receive commensurate attention and analysis. Illustrative examples include:

- The Quantitative Attribute Analysis thresholds for "Insurance Industry Exposure" and "Growth" (first quartile) are described as "preliminary and will require further discussion and refinement."
- The Historical Rating Change Analysis three-sub-notch threshold is a static rule applied uniformly across asset classes and CRPs, without empirical validation of its calibration to the underlying risk distributions.[24]
- The Risk Assessment section acknowledges that data limitations may force it to default certain Test Segments to "High Risk" – a conservative default with real consequences for which segments proceed to Detailed Testing.
- The Detailed Testing sampling approach explicitly notes that "final sample sizes are still to be determined" and that the approach "may leverage statistical or judgmental (nonstatistical) sampling techniques."[26]
- The Remediation Actions section – the enforcement mechanism of the Framework – leaves significant discretion in the hands of the CRP Working Group and its parent committees, without an articulated appeal mechanism or judicial-review analog.[27]

Each of these is refinable through additional stakeholder engagement and additional analysis. Taken together, they argue for a re-exposure and refinement cycle before adoption.

<u>The NAIC's most consequential deliberations occur in "regulator-only" sessions closed to the public.</u>

The Framework itself contemplates that "the results of Detailed Testing Procedures for each Test Segment" will be reported "to the appropriate NAIC parent group … in regulator-only sessions." This is not a theoretical concern. The Framework's remediation authority – the authority to remove asset classes from FE status and to de-admit CRPs – is exercised in sessions to which the affected CRPs and regulated insurers may not have direct access. The NAIC's own transparency practices have been the subject of sustained criticism, including by senior industry counsel who have recently observed "a growing perception that increasing amounts of deliberation are occurring in sessions that are not open to interested parties."

<u>The NAIC is overwhelmingly industry-funded, and subject to undue influence by one or a small number of states, a structure that presents durable regulatory-capture risk.</u>

The NAIC derives its revenue principally from fees paid by the regulated industry – including database filing fees, valuation office assessments, publication sales, and other industry-facing revenue streams. That the industry pays the very body that purports to regulate it is not itself dispositive of capture, but it is a structural feature that ordinary accountability mechanisms should mitigate. In the NAIC's case, they do not. There is no Form 990 disclosure, no APA notice-and-comment discipline, and no external audit of policy determinations. Pinpoint has previously observed that the NAIC's "funding structure creates potential conflicts of interest" and raises "concerns about whether it is acting in the public interest or primarily serving the industry it helps regulate."

Further, when taking action regarding the use of ratings for insurance regulatory purposes, the NAIC acts through groups that do not represent all states. This inherently lends itself to dominance by one or a small number of states. While the NAIC plenary "votes" on such changes, by the time decisions reach the plenary, they are virtually impossible to reverse. Further, a state may vote no at the plenary on a change, including this Framework, but nonetheless be bound by the decisions of other states through the accreditation system. This is in tension with, if not a clear violation of, state constitutional nondelegation doctrine principles.

<u>The Framework itself delegates substantive judgments to unaccountable NAIC subgroups.</u>

Relatedly, the Framework contemplates that "final acceptance decisions and remediation actions" will rest with the Credit Rating Provider (E) Working Group,50 which reports to the Financial Condition (E) Committee through the Invested Assets (E) Task Force.51 In turn, NAIC staff, including the Investment Analysis Office ("IAO"), of which the Securities Valuation Office is a component, will conduct the substantive testing procedures and prepare the recommendations that inform working-group decisions.52 None of these bodies is directly accountable to any elected official, subject to APA notice-and-comment, or subject to formal judicial review. Each is a subgroup of a private tax-exempt corporation. Each may nonetheless make determinations affecting the treatment of NRSROs whose regulation Congress reserved to the SEC and prohibited to States.

<u>Broader macroeconomic and international considerations.</u>

Because U.S. insurers are among the largest institutional investors in corporate credit, structured credit, and infrastructure debt globally, NAIC changes that introduce extensive uncertainty regarding reliance on ratings for existing and future investments have consequences that extend well beyond insurance.

Over-calibration risks (i) creating significant uncertainty in capital markets, (ii) reducing availability of capital and increasing the cost capital, (iii) driving up costs for insurers, and by extension, American households.

Defect Three: The Framework expands confidential data transfers to the NAIC while its data-steward role is under active question.

The Framework's confidential data call is not incidental – it is central. Section 1.2.3.1 requires each accepted CRP to “confidentially share their annual SEC assessment findings with the NAIC” and further contemplates NAIC use of findings from the Bermuda Monetary Authority, the European Securities and Markets Authority, the Financial Conduct Authority, and the Japan Financial Services Agency.[18] The SEC's annual staff reports on NRSROs are, by statutory design, published on an anonymized basis to protect competitive and confidential information.[19] The proposed channel would effectively reaggregate that information at the NAIC in non-anonymized form, without an accompanying federal statute authorizing that transfer and without a corresponding NAIC-wide confidentiality regime enforceable against third parties.

