



Date: 4/18/2024

Valuation of Securities (E) Task Force

Thursday, May 2, 2024

3:00 p.m. - 4:00 p.m. ET / 2:00 p.m. - 3:00 p.m. CT / 1:00 p.m. - 2:00 p.m. MT / 12:00 p.m. - 1:00 p.m. PT

ROLL CALL

Member	Representative	State
Doug Ommen, Chair	Carrie Mears	Iowa
Eric Dunning, Vice Chair	Lindsay Crawford	Nebraska
Mark Fowler	Sheila Travis	Alabama
Lori K. Wing-Heier	David Phiher	Alaska
Ricardo Lara	Laura Clements	California
Andrew N. Mais	Ken Cotrone	Connecticut
Michael Yaworsky	Ray Spudeck	Florida
Dean L. Cameron	Eric Fletcher	Idaho
Ann Gillespie, Acting Director	Vincent Tsang	Illinois
Vicki Schmidt	Tish Becker	Kansas
Timothy J. Temple	Stewart Guerin	Louisiana
Kathleen A. Birrane	Gregory Ricci	Maryland
Rachel Davison, Acting Commissioner	John Turchi	Massachusetts
Grace Arnold	Fred Andersen	Minnesota
Chlora Lindley-Myers	Debbie Doggett	Missouri
D.J. Bettencourt	Jennifer Li	New Hampshire
Justin Zimmerman	John Sirovetz	New Jersey
Adrienne A. Harris	Robert Kasinow	New York
Jon Godfread	James Everett	North Dakota
Judith L. French	Matt Fischer	Ohio
Glen Mulready	Tom Botsko	Oklahoma
Michael Humphreys	Diane Carter	Oklahoma
Cassie Brown	Diana Sherman	Pennsylvania
Jon Pike	Amy Garcia	Texas
Scott A. White	Jake Garn	Utah
Mike Kreidler	Doug Stolte	Virginia
Nathan Houdek	Katy Bardsley	Washington
	Amy Malm	Wisconsin

NAIC Support Staff: Charles Therriault/Marc Perlman

AGENDA

Discuss and Consider for Adoption:

1. Proposed P&P Manual Amendment to Update U.S. Government Agency and Other U.S. Government Obligation Abbreviations (Doc. ID: 2024-002.01) Attachment A
—Carrie Mears (IA), Linda Phelps (NAIC), Peter Kelly (NAIC)

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| 2. Proposed P&P Manual Amendment to Update References to the SSAPs in Guidance for Subsidiary, Controlled and Affiliated (SCA) and Related Party Bond or Preferred Stock Investments
(Doc. ID: 2024-003.01)
—Carrie Mears (IA), Charles A. Therriault (NAIC), and Marc Perlman (NAIC) | Attachment B |
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Receive and Consider for Exposure:

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| 3. Proposed P&P Manual Amendment to Permit NAIC Designations for Short-term ABS
(Doc. ID: 2024-005.01)
—Carrie Mears (IA), Charles A. Therriault (NAIC), and Marc Perlman (NAIC) | Attachment C |
| 4. Proposed P&P Manual Amendment to Add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1
(Doc. ID: 2024-006.01)
—Carrie Mears (IA), Charles A. Therriault (NAIC), and Marc Perlman (NAIC) | Attachment D |
| 5. Proposed P&P Manual Amendment to Change the Effective Date for the Implementation of CLO Modeling
(Doc. ID: 2024-007.01)
—Carrie Mears (IA), Charles A. Therriault (NAIC), and Marc Perlman (NAIC) | Attachment E |
| 6. Proposed P&P Manual Amendment to Clarify Permitting Insurers to Self-assign an NAIC Designation 6*
(Doc. ID: 2024-008.01)
—Carrie Mears (IA), Charles A. Therriault (NAIC), and Marc Perlman (NAIC) | Attachment F |
| 7. Proposed P&P Manual Amendment to Make Current the List of SVO Processes
(Doc. ID: 2024-009.01)
—Carrie Mears (IA), Charles A. Therriault (NAIC), and Marc Perlman (NAIC) | Attachment G |

Hear Staff Report:

