



MEMORANDUM

TO: Stewart Guerin, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Bob Carcano, Senior Counsel, NAIC Investment Analysis Office

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

DATE: September 13, 2017

RE: FE Enhancements: Proposed Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Remove SVO Discretion to Ignore NAIC CRP Credit Ratings.

1. Background - On June 22 the Task Force adopted a statement expressing four policy objectives relative to the filing exempt (FE) process. It also released a document identifying issues specific to each policy objective. On July 14 and August 1 the Task Force discussed staff memoranda for each policy objective; and on August 1 released these for comment. One policy objective describes the role and responsibility of the IAO in administration of the FE process. The related staff memorandum conveyed that IAO understood that the Task Force intended only to transfer the administration of the automated FE process with authority to correct obvious errors process but without analytical discretion to ignore component credit ratings. The staff memorandum also expressed that the stated expectation that SVO monitor, study and recommend improvements to the FE process not consistent with the proposed SVO function because it implied the need to develop expertise, capabilities and internal processes inconsistent with what was envisioned as an administrative function. The staff memorandum also recommended P&P amendments to integrate the proposed functions into existing operational and administrative text. This memorandum proposes a P&P amendment to delete text that requires the IAO to exercise discretion when making FE determinations. Staff recommends that discussions relative to IAO responsibility to monitor, study and recommend improvements be undertaken as a separate process so that regulatory goals can be defined, a procedure created and resources identified and provided.

2. Proposed Amendment – The IAO recommends an amendment to Part One, Section 4 (c) (iv) of the P&P Manual as follows:

(iv) Disclosures and Considerations Related to the Translation of Credit Ratings into NAIC Designations - The presumption of convertibility accorded to a credit rating of a NAIC CRP should not be interpreted to indicate that NAIC Designations and NAIC CRP credit ratings are produced using identical methodologies or that they are intended to communicate the same information. SVO credit assessment is conducted for regulatory purposes and may therefore include considerations or address concerns unique to the regulatory community. ~~Accordingly, the SVO staff has discretion to ignore the rating of any given NAIC CRP if and when it is called upon to consider how to translate a credit rating issued by a NAIC CRP into an NAIC Designation.~~

~~Before an SVO analyst converts a credit rating assigned by a CRP into an NAIC Designation, he or she must first conclude that the analytical issues associated with the security and structure are adequately addressed by the CRP and that the SVO has an approved methodology for evaluating such a security under Section 2 (f) of this Part.~~

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