The recently reported NAIC cybersecurity incident, disclosed by the NAIC on June 17, 2026 and involving unauthorized access identified on or about June 11, 2026, is a legitimate governance consideration – not because it makes the Framework impossible, but because it counsels careful attention to the legal, technical, and audit arrangements under which any new confidential-data channel would operate. The NAIC has publicly confirmed that data taken during the incident included credit-rating-agency rating determinations of insurer investments, and that certain credit rating agencies paused their data feeds while the incident was being addressed. The independent forensic review is understood to be ongoing.

The NAIC has stated that it recognizes “the seriousness of this incident and the trust placed in the NAIC and the state-based regulatory insurance system.” We take that recognition at face value. But trust is not restored by expanding a confidential-data footprint before the last one has been publicly accounted for. Trust is restored by (a) meeting, not lagging, the standards the NAIC imposes on industry, (b) publishing an independent, third-party post-incident audit, and (c) pausing new mandates that materially expand the confidential-data holdings of an organization whose data-steward capacities are currently under public examination.

Prudent policy design would resolve the governance framework – including independent audit, data retention limitations, encryption standards, access controls, and incident notification commitments – *before* new confidential data mandates take effect.

Requested Actions

Pinpoint Policy Institute respectfully urges the Working Group to take the following steps:

1. Coordinate formally with the SEC and Congress to reconcile the Framework with 15 U.S.C. § 78o-7(c)(2), and to obtain the SEC's views on the confidential-data channel described in Section 1.2.3.1.

2. Conduct and publish a cost-benefit analysis and competition-effects assessment, including projected pass-through effects on annuity, life insurance, and retirement-product pricing.
3. Publish the underlying data, model code, and sensitivity analyses used to support the Framework's proposed scoping thresholds and materiality tolerances.
4. Convene additional public stakeholder sessions – including with CRPs, insurers, other capital markets stakeholders, and consumer representatives – to refine calibration and process.
5. Adopt explicit data-minimization, confidentiality, and independent-audit commitments as a condition precedent to any new confidential-data channel, including but not limited to the transfer of SEC examination findings.
6. Re-expose the redesigned Framework for public comment for a period of not less than 60 days, and defer adoption until the analysis, coordination, and governance commitments above are complete.

The concerns identified in this letter are not intended to question the Working Group's objectives. Pinpoint agrees that the NAIC should have confidence in the tools it uses to assign regulatory capital treatment to insurer investments. However, confidence in that process will be stronger, not weaker, if the Framework is grounded in a clear legal basis, supported by a public record of market and consumer impacts, and accompanied by durable confidentiality and procedural protections.

Those issues can and must be addressed before adoption. Pinpoint therefore respectfully urges the Working Group to defer final action, conduct the additional legal, economic, and operational analysis described above, and re-expose a revised Framework for public comment. Pinpoint appreciates the opportunity to submit these comments and stands ready to continue engaging constructively as the process moves forward.

Sincerely,

Eric Ventimiglia

Eric Ventimiglia
Executive Director
Pinpoint Policy Institute

Footnotes

[1] Pinpoint Policy Institute is a 501(c)(4) organization (EIN 99-2037033). See Pinpoint Policy Institute, *About*, https://pinpointpolicyinstitute.org/about.

[2] National Association of Insurance Commissioners, *NAIC Credit Rating Provider (CRP) Due Diligence Framework – Whitepaper*, at Executive Summary (exposed May 4, 2026) [hereinafter "Framework"], available at https://content.naic.org/sites/default/files/inline-files/NAIC%20-%20CRP%20Due%20DIligence%20Framework%20_%28For%205_4_2026Meeting%29_v4.pdf

[3] 15 U.S.C. § 78o-7(c)(2).

[4] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 939A, 124 Stat. 1376 (2010).

[5] Framework, *supra* note 2, § 1.2.3.1.

[6] *Id.* § 1.2.2.1 (thresholds "preliminary and will require further discussion and refinement").

[7] Credit Rating Agency Reform Act of 2006, Pub. L. No. 109-291, 120 Stat. 1327; codified at 15 U.S.C. § 78o-7.

[8] 15 U.S.C. § 78o-7(c)(2).

[9] Pub. L. No. 111-203, § 939A.

[10] See, e.g., 12 C.F.R. § 1.5 (OCC); 12 C.F.R. §§ 217.2, 217.50 (Federal Reserve); 12 C.F.R. § 324.50 (FDIC); Removal of References to Credit Ratings from Regulation M, Release No. 34-97657 (SEC June 7, 2023).

[11] Framework, *supra* note 2, § 3.2.1.

[12] *Id.* § 4.2.2 (Tier 2 Remediation Actions).

[13] *Id.* § 1.2.3.1.

[14] American Council of Life Insurers, *2025 Life Insurers Fact Book* (general account and product-line statistics).

[15] Framework, *supra* note 2, at Executive Summary.

[16] *Id.* § 1.2.2.1.

[17] Lawrence Powell & Julian Morris, *Life Insurance and Private Credit*, International Center for Law & Economics (June 2026); see also Pinpoint Policy Institute, *Private Credit Isn't Breaking the Insurance System, But Overregulation Could*, The Point (June 9, 2026).

[18] Framework, *supra* note 2, § 1.2.3.1.