8. Updates on the Proposed CLO Modeling Methodology and Ad-hoc Working Group
—Eric Kolchinsky (NAIC)
9. Any other matters



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the "P&P Manual") to Update U.S. Government Agency and Other U.S. Government Obligation Abbreviations

DATE: February 16, 2024

Summary: In conjunction with the implementation of the principles-based bond definition, there were related modifications made to Schedule D, Part 1 of the Annual Statements. The SVO has identified abbreviations for various U.S. government or Other U.S. government entities that will need to be shortened given space limitations and need to eliminate conflicting abbreviations (e.g. "VA" for both Virginia and U.S. Department for Veterans Affairs) for insurance company statement blanks reporting purposes beginning 1/1/2025. As noted in the changes to the annual statement instructions adopted by the Blanks (E) Working Group on Nov. 17, 2023, for Column 24 - Agency, Sovereign Jurisdiction or State Abbreviation, "*For items captured as U.S. government or Other U.S. government, report "US" for treasury-issued items and for non-treasury items, report the abbreviation for the agency issuer captured within these categories. (Agency abbreviations are detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office in the listing of agencies approved for these categories.)*"

Recommendation: The SVO recommends adoption of this proposed technical amendment to comply with field size limitations on insurance company statement blanks in advance of the 1/1/2025 implementation of the new statement blanks. The proposed text changes to the P&P Manual are shown below with additions in red underline, and deletions in ~~red strikethrough~~ as it would appear in the 2024 P&P Manual format.

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

FILING EXEMPTIONS

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FILING EXEMPTION FOR U.S. GOVERNMENT SECURITIES

Definitions

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78. **U.S. Government Agency** – An instrumentality of the U.S. Government the debt Obligations of which are fully guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. Government. This category includes in addition to direct claims on, and the portions of claims that are directly and unconditionally guaranteed by, the U.S. Government agencies listed below, claims collateralized by securities issued or guaranteed by the U.S. Government agencies listed below for which a positive margin of collateral is maintained on a daily basis, fully taking into account any change in the insurance company’s exposure to the obligor or counterparty under a claim in relation to the market value of the collateral held in support of that claim.

U.S. Government Full Faith and Credit – Filing Exempt

Army and Air Force Exchange Service (AAFES)
Commodity Credit Corporation (CCC)
Export–Import Bank of the United States (EXIM **Bank**)
Farmers Home Administration (FmHA) – Certificates of Beneficial Ownership
Federal Deposit Insurance Corporation (FDIC)
Federal Housing Administration (FHA)
General Services Administration (GSA)
Government National Mortgage Association (GNMA)
National Credit Union Administration (NCUA)
Overseas Private Investment Corp (OPIC)
Small Business Administration (SBA)

U.S. Agency for International Development (USAID)
U.S. Department of Agriculture (USDA)
U.S. Department of Health and Human Services (**USHHS**)
U.S. Department of Housing and Urban Development (**USHUD**)
U.S. Department of the Treasury (**UST**)
U.S. Department of Veterans Affairs (**USVA**)
U.S. International Development Finance Corporation (**USIDFC**)
U.S. Maritime Administration (**MARADUSMA**)
Washington Metropolitan Area Transit Authority (**WMTA**)

Definitions Filing Exemption for Other U.S. Government Obligations

79. Obligations issued and either guaranteed or insured, as to the timely payment of principal and interest, by the government agencies or government-sponsored enterprises listed below are filing exempt. They are not backed by the full faith and credit of the U.S. Government. The filing exemption here is based on an analytical judgment that the combined creditworthiness of the entity itself and U.S. government support for that entity provides confidence that the issuer will be able to pay its obligation on a full and timely basis at the level of an **NAIC 1** quality designation and an NAIC Designation Category of **NAIC 1.A**. For the avoidance of doubt, preferred stock or similar securities of the government agencies or government-sponsored enterprises listed below are not considered guaranteed or insured and hence are not subject of this section.

