



---

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  
Charles Therriault, Director, NAIC Securities Valuation Office

DATE: October 6, 2017

RE: Proposed Amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Implement the Transfer of the FE (and PL) Process to the SVO

---

**SHOWING THE TEXT ADOPTED BY THE VOS TF ON NOVEMBER 13**

1. **Introduction** – This memorandum responds to the Task Force’s Sept. 27 direction that the staff and industry team finalize Flow Charts for the private letter rating and filing exempt processes and propose text for the P&P Manual based on the flow charts. The proposed amendments also reflect decisions made by the Task Force at the Sept. 27 conference call. The flow chart for private letter process is attached. A flow chart for the FE process is not attached reflecting the view that a flow chart for the filing exempt process is unnecessary. The staff and industry team previously reported to the Task Force the sense that an informal mechanism would be developed to track discrepancies between NAIC Designations produced by the SVO and those produced by insurers. That decision makes a flow chart for a reporting exemption process unnecessary at this time. The P&P Manual text recommended in this memorandum assumes that the staff and industry team will work to develop the agreed upon PL GI Interrogatory and that securities in scope of SSAP 43R are excluded from the rules for securities subject to private letter ratings. By consent the proposed amendments also do not envision that flow charts would be inserted into the P&P Manual: a recommendation on that issue being deferred.

2. **Discussion** – The proposed text retains amendments proposed in the Produce NAIC Designations memorandum dated July 2017 as they apply to the filing exempt process but adds new text for the private letter rating process and text to reflect the decisions made by the Task Force on Sept. 27, 2017 as to the bifurcation of the rule for securities issued prior and those issued after Jan. 1, 2018. While this memorandum addresses the population of securities with private letter ratings, it also addresses filing exempt securities which receive publicly disclosed ratings. This reflects that in the view of the SVO, securities subject to private ratings (PL), sometimes referred to as “private ratings letters,” are a sub-population of filing exempt securities. The SVO proposed amendments shown below:

- Retain the existing filing exempt rule and process but extends them to securities subject to private ratings.
- Modifies the definition of the administrative symbol FE; retains current practice that e insurers report FE securities to the NAIC and modifies the text to reflect that it is now the SVO’s responsibility to assign NAIC Designations to FE securities and publish them in AVS+.
- Adds and defines a new administrative symbol PL applicable to securities subject to private ratings and specifies that the insurer reports PL securities to the NAIC as they do FE securities.

---

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-7509	p   202 471 3990	f   816 460 7095
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197	p   816 642 3600	f   816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004	p   212 398 9000	f   212 382 4207

---

www.naic.org

- Creates a new 5\* GI channel for PL securities issued on or after Jan. 1, 2018 and that a General Interrogatory process will be proposed in 2018 for PL securities issued prior to Jan. 1, 2018 where the insurer is unable to share with the NAIC the private rating.
- Articulates the procedure for assigning NAIC Designations to PL securities and integrates that procedure into the procedure used for FE securities.
- Collects the three components of the FE process into Part Three and revises the text to form a single coherent procedure – i.e.,:
  - The List of Credit Rating Providers and Their Equivalent of their Credit Ratings to NAIC Designation – now in Part One, Section 7 (d).
  - The filing exempt rule – now in Part Two, Section 4 (d).
  - Special instructions providing SVO with parameters on how to use credit ratings – outside of the context of the FE process – now in Part One, Section 2 (c) (iv).

### 3. Proposed Amendments to the P&P Manual

#### Part One —Purposes, General Policies and Instructions to the SVO

##### Section 3. Internal Administration

##### b) Definitions of NAIC Designation Categories, Valuation Indicators, Administrative Symbols and Conventions

(v) SVO Administrative Symbols

SVO administrative symbols convey information about a security or an administrative procedure instead of an opinion of credit quality or Unit Price. The administrative symbols in use by the SVO and their meanings are described below.