[19] See U.S. Sec. & Exch. Comm'n, Off. of Credit Ratings, *Staff Report on Nationally Recognized Statistical Rating Organizations* (Feb. 2024); SEC Press Release 2025-32 (Jan. 28, 2025); 15 U.S.C. § 78o-7(p) (statutory framework governing SEC NRSRO examinations, including confidentiality).

[20] NAIC, *An Important Update on the NAIC's Security Incident* (updated June 26, 2026, 5 p.m. ET), https://content.naic.org/about/security-update.

[21] *Id.*

[22] *Id.* ("We understand that this process can take several weeks.").

[23] Framework, *supra* note 2, § 1.2.2.1.

[24] *Id.* § 1.2.2.3 (three-sub-notch improvement threshold).

[25] *Id.* § 2 (Risk Assessment); § 2.3 ("Test Segments that lack sufficient data or reliable history will initially default to High Risk status.").

[26] *Id.* § 3.1.1 (Sampling Approach).

[27] *Id.* § 4.2.2 (Remediation Actions and Tiered authority).

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June 30, 2026

Via Email [jren@naic.org and dgenao1@naic.org]

Chair and Members Credit Rating Provider (E) Working Group
National Association of Insurance Commissioners
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Re: Comments on the NAIC Credit Rating Provider (CRP) Due Diligence Framework Whitepaper (Draft Prepared for May 4, 2026 Credit Rating Provider (E) Working Group Meeting)

Dear Chair and Members of the Credit Rating Provider (E) Working Group:

S&P Global Ratings, a nationally recognized statistical rating organization ("NRSRO") registered with the U.S. Securities and Exchange Commission ("SEC") and a Credit Rating Provider ("CRP") to the NAIC, appreciates the opportunity to comment on the NAIC Credit Rating Provider (CRP) Due Diligence Framework Whitepaper (the "Whitepaper").

We support the NAIC's objective of ensuring that its reliance on CRP ratings in producing NAIC Designations pursuant to the NAIC's Purposes and Procedures Manual ("P&P Manual") is well-informed, structured, and appropriately governed. We note (i) the NAIC's acknowledgment of the SEC as the designated regulator for CRPs, including the SEC's authority to enforce compliance with applicable laws, rules, and governance standards; (ii) the Whitepaper's commitment to guiding principles of pragmatism, scalability, and transparency; and (iii) the NAIC's objective of utilizing the outcomes of the SEC assessment to inform the NAIC's Due Diligence Framework, to avoid duplicating the SEC's regulatory oversight. We applaud these positions.

However, we believe that the Whitepaper's proposed framework raises methodological issues, risks penalizing legitimate analytical diversity, diverts supervisory attention, creates unnecessary additional oversight, and raises due process concerns. We therefore suggest a few modifications to address these items without undercutting the NAIC's stated objectives.[1]

1. Methodological Concerns

The Whitepaper provides that the NAIC will perform an independent rating analysis, leveraging an acceptable methodology as outlined in the NAIC's P&P Manual. It further provides that the NAIC's

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[1] This letter responds to the Whitepaper as issued and does not reflect NAIC responses to questions submitted.

"three sub-notch materiality tolerance ... will be applied as the acceptable deviation threshold; deviations beyond this tolerance will be flagged for escalation."[2]

This approach raises questions about whose methodology will serve as the benchmark. If the NAIC's independent analysis reaches a different conclusion from a CRP's published rating, it does not follow that the CRP's rating is "wrong." It may simply reflect a different analytical judgment. Note that analytical judgment is essential to the credit rating process, and is especially valuable where quantitative models alone cannot capture material credit risks such as management quality, governance practices, or unprecedented market conditions. Using the NAIC's own analysis as the benchmark effectively substitutes NAIC's credit judgment for that of the CRP, a result that is potentially inconsistent with the prohibition against regulating the substance of credit ratings embodied in the Credit Rating Agency Reform Act of 2006 ("CRARA").

The NAIC's proposed approach also introduces a clear moral hazard concern by effectively placing the NAIC in the role of picking analytical winners and losers. If CRPs perceive that alignment with an NAIC-endorsed approach reduces supervisory risk, they will have strong incentives to converge toward that methodology rather than exercise independent judgment, diminishing analytical diversity. More importantly, this concentrates model risk within the regulatory architecture itself: if the selected approach proves flawed or incomplete, the resulting error is no longer dispersed across competing views but amplified across the system. In that sense, the framework does not eliminate risk — it relocates and concentrates it, with the NAIC implicitly assuming greater responsibility for market outcomes. A more resilient approach would avoid privileging any single methodology and instead focus on ensuring that differing approaches are rigorous, transparent, and well-governed, thereby preserving diversity as a safeguard against systemic miscalibration.

Accordingly, by way of alternative approach, we offer the following for NAIC's consideration. We note that the P&P Manual already requires that private rating letter rationale reports contain "sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP's assessment of investment risk"[3] and permits an information request where there are information deficiencies. The NAIC could build on this by subjecting to closer scrutiny those ratings that appear to be outliers (based on appropriate mathematical and/or statistical standards). This would give the NAIC a well-documented basis for understanding the CRP's reasoning without developing a competing opinion, thereby respecting CRPs' analytical independence.

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[2] Whitepaper, p. 22.
[3] P&P Manual, p. iii and 123.