**Filing Exempt Other U.S. Government Obligations
if issued and either fully guaranteed or insured by:**

Federal Agricultural Mortgage Corporation (~~Farmer Mae~~FAMC)
Federal Farm Credit Banks (FFCB)
Federal Financing Bank (FFB)
Federal Home Loan Banks (FHLB)
Federal Home Loan Mortgage Corporation (~~Freddie Mae~~FHLMC)
Federal National Mortgage Association (~~Fannie Mae~~FNMA)
Financing Corporation (FICO)
Resolution Funding Corporation (~~REFCorp~~RFCorp)
Tennessee Valley Authority (TVA)

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/01-Blanks abbreviations/2024-002.01 P&P Manual US Government Abbreviations.docx>

SVO



NAIC
NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: Technical Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the "P&P Manual") regarding Subsidiary, Controlled and Affiliated (SCA) and Related Party Bond or Preferred Stock Investments

DATE: January 16, 2024

Summary – In December 2022, the Task Force adopted amendments to the Subsidiary, Controlled and Affiliated ("SCA") and Related Party Bond or Preferred Stock Investments section of the P&P Manual, to more clearly define SCA investments and include related party investments. Within the definition of an SCA and related party bond, reference was made to paragraph 4.a. in *SSAP No. 43R – Loan-Backed and Structured Securities* to define which structured or loan-backed investments would qualify as an SCA or related party bond. Subsequent to the adoption of the P&P Manual Amendment, *SSAP No. 43R – Loan-Backed and Structured Securities* was amended so the paragraph reference in the P&P Manual is no longer accurate. Additionally, with the implementation of the Principals Based Bond Definition by the Statutory Accounting Principles (E) Working Group the name of *SSAP No. 43R* will be changing from "Loan-Backed and Structured Securities" to "Asset-Backed Securities" on January 1, 2025.

Recommendation – To avoid the need for further P&P Manual updates due to potential future amendments to *SSAP No. 43R*, the SVO proposes a technical amendment to (i) remove the paragraph-specific reference to *SSAP No. 43R* and (ii) to include a note that, as of January 1, 2025, the P&P Manual references will be updated without any further action necessary by the Task Force to reflect *SSAP No. 43R's* new name, "*SSAP No. 43 - Asset-Backed Securities*".

Proposed Amendment - The proposed text changes to P&P Manual are shown below with additions in red underline, deletions in ~~red strikethrough~~ as it would appear in the 2024 P&P Manual format.



PART THREE

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



256. Bonds – An investment (except for those investments that fit the examples detailed in the “SCA and Related Party Filing Exempt Investments” section below), in the form of a bond (i) *issued* by an insurance or noninsurance SCA or related party of the reporting insurance company, or (ii) issued as part of a structure which would, pursuant to ~~paragraph 4.a. of SSAP No. 43R~~ – *Loan-Backed and Structured Securities**, qualify as a related party investment due to the reporting insurance company’s credit risk exposure to the SCA or related party (“SCA and related party bond”), is filed with the SVO. To file an SCA and related party bond investment, the reporting insurance company files an Audited Financial Statement for the subsidiary, a copy of the corporate resolution authorizing the issuance of the debt, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary and, if the subsidiary is an insurance company, the subsidiary’s most recent NAIC Financial Statement Blank, together with the reporting insurance company’s NAIC Financial Statement Blank, internal investment committee memorandum for the investment and loan documentation appropriate to the transaction.

*NOTE: As of January 1, 2025, when the name of SSAP No. 43R changes to “SSAP No. 43 - Asset-Backed Securities”, the name in this paragraph and any other references to SSAP No. 43R in this Manual will be changed accordingly.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/02-SCA References to SSAPs/2024-003.01_VOSTF_TechAmend_SVO_RelatePartiesv2.docx



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
 Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
 Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: Proposed P&P Manual Amendment to Permit NAIC Designations for Short-term ABS

DATE: April 16, 2024

Summary: The Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 2R - *Cash, Cash Equivalents, Drafts and Short Term Investments* in the Accounting Practices & Procedures Manual (AP&P) on Dec. 1, 2023. The revisions, which will be effective Jan. 1, 2025, further restrict the investments that are permitted for cash equivalent or short-term investment reporting. The revisions are below in their final form with highlights in **bold underline** added.