(A) SVO analytical department symbols (except for the SVO SCA Companies Group)

All SVO analytical departments except the SVO SCA Companies Group use the following administrative symbols:

**FE** means exempt from filing with the SVO and is used by an insurance company to report an exempt security. NAIC Designations for FE securities are assigned by the SVO pursuant to the instructions and procedures in Part Three Section 1 (b) of this Manual. The NAIC Designation determined by the SVO is disseminated in the SVO List of Securities compiled and published pursuant to the SVO's compilation function as described in Section 3 (k) of this Part One. The administrative symbol FE is used with an NAIC 1 through 6 Designation, and in the case of preferred stock, in combination with the P and RP Valuation Indicators

**PL** stands for a private letter rating and refers to an insurer owned security that has been assigned a private rating by an NAIC CRP which rating is not publicly disseminated but is instead published in a letter or report provided by the CRP to the issuer of the security and to the insurer as an investor and has been submitted to the SVO under the procedures specified in Part Three, Section 1 (b) of this Manual or provided to the SVO electronically by the NAIC CRP specifically identifying the issue as being privately rated. The administrative symbol PL is used with an NAIC 1 through 6 Designation, and in the case of preferred stock, in combination with the P and RP Valuation Indicators, and must adhere to the eligibility and reporting requirements of an NAIC Designation with an FE symbol.

## Part Two

### Section 1. General Definitions Used in This Manual

The following definitions are intended to have relevance only for this Manual. No suggestion is intended that these definitions have any relevance to any other NAIC publication.

CRP stands for **Credit Rating Provider** and refers to the NRSROs on the NAIC Credit Rating Provider List discussed in Part Three, Section 1 (b) of this Manual.

### Section 4. Reporting Exemptions

#### d) Filing Exemption for Public Common Stock

Insurers must report values for all securities on their NAIC Financial Statement Blank including for FE securities as defined in Part Three, Section 1 (b) of this Manual. 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.

[Text was deleted]

**Comment [RC1]:** The ACLI proposed text be added to text that discussed the Special Reporting Instruction which had been kept in the memorandum pending further review during the exposure period. Such further review confirmed that the text in the memorandum had been deleted as part of an amendment of the procedure and proposed the ACLI proposed text be added to the end of the procedure for producing NAIC Designations in paragraph H - as shown below. The VOS TF adopted this proposed change on November 13, 2017.

## Part Three

### Section 1. Corporate Bonds and Preferred Stock

#### a) Methodology for Independent Credit Quality Assessments

Corporate bonds defined as the Obligations of domestic and foreign corporations, and preferred stock shall be distinguished on the basis of the categories discussed below. The creditworthiness of the issuer of any particular category of Obligation shall be assessed by reference to the general, and any special, rating methodology discussed in this Part, unless the Valuation of Securities (E) Task Force has specified the use of a different methodology in this Manual.

##### (i) Independent Assessment

If the security under consideration is unrated, or if an analyst has conducted an independent analysis of the NAIC CRP rated security, the analyst shall make an independent assessment of the issuer, the security or both ...

#### a) Procedure Applicable to Filing Exempt (FE) Securities and to Private Letter (PL) Rating Securities

##### (i) Filing Exemption

Bonds, (excluding RMBS and CMBS) and Preferred Stock that have been assigned an Eligible NAIC CRP Rating, as described in Part One, Section 4 (c) (ii) (B) of this Manual, are exempt from filing with the SVO (FE securities).

##### (ii) Identification of FE Securities

The SVO identifies FE securities as part of its quarterly compilation of the SVO List of Securities. Please refer to Part One, Section 3 (l) of this Manual for a discussion of the compilation process. SVO staff then applies the procedures discussed in sub-section (iii) below to the FE securities it has identified in the compilation process to produce the most accurate NAIC Designation equivalent. Per instructions of the VOS/TF, the SVO publishes the NAIC Designations it produces in the AVS Plus+. The AVS Plus+ contains the official NAIC Designations for any given security. Insurers use the information in AVS Plus+ to identify and report the SVO assigned NAIC Designation for FE securities they own to the domiciliary state in the NAIC Financial Statement Blank.

(iii) Direction and Procedure

The SVO shall produce NAIC Designations for FE securities by applying the following procedure in conjunction with the List of Credit Rating Providers and the Equivalent of their Credit Ratings to NAIC Designations, shown below.

- A Bond or Preferred Stock that has been assigned an Eligible NAIC CRP Rating will be assigned the equivalent NAIC Designation.
- If two Eligible NAIC CRP Ratings have been assigned, then the lowest credit rating will be used to assign the equivalent NAIC Designation.
- In case of a Bond or Preferred Stock that has been assigned three or more Eligible NAIC CRP Ratings, the Eligible NAIC CRP Ratings for the Bond or Preferred Stock will be ordered according to their NAIC equivalents and the credit rating falling second lowest will be used to determine the equivalent NAIC Designation, even if that rating is equal to that of the first lowest.