2. Penalizing Legitimate Analytical Diversity

The Whitepaper states that the Risk Assessment is designed to "assess the equivalency, potential inappropriateness, and consistency of the CRP ratings ... [and to allow] the NAIC to focus its detailed testing efforts on Test Segments of securities that exhibit the potential for systematic disagreement across the CRPs."[4] This approach implies that divergence among CRP ratings is inherently problematic and that convergence is a proxy for reliability. Both assumptions are fundamentally at odds with the nature of credit ratings.

Credit ratings are forward-looking opinions about relative creditworthiness based on proprietary methodologies, and reasonable analysts applying different but equally valid methodologies may reach different conclusions. Rating divergence is therefore a natural and desirable product of a competitive marketplace and enhances market discipline. A framework that penalizes divergence among CRPs risks encouraging a convergence of opinion that would undermine the independent analytical value that multiple CRPs provide.

Further, a framework that implicitly penalizes divergence may create incentives for CRPs to align with prevailing market views, thereby promoting herd behavior and increasing the risk of correlated error. One of the key lessons of the global financial crisis is that systems in which participants converge around common assumptions can appear stable in benign conditions but become fragile when those assumptions prove incorrect, amplifying procyclicality and systemic stress. Preserving analytical diversity is not inconsistent with sound oversight; *it is a critical safeguard against common-mode failure and overlooked tail risks.*

An appropriate due diligence framework should focus on individual CRP transparency, governance, and methodological rigor rather than outcome convergence. Accordingly we respectfully suggest that the NAIC consider the following: (i) Rather than using cross-CRP divergence of ratings as a primary indicator of risk or deficiency, instead focus on the assessment of predictive accuracy, stability, and transition performance within each CRP's own rating scale over meaningful time horizons, leveraging existing regulatory data available via Exhibit 1 of Form NRSRO as filed annually by each CRP; (ii) Consider whether the CRP's ratings are demonstrably inconsistent with empirical credit performance (e.g. significantly higher default rates and/or lack of ordinal rank ordering consistent with the CRP's ratings definitions), not merely different from another CRP's opinion; and (iii) Adopt an approach that distinguishes between legitimate analytical diversity among CRPs (including whether securities have the benefit of being rated by multiple CRPs) and genuine outliers

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[4] Whitepaper, p. 15.

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that warrant further information. Only statistically significant deviations should trigger further review.[5]

3. Focus Supervisory Response on Insurer Risk

We would respectfully submit that a more appropriate supervisory response to dispersion in CRP ratings outcomes is not to penalize CRPs for holding differing views through "enforcement mechanism[s]" or "consequential interventions", but to recognize that such divergence can be an informative signal of uncertainty or elevated risk in the underlying asset class and for the NAIC, and, more specifically the state regulatory authorities, to respond to that signal accordingly. In those circumstances, we believe the prudential response would be most appropriately directed at the regulated entities, rather than at the sources of independent analysis. For example, the NAIC could address heightened uncertainty through a review of those entities': (i) risk-based capital requirements, (ii) designation mappings, and/or (iii) concentration limits where rating dispersion exceeds defined thresholds. Additional NAIC tools could include enhanced insurer disclosure expectations, supervisory review triggers for concentrated exposures, and portfolio-level stress testing or capital overlays for insurers with significant positions in such segments. This approach treats CRP rating divergence as a risk indicator rather than a deficiency, ensuring that regulatory action is aligned with the underlying risk signal and focused on the appropriate parties rather than discouraging independent analytical judgment.

4. Extension of Regulatory Oversight and Related Concerns

The Whitepaper proposes to require CRPs to share their annual SEC assessment findings, as well as, at the NAIC's discretion, findings from CRP supervisors in other jurisdictions, which the NAIC will then review to determine whether these constitute a "material risk to ratings of a given CRP."[6] . The proposed insertion of the NAIC as a reviewer of the SEC's, and other CRP supervisors', examination output raises several concerns, in addition to the risk of incursion into the regulation of NRSROs contrary to CRARA.

SEC examination findings are provided to CRPs confidentially, and CRPs in turn typically request confidential treatment for their responses to the SEC; confidentiality typically also applies to

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[5] We note in passing the approach taken by the Basel Committee's External Credit Assessment Framework (ECAF) which permits banks, under a standardized approach to credit risk, to use ratings from approved credit rating agencies to determine regulatory risk weights for exposures. This approach balances (i) reliance on the primary regulator of credit rating agencies for oversight of those agencies; and (ii) a principles-based supervisory assessment of whether ratings can be appropriately used for regulatory capital purposes. *See* Basel Comm. on Banking Supervision, *Basel Framework: CRE 21—Standardised Approach: Use of External Ratings* (Bank for Int'l Settlements, 2023), available at https://www.bis.org/basel_framework/chapter/CRE/21.htm.
[6] Whitepaper, p. 12.

findings in other jurisdictions. The sharing of such materials with the NAIC would be constrained by confidentiality rules, supervisory expectations, and jurisdiction-specific data protection considerations. Moreover, it is unclear how the NAIC would ensure confidentiality of those findings where it would, in the interests of transparency, need to explain the basis of its decision regarding the risk to the ratings of a CRP where the basis of the decision was the examination findings letter.