Adopted revisions to SSAP No. 2R:

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Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5. **Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents** and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All investments that are reported on Schedule BA, including but not limited to:

- i. All debt securities that do not qualify as bonds in scope of SSAP No. 21R.
- ii. Collateral/Non-Collateral loans captured in scope of SSAP No. 21R.



iii. Working capital finance investments in scope of SSAP No. 105R.

iv. Surplus notes in scope of SSAP No. 41

c. Mortgage loans captured in scope of SSAP No. 37.

d. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.

e. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

...

Short-Term Investments

14. Short-term investments are investments that do not qualify as cash equivalents, but that are still considered highly liquid as they have remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5. **Regardless of maturity date, the following investments are not permitted to be reported as short-term investments** and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All investments that are reported on Schedule BA, including but not limited to:

i. All debt securities that do not qualify as bonds in scope of SSAP No. 21R.

ii. Collateral/Non-Collateral loans captured in scope of SSAP No. 20R or 21R.

iii. Working capital finance investments in scope of SSAP No. 105R.

iv. Surplus notes in scope of SSAP No. 41R.

c. Mortgage loans captured in scope of SSAP No. 37.

d. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.

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Asset-backed securities captured within scope of what will be the revised SSAP No. 43 – *Asset Backed Securities*, as of Jan. 1, 2025, are expressly excluded from the definition of Cash Equivalents and Short-Term Investments. This amendment proposes to permit the assignment of an NAIC Designation to these investments if they are captured within the scope of the revised SSAP No. 43 – *Asset Backed Securities* and are eligible to be reported on Schedule D, Part 1, Sub-part 2 as an Asset Backed Security.

Recommendation: The Securities Valuation Office (SVO) recommends adoption of this conforming amendment to permit securities that qualify under SSAP No. 43 – *Asset Backed Securities* to be reported with an NAIC Designation and NAIC Designation Category assigned in compliance with the guidance in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). The proposed text changes to the P&P Manual are shown below with additions in **red underline** and deletions in **red strikethrough**, as it would appear in the 2023 P&P Manual.



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



SPECIAL INSTRUCTIONS

Short-Term Investments

128. A short-term investment is defined as an investment that has one year or less to maturity. Investments that have one year or less to maturity when issued are not reported to the SVO. Investments, which when acquired by an insurance company have one year or less to maturity, but which when issued had greater than one year to maturity, need only be reported to the SVO if they do not have an NAIC CRP rating or an NAIC Designation for the issuer. This guidance excludes investments that are captured in scope of SSAP No. 43 – Asset Backed Securities. Investments that are captured in scope of SSAP No. 43 – Asset Backed Securities shall follow the guidance in this Manual for the assignment of an NAIC Designation and NAIC Designation Category.

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/03-Short-term ABS/2024-005.01 PP Manual Short-term ABS v2.docx>

SVO



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: Proposed amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “P&P Manual”) to add Spain to the list of jurisdictions eligible for counterparty exposure netting

DATE: April 8, 2024

Summary –

Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”), a bank organized under the laws of the Kingdom of Spain, has requested the addition of Spain to the P&P Manual’s list of jurisdictions eligible for counterparty close-out netting.

The purpose of identifying jurisdictions eligible for close-out netting is to permit the calculation of credit risk exposures to counterparties in Schedule DB, Part D, Section 1. The netting of offsetting liabilities with a counterparty will only be permitted in that Schedule if there exists a master agreement that provides for such netting and if there is adequate legal certainty that closeout netting would be enforced upon default of the counterparty. The P&P Manual provides for the addition of jurisdictions to the list of jurisdictions eligible for close-out netting if, in the SVO’s opinion, legal opinions and/or other analysis provides adequate legal certainty that, upon default of the counterparty, closeout netting would be enforced.

In support of its application, BBVA submitted a legal opinion of the law firm Clifford Chance, S.L.P. on the validity and enforceability of close-out netting provisions under Spanish law. The opinion was commissioned by the International Swaps and Derivatives Association (ISDA), a private trade organization whose mission is to foster safe and efficient derivatives markets, in part through the development of standardized documentation. ISDA netting opinions are widely and accepted by regulators around the globe, specifically by banking regulators.

