



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

DATE: October 4, 2017

RE: Proposed Amendment to the P&P Manual to Delete SVO Authority to Require the Filing of an FE Security

1. Introduction – On a conference call held Sept. 27, the Securities Valuation Office (SVO) was directed to prepare and present to the Task Force an amendment to the P&P Manual to delete the clause in Part Two, Section 4 (d) (i) that gives the SVO authority to require an insurer to file a filing exempt (FE) security. The direction arose from discussions held by the Task Force in relation to an SVO memorandum dated June 29, titled, “Amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to Implement Enhancements to the Administration of the Filing Exempt (FE) Process – Require Filing of Rated Security with the SVO.*” On its Aug. 1 conference call, the Task Force exposed the named memorandum for a public comment period, and the memorandum was again discussed on the Sept. 27 conference call. The requested amendment to the P&P Manual is shown below.

2. Proposed Amendment

Section 4.-Reporting Exemptions

d) Filing Exemption for Certain NAIC CRP Rated Securities

NOTE: This Section sets forth filing exemptions for certain securities that are rated by an NAIC CRP in the equivalent of the **NAIC 1** through **NAIC 6** Designation categories. Because these securities will not be filed with the SVO, the SVO will not be able to monitor any innovation or regulatory risk in these securities.

The SVO does not have responsibility for determining whether specific securities should be filing exempt. An insurer who is uncertain whether a specific security qualifies for exemption should not contact the SVO for guidance, but should either file the security with the SVO or use the EIV Regulatory Treatment Analysis Service process described in Part Four, Section 3 of this Manual and obtain an opinion on exemption for that security.

Because these filing exemption provisions are set forth without any compliance mechanism, the SVO will not be able to verify whether insurers have filed all securities that are required to be filed with the SVO. State insurance department regulators may wish to create their own compliance mechanisms to protect any interests they may have relative to their domiciliary insurers.

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(i) An insurance company must file all securities with the SVO except those securities that meet, and continue to meet, the conditions of either Paragraph (A), (B) or (C) below. Any security that at one time met the conditions of Paragraphs (A), (B) or (C) below, but does not continue to meet such conditions must be filed with the SVO within 120 days of such failure, as if the security had never been filing exempt.

These filing exemptions do not apply to investments required to be filed pursuant to Part Five, Section 2 of this Manual. Catastrophe-Linked Bonds are filing exempt provided the credit rating assigned to them by a CRP was derived in a specified manner. Please refer to Part Four, Section 4 of this Manual.

(A) Bonds

Bonds, excluding RMBS and CMBS, (please refer to Section 4 (e), below), assigned an Eligible NAIC CRP Rating, as defined in Part One, Section 4 (c) (ii) (B) of this Manual, are exempt from filing with the SVO. Bonds assigned Eligible NAIC CRP Ratings will be assigned the equivalent NAIC Designation. If two Eligible NAIC CRP Ratings have been assigned, then the lowest rating will be assigned. In case of a security assigned three or more Eligible NAIC CRP Ratings, the Eligible NAIC CRP Ratings for the security will be ordered according to their NAIC equivalents and the rating falling second lowest will be selected, even if that rating is equal to that of the first lowest.

(B) Preferred Stock

Preferred Stock assigned Eligible NAIC CRP Ratings, as defined in Part One, Section 4 (c) (ii) (B) of this Manual, are exempt from filing with the SVO. Preferred Stock assigned Eligible NAIC CRP Ratings will be assigned the equivalent NAIC Designation. If two Eligible NAIC CRP Ratings have been assigned, then the lowest rating will be assigned. In the case of a security assigned three or more Eligible NAIC CRP Ratings, the Eligible NAIC CRP Ratings for the security will be ordered according to their NAIC equivalents and the rating falling second lowest will be selected, even if that rating is equal to that of the first lowest.

(C) Public Common Stock

NOTE: Insurers must report values for all securities, including those subject to filing exemption under this Section on their NAIC Financial Statement Blank. Refer to Part Five, Section 1 of this Manual for valuation instructions. Documentation requirements for securities filed with the SVO are set forth in Part Two, Sections 10 and Part Two, Section 11. These documentation requirements apply when a security must be filed with the SVO.

~~(i) SVO Authority to Require Filing of Filing Exempt Securities~~

~~The filing exemptions described above do not limit the authority of the SVO to require filings with respect to any security that is otherwise filing exempt at any time for the purpose of reviewing the provisions, terms, covenants or structural features of the security and designating the quality of the security. Upon completion of such review, the SVO is authorized to report its findings and recommendations to the VOS/TF.~~

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