Importantly, examination findings are often highly context-dependent and related to specific facts and circumstances, may not reflect remediation undertaken or planned by the CRP, and will rarely provide meaningful insights on the quality of particular ratings. The Whitepaper itself acknowledges that findings impacting the NAIC's assessment "are likely to be rare", and does not describe on what basis the NAIC would consider a finding to "constitute a material risk to ratings"[7]. The framework also does not explain what constitutes a "materially adverse finding", which is one of the proposed factors for the provisional acceptance of CRPs, and how this differs from a finding constituting "a material risk to ratings".

In light of the significant constraints for CRPs to share confidential findings and the limited benefit for the NAIC to obtain these, and to avoid putting the NAIC in a position of second-guessing or repurposing the work of the SEC, we respectfully request the NAIC remove this proposal from the final framework.

We note that in addition to the findings letters, the Whitepaper envisions the NAIC collecting substantial quantities of data across CRPs, but the NAIC's information security safeguards, controls, and protocols remain unclear. We respectfully encourage NAIC to explain how the collected information will be effectively protected.

5. Due Process

If notwithstanding our suggestions above the NAIC were to maintain the Whitepaper's provisions that seek to impose "remediation actions" on CRPs, we would strongly advocate for increased due process protections for CRPs.

a. Fortifying the Procedural Framework

The Whitepaper states that "[f]or CRP WG remediation action determinations that are materially adverse to a CRP, a confidential and detailed explanation of the decision shall be provided to the subject CRP, prior to any adverse decision being made public" and that "[t]he CRP shall be able to present its opposition to the CRP WG determinations in a regulator-only session, including explanatory context and any new materials."[8]

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[7] Whitepaper, p. 12.
[8] Whitepaper, p. 26.

We appreciate that the framework contemplates some procedural protections. However, given the potential severity of outcomes such as de-admittance of a CRP and the related marketplace impacts, we respectfully recommend that the procedural framework should be fortified by including the following: (i) a right to review the underlying data and analysis on which the adverse finding is based, in sufficient time and detail to enable the CRP to prepare a meaningful response; (ii) a formal right of appeal to an independent adjudicator that is neither the CRP Working Group that conducted the analysis, nor its parent committees; (iii) written findings of fact and conclusions supporting any final adverse determination; and (iv) a clearly defined standard of review, including the level of evidence required to support each tier of remediation. We believe these procedural reinforcements are important additions given the impact of adverse determinations on the affected CRP, insurers holding affected securities, and capital markets.

b. Precision in Tests and Standards

The Whitepaper presents a number of standards and criteria that the NAIC proposes to apply as part of its evaluation of CRPs. However, several of them require clarification to support transparency and mitigate the risks of ambiguity and inconsistent application. These include:

i) Defining terms such as "material" (Sections 1.2.1 – materially changed methodology, 1.2.2.3 - material increase in rating), "asset class", "growth", "key attributes [...] metrics ... [and] thresholds" (Section 1.2.2.1. Quantitative Attribute Analysis), "security type" and "industry" (Section 2.2), and "spread" (Section 1.2.2.2 Spread Comparison).

ii) Clarifying various aspects of the testing process, including (a) when thresholds are finalized, an explanation of the specific statistical measures and threshold values chosen and why they were selected; (b) how the NAIC conceptualizes CRP rating performance and what measurable criteria will be used to assess predictive accuracy; (c) how the NAIC will address testing results that are mixed or inconclusive; (d) how NAIC will address portfolio variability and the inherent subjectivity of cutoff points, and (e) how the proposed use of joint rating correlations would function in the context of single-rating private securities (which do not have the benefit of diversity of opinions).

iii) Regarding remediations, a range of procedural points remain to be addressed, such as (a) types of remediation actions that are envisioned upon completion of detailed testing; (b) the process and potential consequences that may follow from a rating deviating from the NAIC's tolerance threshold; (c) the standards applicable to remediation actions and the decision making body that would determine and approve those actions; and (d) any notifications to the public when a CRP appeals an adverse remediation determination and whether the outcome of the appeal will be made public.

The addition of the definitions and descriptions above will support increased process clarity and fairness for the CRPs. We also recommend that the finalized definitions and descriptions should also be published and exposed for comment prior to implementation, since their absence from the Whitepaper has limited the CRPs' ability to fully comment on the framework and its implications.

6. Conclusion

We appreciate the NAIC's commitment to thoughtful investment regulation and its willingness to engage with stakeholders. We support the Whitepaper's guiding principles that the framework *should be "pragmatic, scalable and transparent."* However, as mentioned above, there are a number of opportunities to streamline the approach proposed by the Whitepaper to reduce the risks of problematic methodology selection, penalizing legitimate analytical diversity, diverting supervisory attention, creating unnecessary additional oversight, and raising due process concerns. We believe the suggestions offered above may be beneficial in addressing those risks while supporting the NAIC's objectives. We stand ready to work constructively with the NAIC, the CRP Working Group, and other stakeholders in furtherance of the NAIC's goals.