Each of the netting opinions commissioned by ISDA, including the Spanish opinion, spell out various

parameters, specific to the laws of the relevant jurisdiction, which a master agreement must meet to be consistent with the opinion. For example, according to the Spanish opinion, there are different requirements for netting enforceability depending on whether the insolvent Spanish counterparty is or is not a Spanish bank, credit institution, investment firm or broker dealer. It would be impracticable to expect the SVO to review all master agreements for compliance with the parameters delineated in the netting opinion for the relevant jurisdiction. Therefore, we propose amending the netting eligibility section of the P&P Manual to include a proviso that it is assumed that each master agreement complies with the parameters delineated in the netting opinion for the relevant jurisdiction.

Upon its review of the Spanish law opinion, the SVO has determined that it provides adequate legal certainty that closeout netting would be enforced (assuming, that master agreement provisions are consistent with the parameters explained in the netting opinion) and proposes adding Spain to the list of jurisdictions eligible for counterparty exposure netting.

Proposed Amendment - The proposed text changes to the P&P Manual are shown below with additions in red font color and deletions in ~~red-strikethrough~~, as it would appear in the 2023 P&P Manual format.

PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTION
APPLICABLE TO THE SVO

COUNTERPARTY EXPOSURE; NETTING ELIGIBILITY

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Netting Eligibility

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139. The VOS/TF has determined that there is adequate legal certainty to permit netting of exposures for counterparties domiciled within the United States. Netting of exposures for a foreign (non-U.S.) counterparty will be permitted if its domiciliary jurisdiction has been approved for listing in the List of Jurisdictions Eligible for Netting. Other jurisdictions may be added to the List of Jurisdictions Eligible for Netting if, in the opinion of the SVO, after consultation with the VOS/TF, legal opinions or analyses provide adequate legal certainty that upon default of the counterparty, close-out netting would be enforceable. The SVO's opinion of adequate legal certainty is based on the assumption, authorized by the VOS/TF, that each master agreement will comply with any parameters delineated in the netting opinion for its relevant jurisdiction.

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LIST OF FOREIGN (NON-U.S.) JURISDICTIONS ELIGIBLE FOR NETTING FOR PURPOSES OF DETERMINING EXPOSURES TO COUNTERPARTIES FOR SCHEDULE DB, PART D, SECTION 1

Procedures for Determining NAIC Designations and Netting Eligibility for Derivate Instrument Counterparties

146. **Netting Eligibility** – The purpose of identifying jurisdictions eligible for netting is to permit the calculation of credit risk exposures to counterparties in Schedule DB, Part D, Section 1. The netting of offsetting liabilities with a counterparty will only be permitted in this Schedule if there exists a master agreement that provides for such netting and if there is adequate legal certainty that closeout netting would be enforced upon default of the counterparty.
147. **Legal Certainty for Netting Eligibility** – There is adequate legal certainty to permit netting of exposures for counterparties domiciled within the United States. Netting of exposures in Schedule DB, Part D, Section 1 will be permitted for a foreign (non-U.S.) counterparty if its domiciliary jurisdiction appears on the list in this subparagraph. Jurisdictions will appear on the list if, in the opinion of the SVO, legal opinions and/or analyses provide adequate legal certainty that upon default of the counterparty, closeout netting would be enforced. The SVO's opinion of adequate legal certainty is based on the assumption, authorized by the VOS/TF, that each master agreement will comply with any parameters delineated in the netting opinion for its relevant jurisdiction.

Jurisdiction

Australia
Belgium
Canada
Cayman Island
England
France
Germany
Ireland
Japan
Scotland
Singapore
Spain
Switzerland

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/04-Spain Netting/2024-004.08 P&P_Spain_Netting.docx



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: P&P Manual Amendment to Change the Effective Date for the Financial Modeling of CLOs by SSG to 2025

DATE: April 16, 2024

Summary: At the 2024 Spring National Meeting the Structured Securities Group (SSG) requested a change to the effective date for the financial modeling of collateralized loan obligations (CLOs) to assign NAIC Designations and NAIC Designation Categories to year-end 2025 from year-end 2024. The Task Force agreed to this change. The additional time will permit SSG to improve the methodology and allow better alignment with the approach of other NAIC workstreams.