Respectfully submitted,

James Wiemken
Global Head of Rating Services

STRUCTURED FINANCE ASSOCIATION

July 03, 2026

Via Electronic Mail:* *jren@naic.org*, *dgenao1@naic.org

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Re: NAIC - CRP Due Diligence Framework

Dear Ms. Ren and Ms. Genao:

The Structured Finance Association ("SFA") appreciates the opportunity to provide comments on the NAIC's proposed Credit Rating Provider ("CRP") Due Diligence Framework (the "Framework").

SFA is a consensus-driven trade association representing participants across the structured finance market, including issuers, investors, insurance companies, credit rating agencies, broker-dealers, law firms, service providers, and other market participants. These comments reflect the views of SFA's NAIC Task Force, with input from our Credit Rating Provider members. However, it may be the case that individual members have different views than those reflected in this letter; in such cases, individual members may communicate their views directly to the NAIC.

At the outset, SFA supports the NAIC's objective of developing a thoughtful, risk-based framework to better understand credit rating processes and evaluate the role of Credit Rating Providers within the insurance regulatory system. Given the importance of credit ratings within the NAIC designation framework, we appreciate regulators' efforts to promote confidence in credit ratings used for regulatory purposes while ensuring appropriate oversight.

SFA recognizes that the growing diversity of credit ratings providers, asset classes, and market structures presents legitimate challenges for regulators seeking to ensure that ratings incorporated into the NAIC designation framework continue to serve as reliable indicators within the NAIC designation framework and broader assessment of investment risk. We appreciate the NAIC's efforts to develop a more transparent and consistent oversight framework in response to these developments.

As the Framework continues to develop, SFA respectfully offers the following observations and recommendations.

I. Preserving Methodological Independence and Diversity of Opinion

The Framework places significant emphasis on concepts such as “alignment,” “equivalency,” and “consistency” among CRP ratings. We presume that the Framework intends to review the alignment, equivalency, and consistency of a CRP’s ratings with its mapping to NAIC designations, while respecting the differentiation in opinions and methodologies that do and should exist.

Since differences in credit rating outcomes across CRPs are an expected feature of CRPs with differences in analytical opinions and methodologies, we do not believe that differences between individual ratings are necessarily inappropriate, nor do we believe that the existence of such differences equates to a lack of comparability.

CRPs employ different methodologies, analytical assumptions, surveillance practices, and rating philosophies. As a result, variation in credit rating outcomes may reflect differing but analytically valid approaches to assessing credit risk rather than evidence of inconsistency or weakness in certain credit rating outcomes.

Methodological diversity and independent analytical judgment among credit rating agencies are important strengths of the U.S. capital markets. This principle is reflected in the post-Global Financial Crisis U.S. regulatory framework, as Congress, through Dodd-Frank, sought to promote competition and diversity of analytical viewpoints among CRPs. The availability of multiple analytical perspectives has contributed to market depth, innovation, and resilience. Accordingly, SFA encourages the NAIC to ensure that the Framework does not unintentionally encourage credit rating convergence, standardization of credit rating outcomes, or homogenization of CRP methodologies.

We are encouraged that the NAIC’s Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework (“NAIC Questions and Responses”) published on June 26 speaks to this issue by committing to respect the methodological diversity among CRPs[1]. SFA believes that credit rating equivalency should not be interpreted as ratings uniformity. Differences in analytical approaches can coexist with a shared objective of providing independent credit rating opinions on rigorous methodologies, and the Framework should preserve space for legitimate methodological differences while promoting confidence in CRP processes.

III. Coordination with Existing Regulatory Oversight

SFA encourages the NAIC to coordinate closely with supervisory authorities responsible for oversight of credit rating agencies and avoid creating duplicative or potentially inconsistent oversight obligations.

CRPs already operate within extensive regulatory frameworks, including oversight by the SEC’s Office of Credit Ratings and, in many cases, international supervisory authorities. While findings from these regulators may provide useful context in certain limited circumstances, SFA believes additional clarity

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[1] *Questions and Responses for the Proposed Credit Rating Provider Due Diligence Framework*, 10. Available at https://content.naic.org/sites/default/files/inline-files/questionsresponsescrpduediligenceframeworkproposal_1.pdf

would be required regarding how such information would be evaluated, contextualized, and incorporated into the Framework.

We are encouraged that the NAIC Questions and Responses speaks to this issue by characterizing the NAIC's role as a consumer of ratings that is considering how to adjust its own regulatory reliance, rather than an external supervisor of CRPs[2]. At the same time, we note that the NAIC in this context is unique in its role as the consumer of ratings, and the Framework should avoid practices that inadvertently result in reducing the diversity of perspectives and methodologies that currently exists among CRPs. We reiterate that the Framework should seek to avoid duplicative requests for information, governance reviews, methodology assessments, or supervisory inquiries that are already addressed through existing regulatory processes.

IV. Confidentiality and Information Governance

The Framework contemplates the collection and review of significant amounts of CRP information. Some information--including ratings data—may be shared by CRPs, subject to the NAIC providing additional clarity regarding cybersecurity safeguards, information segregation controls, retention policies, access controls, and protections applicable to submitted materials.