Recommendation: The Securities Valuation Office (SVO) recommends inclusion of the attached notice in the 2024 *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) informing insurers of the implementation date change and including it on the Task Force's webpage of Adopted Interim Changes to the P&P Manual. The proposed text changes to the P&P Manual are shown below with additions in **red underline** and deletions in **red-strikethrough**, as it would appear in the 2023 P&P Manual.



PREVIOUSLY ADOPTED AMENDMENTS TO THE P&P MANUAL EFFECTIVE IN ~~2024~~ 2025

The following amendments were adopted by the VOS/TF in 2023 to be effective for ~~2024~~ 2025.

- **Adopted an amendment including Collateralized Loan Obligations (CLO) as a Financially Model Security in Part Four** – A collateralized loan obligation (CLO) is type of structured security backed by a pool of debt, typically corporate loans with low credit ratings. An insurer that purchases every tranche of a CLO holds the exact same investment risk as if it had directly purchased the entire pool of loans backing the CLO. The aggregate risk-based capital (RBC) factor for owning all of the CLO tranches should be the same as that required for owning all of the underlying loan collateral. If it is less, it means there is risk-based capital (RBC) arbitrage. As noted in the Investment Analysis Office’s (IAO) memo of May 25, 2022, “Risk Assessment of Structured Securities – CLOs”, it is currently possible to materially (and artificially) reduce C1 capital requirements just by securitizing a pool of assets. The Task Force assigned the Structured Securities Group (SSG) the responsibility of financially modeling CLO investments and evaluating all tranche level losses across all debt and equity tranches under a series of calibrated and weighted collateral stress scenarios to assign NAIC Designations that create equivalency between securitization and direct holdings, thereby eliminating RBC arbitrage. This amendment is effective beginning with year-end ~~2024~~2025.

The Valuation of Securities (E) Task Force adopted this amendment on Feb. 21, 2023



PART FOUR
THE NAIC STRUCTURED SECURITIES GROUP



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Use of Financial Modeling for Year-End Reporting for CLO, RMBS and CMBS

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24. Beginning with year-end ~~2024~~ 2025 for CLOs, probability weighted net present values will be produced under NAIC staff supervision by SSG using its financial model with defined analytical inputs selected by the SSG. SSG will model CLO investments and evaluate all tranche level losses across all debt and equity tranches under a series of calibrated and weighted collateral stress scenarios to assign NAIC Designation Categories for a specific CLO tranche as determined by the NAIC.

NOTE: Please refer to SSAP No. 43R—Loan-Backed and Structured Securities for guidance on all accounting and related reporting issues.

NOTE: Effective as of January 1, ~~2024~~ 2025, SSG will financially model CLOs.

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/05-CLO Effective Date/2024-007.01 PP Manual CLO Effective Date.docx>



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: Proposed P&P Manual Amendment to Clarify that an NAIC Designation 6* can be Self-assigned

DATE: April 16, 2024

Summary: The Securities Valuation Office (SVO) was requested to review the instructions for the self-assignment by insurers of the NAIC 6* Designation. An NAIC 6* can be self-assigned. An NAIC 6* can be self-assigned by an insurer in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. An NAIC 6* can also be self-assigned when the security is deemed to possess the credit characteristics of securities assigned an NAIC 6, meaning the obligation is in or near default and payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement. An NAIC 6 obligation should incur the most severe treatment under the NAIC Financial Regulation Standards and Accreditation Program.

Recommendation: The SVO recommends the attached non-substantive updates to improve the clarity of the instructions for the self-assignment of an NAIC Designation of 6*. The proposed text changes to the P&P Manual are shown below with additions in red underline and deletions in ~~red strikethrough~~, as it would appear in the 2023 P&P Manual format. Editing notes have been added with [] to explain section moves. New text is highlighted in yellow.



PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO



PRODUCTION OF NAIC DESIGNATIONS

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NAIC DESIGNATIONS RELATED TO SPECIAL REPORTING INSTRUCTION

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~~28. NAIC 6* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. [Moving the paragraph to keep the NAIC 6* instructions together.]~~

...