However, when seeking other categories of information—including supervisory materials and examination findings—a more appropriate path would be for the NAIC to first seek such materials directly from the respective supervisor or regulator, subject to limitations outlined above in Section III. CRPs may be subject to restrictions on selectively sharing confidential supervisory findings with users of ratings, and encourages the NAIC to provide additional clarity regarding the circumstances under which such information may be requested, shared, or relied upon, including cooperation with existing supervisory authorities.

We welcome the NAIC's confirmation that access to CRP data submissions and confidential diligence information will be limited to U.S. state insurance regulators and NAIC staff. To give that commitment full effect, we seek confirmation that all reasonable administrative, technical, and organizational safeguards will be maintained to protect this information against unauthorized access or disclosure, and that any onward sharing will occur only with the submitting CRP's consent. We welcome the opportunity to further engage on the specific mechanisms for such information sharing, including formal arrangements between regulators and the NAIC. [3]

V. Remediation Actions and Due Process Protections

SFA appreciates the NAIC's efforts to establish a structured governance process and remediation framework. However, the proposal contemplates a range of potentially significant remediation actions, including translation matrix adjustments, additional rating requirements, removal of filing-exempt treatment, and CRP de-admittance.

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[2] Ibid., 10, 19-20
[3] Ibid., 19-20

Given the potentially significant market implications associated with these actions, SFA believes the Framework would benefit from additional procedural safeguards and greater clarity regarding the standards supporting remediation decisions.

At a minimum, CRPs should receive timely notice of concerns, access to the information and analyses supporting proposed findings, and a meaningful opportunity to respond prior to the implementation of materially adverse actions. Additional clarity regarding the criteria, evidentiary standards, and decision-making process supporting remediation actions would help market participants better understand how the Framework will be implemented in practice. SFA also encourages the NAIC to establish a transparent process for reassessment of remediation measures, including clarity regarding review cycles, duration, and the circumstances under which remedial actions may be modified, lifted, or reversed based on new information or CRP's corrective actions.

We are encouraged by the specific actions proposed in the NAIC Questions and Responses that an affected CRP will receive a confidential and detailed explanation, along with the opportunity to present its case in a regulator-only session. The 3 to 6-month notice period is directionally appropriate to mitigate adverse market impacts as well.[4] However, we reiterate that NAIC must develop and publish clear objective thresholds for the basis of an action taken against a CRP.

Because ratings are deeply embedded within investment mandates, capital frameworks, and portfolio management practices, significant remediation actions may have implications beyond the affected CRP. SFA encourages the NAIC to consider potential market impacts when designing implementation timelines and remediation procedures.

VI. Considerations for Private Market Securities

SFA supports the NAIC's efforts to develop a data-driven framework while recognizing the unique characteristics of private market securities.

Many privately rated securities are highly customized and frequently rated by only a single CRP. Structured finance and private market transactions often involve highly bespoke structures, collateral pools, legal features, and transaction-specific considerations that may limit the usefulness of broad statistical comparisons across securities.

As a result, direct comparisons across different securities may not always provide a reliable basis for assessing rating equivalency or methodological consistency. However, private market securities should not be presumed to present data insufficiency concerns solely because they may lack extensive historical performance records. The Framework should instead focus on whether the CRP has appropriate methodologies, governance, surveillance practices, and analytical processes in place to evaluate available information, including the use of relevant proxy data where appropriate.

[4] Ibid. 13-15

The Framework would benefit from additional consideration of these factors when developing quantitative testing approaches, escalation criteria, and equivalency assessments. We encourage the NAIC to focus on ensuring that CRP ratings are mapped appropriately to NAIC designations and, where relevant to its designation function, on analytical rigor, governance, and methodological quality.

VII. Considerations for Emerging Asset Classes

SFA encourages the NAIC to recognize that limited historical performance data is often an inherent characteristic of emerging asset classes, which will likely limit the usefulness of historical-data-based risk assessments and make it difficult to draw reliable sector-wide conclusions regarding rating equivalency, consistency, or relative performance across CRPs.

The absence of extensive performance history should not, by itself, be treated as evidence of deficient rating quality or elevated risk. Emerging asset classes frequently develop more quickly than the historical datasets available to evaluate them. A more relevant consideration is whether sufficient data exists—either historical or proxy—to support a reasoned credit assessment in a particular asset class. Determinations regarding the sufficiency of such information are inherently analytical judgments and may reasonably differ across CRPs. Accordingly, to the extent the Framework evaluates CRPs in this area, it should focus on whether CRPs maintain robust frameworks, controls, and governance for making such determinations, consistent with the NAIC's designation function and without duplicating existing CRP regulatory oversight, rather than on reassessing the specific data and analytical judgments reached through those processes.

The NAIC Questions and Responses appears to contemplate this dynamic, noting that an initial default to a "High Risk" classification is not an adverse finding or a declaration of deficiency. Instead, it is a calibration tool to determine the sample size and scope of Detailed Testing. We are further encouraged by confirmation that the NAIC will factor in analytical conservativism—such as haircuts and stress assumptions—when proxy data is used in emerging asset classes.[5]

SFA encourages the NAIC to ensure that escalation criteria and review processes appropriately account for these realities and place appropriate weight on analytical rigor, methodology development, governance, and surveillance practices, and we welcome further engagement as the Framework evolves,

Conclusion

SFA appreciates the NAIC's efforts to develop a structured and risk-based framework for evaluating Credit Rating Providers. We support the objective of enhancing confidence in ratings used for regulatory purposes while preserving methodological independence, diversity of opinion, analytical rigor, and competition among rating providers.