30. NAIC 6* is self-assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met.

31. Securities with self-assigned NAIC 6* Designations are deemed to possess the credit characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/06-NAIC 6/2024-008-01 P&P Manual - NAIC 6.docx>



TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

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

RE: P&P Manual Amendment to Make Current the List of SVO Processes

DATE: April 16, 2024

Summary and Recommendation: The *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) references several processes by which the SVO identifies information, entities or securities for various lists for publication as part of its Compilation and Publication of the SVO List of Investment Securities responsibilities. We propose updating this section of the P&P Manual to remove those processes which the SVO no longer undertakes and to insert those processes which the SVO does perform but which are missing. Additionally, we propose revising the name of a list related to one of the SVO processes, the “List of Counterparties Rated by the SVO,” to the “List of Counterparties Designated by the SVO,” since the SVO produces Designations which are distinct from rating agency ratings.

The proposed text changes to the P&P Manual are shown below with additions in red underline and deletions in ~~red strikethrough~~, as it would appear in the 2023 P&P Manual.



PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS
APPLICABLE TO THE SVO



COMPILATION AND PUBLICATION OF THE SVO LIST OF INVESTMENT SECURITIES

Directive

3. On a quarterly basis, the SVO shall:

- Compile a list of Investment Securities from each of the data files defined as VOS Process, Filing Exempt Securities Process, CLO/RMBS/CMBS Modeled Securities Process, U.S. Treasury Process and the Exempt U.S. Government Securities Process (each an SVO Sub-List bearing the name of the corresponding Process).
- Exercise best efforts to identify any security in the VOS Process that has been filed by an insurance company without a valuation and to attempt to assign that security a valuation. The SVO may use whatever methodology may seem reasonable to it and may choose not to assign a valuation if doing so would be unreasonable. The VOS/TF considers that an imprecise valuation is of greater utility to the regulatory community than no valuation. However, the NAIC makes no representation that the SVO has the necessary expertise to produce accurate valuations. Accordingly, an insurance company that owns a security to which the SVO has assigned a value under this provision may substitute the SVO assigned value by obtaining or deriving a valuation in accordance with applicable NAIC annual statement reporting instructions and by reporting the valuation obtained to its insurance department on the NAIC Statement Blank.
- Aggregate the content of each SVO Sub-List into a single SVO List of Investment Securities (hereafter, the SVO List of Investment Securities) identifying each Investment Security by name and other pertinent information and showing the NAIC Designation assigned to them by the SVO or pursuant to such other methodology or procedure specified in this Manual.
- Compile, or cause to be compiled, sub-lists from the informational content of the ~~Derivative Counterparties Designated by the SVO P~~rocess, ~~Exchange Rates Process,~~ ~~Ex-Dividend Process,~~ ~~Letter of Credit~~ the Qualified U.S. Financial Institutions Process, ~~Money Market and Exchange Traded~~ the Funds Process, the Credit Ratings Eligible for Translation to NAIC Designations process, the Sovereign NAIC Designation Equivalent process, and the RSAT Index process ~~and Surplus Notes P~~rocesses, and any other SVO processes mandated by this Manual (each an SVO Sub-List bearing the name of the corresponding Process and collectively the “Other Information”).
- Publish, or cause the SVO List of Investment Securities and the Other Information to be published, by being incorporated into the NAIC’s AVS+ product.

...



Administration

143. **Listing a Counterparty** – An insurance company that wants to have a counterparty listed on the List of Counterparties ~~Rated~~ Designated by the SVO for Schedule DB, Part D, Section 1 shall submit to the SVO:
- A Counterparty Rating ATF Initial Filing Form.
 - Form CRR 1.
 - Evidence of an NAIC CRP counterparty rating, an NAIC CRP senior unsecured rating or a copy of the most recent Audited Financial Statement for the counterparty, or the counterparty's guarantor, so that the SVO can assess credit quality and assign an NAIC Designation.
 - Upon receipt of the above documents, the SVO shall convert the NAIC CRP rating into its equivalent NAIC Designation or perform a financial analysis of the counterparty, or the counterparty's guarantor, in order to assign an NAIC Designation.

<https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/07-SVO Lists/2024-009.01 PP Manual SVOProcessesAmendmentv2.docx>