SFA believes the NAIC can achieve its objective of strengthening confidence in ratings used for regulatory purposes while preserving the diversity of analytical approaches that has long characterized

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[5] Ibid. 4-6, 7-9.

the U.S. ratings market. We encourage the NAIC to continue engaging with market participants as the Framework evolves and appreciate the opportunity to contribute to that dialogue, including future opportunities to comment on revisions and enhancements to the framework.

We would welcome the opportunity to discuss these comments further and facilitate additional engagement with structured finance market participants.

Sincerely,

Dallin Merrill
Head of Policy
Structured Finance Association

1. **Opposition to “Rating Convergence" and Standardization**

   - **Summary** - Comments emphasize that credit rating differences are a natural and healthy feature of a competitive market. They argue that the NAIC should not penalize rating divergence or try to force ratings into a standardized mode.

   - **Response** - The NAIC acknowledges that there are variations in methodologies that reach reasonable conclusions. The Framework allows for methodology variability and is intended to flag rating outcome outliers for purposes of supporting consistent translation of CRP ratings to NAIC Designations.

2. **Rejection of the NAIC Usage of Confidential SEC/OCR Exam Findings**

   - **Summary** - There is a broad rejection of the NAIC's proposal to collect non-public SEC annual exam findings. Comments state that these are point-in-time, context-specific staff views.

   - **Response** - The NAIC will consider limiting its use to any non-anonymized final or fully adjudicated report from the SEC or other regulator.

3. **Cybersecurity and Data Governance Concerns**

   - **Summary** - Comments state a demand for robust information security protocols, data segregation, and independent audits before any new data-sharing requirements take effect.

   - **Response** - These safeguards are paramount and will be addressed and incorporated as the Framework is built and implemented, however, the cybersecurity and data governance safeguards are not planned to be included within the CRP Due Diligence Whitepaper.

4. **Flaws in Quantitative Scoping for Private and Emerging Markets**

   - **Summary** - Private and emerging market assets are often single-rated and highly customized. Automatically defaulting them to "High Risk" due to limited data penalizes innovation and creates a structural bias toward entrenched, legacy providers.

   - **Response** - “High Risk” will be changed to “High Priority” in the Framework. The intent is not to penalize innovation. Emerging asset classes would, however, be more likely to undergo detailed testing.

5. Demand for Robust Due Process and Insurer Notice

- **Summary** - Commenters state that Tier 2 remediation (de-admitting a Credit Rating Provider, a.k.a. CRP, or removing Filing-Exempt status) can dislocate credit markets, and request a formalized appeal processes, written findings of fact, clear de-admission/re-admission standards, and adequate advance notice to protect legacy holding and prevent forced selling.

- **Response** - The Framework states a defined notice period that is expected to range from three to six months. The defined notice period is consistent with 120 days within which securities must be filed if NAIC CRPs withdraw a credit rating. (Refer to Purposes and Procedures Manual of the NAIC Investment Analysis Office).

6. Improve with Clear Definitions for Key Concepts

- **Summary** - Comments ask for a clearer definition of subjective terms such as equivalency.
- **Response** - Where appropriate, the NAIC will provide additional clarity in the Framework. For example, reasonableness within the context of detailed testing is defined as a rating that is within the 3 subnotch threshold described within the paper. Other definitions such as materiality and “significant” will remain undefined to preserve scalability and flexibility within the framework.

7. Request for Criteria and Process for Re-admittance

- **Summary** - Comments ask the Framework to have the process for re-admission articulated when a CRP is de-admitted.

- **Response** - CRPs subject to de-admittance may be permitted to re-apply for CRP status at a later date, subject to applicable acceptance criteria that is stated in the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

8. Consider Providing Greater Detail for Quantitative Thresholds

- **Summary** - Comments encourage the NAIC’s consideration to provide greater detail regarding quantitative thresholds throughout the Framework and publicly disclose quantitative testing.

- **Response** - Quantitative tests and thresholds in the Framework are intended to evolve over time. The language in the Framework is intentionally kept undefined to reserve for flexibility for future updates.

9. Request for Additional Clarity on CRP Data Collection

- **Summary** - Comments request for additional clarity regarding data submission and publication of comprehensive technical specifications.

- **Response** - The NAIC will post a more detailed requirement for data requests.

10. Request for an Independent Review of SVO Designations

- **Summary** - Comments ask the NAIC to use its resources to conduct an independent review of its own Securities Valuation Office (SVO) designations to ensure regulatory consistency and avoid the appearance of preferential treatment.

- **Response** - The NAIC has made a policy decision to permit the SVO to rely on CRP ratings to assign certain NAIC designations. The framework applies to assets whose NAIC Designation is derived from a CRP rating and will not include an independent review of the SVO. The CRP Due Diligence Framework is led by the CRP Working Group, as supported by NAIC staff, with inputs and information sharing amongst the Invested Assets Task Force working groups, to assess CRP ratings and ensure reasonability in the assessment of investment risk.