The SVO shall not in any manner whatsoever, show, display or disseminate the credit ratings of NRSROs as part of the compilation or publication of the SVO List of Securities in the AVS Plus product or in any other NAIC publication associated with the operations of the Valuation of Securities (E) Task Force.

(iv) PL Securities

(A) Effective Date of Verification Procedure for PL Securities

Effective July 1, 2018, insurance companies shall be responsible for providing the SVO copies of private rating letters for PL securities, where applicable, issued on or after January 1, 2018 until such time as industry representatives and the SVO shall have established reliable procedures for obtaining the necessary information on credit ratings directly from the NAIC CRPs. For PL Securities issued prior to January 1, 2018, if an insurance company ~~does not~~ provide a copy of the rating letter to the SVO due to confidentiality concerns and ~~or~~ the rating is not included in a CRP credit rating feed (or other form of direct delivery from the NAIC CRP), the insurer shall report such securities on such securities' General Interrogatory to be developed for this purpose (i.e., a PL GI security). ~~The rules for PL securities identified above do not and shall not apply to PL securities y in scope of SSAP 43R for which a Modified Filing Exempt matrix is prescribed for purposes of determining capital requirements.~~

**Comment [RC2]:** The VOS TF adopted these editorial changes to the exposed text on November 13, 2017.

(B) Definitions - For purposes of this paragraph, the phrase "private rating letter" means a letter or report issued by an NAIC CRP on its letterhead or its controlled website to an issuer or investor, obtained by an insurer in its capacity as an investor in the issuance or by following the confidentiality process established by the NAIC CRP. The phrase "privately rated security" means a security issued by an issuer wherein the issuer has solicited a credit rating for the issuance from an NAIC CRP and the NAIC CRP has agreed to issue a credit rating for the issuance to be communicated to the issuer and a specified group of investors only and not publicly released via the NAIC CRP's public data feed or website. The privately rated security is the subject of the private rating letter and is referred to herein as a private letter (PL) security.

(C) Conditions to Filing Exemption for PL securities issued on or after January 1, 2018 - PL securities are exempt from filing with the SVO for assignment of an analytically determined NAIC Designation if the security has been assigned an Eligible NAIC CRP Credit Rating and the insurer verifies the rated status of the PL security to the SVO. If the PL security is not rated by an NAIC CRP; or a credit rating is assigned that is not an Eligible NAIC CRP Credit Rating; or if the insurer

cannot provide the SVO a private rating letter verifying that the assigned credit rating is an Eligible NAIC CRP Credit Rating; or the NAIC CRP cannot provide the Eligible NAIC CRP Credit Rating on the PL security to the NAIC through an electronic data feed approved by the SVO and that specifically identifies the PL securities rated by that NAIC CRP, the PL security is not filing exempt. An insurer that owns a PL security that is not filing exempt shall either: 1) file the security with the necessary documentation with the SVO for an analytically determined NAIC Designation or 2) self-assign an NAIC 5\*GI to the security and report using the Interrogatory procedure; in either case within 120 days of purchase.

(D) Conditions to Filing Exemption for PL securities issued prior to January 1, 2018 – PL securities are exempt from filing with the SVO for assignment of an analytically determined NAIC Designation if the security has been assigned an Eligible NAIC CRP Credit Rating. If the PL security CRP rating is not included in the applicable CRP credit rating feed (or other form of direct delivery from the CRP) or the insurer cannot submit the private letter rating to the SVO because of confidentiality provisions, the security shall be designated PLGI. Insurers shall report on all such securities in a General Interrogatory with an attestation that all such securities have an Eligible CRP Credit and are reflected in the financial statements and risk-based capital calculation commensurate with that rating

(E) Procedure - The NAIC shall create systems and develop and staff administrative and operational procedures to be administered by the SVO to identify insurer owned PL securities; verify whether or not the assigned credit rating is an Eligible NAIC CRP Credit Rating and either translate that credit rating into its equivalent NAIC Designation and input the NAIC Designation for the security into the appropriate NAIC systems or notify the insurer that the security is not eligible for filing exemption.

(F) SVO to Administer Verification Procedures - It shall be the responsibility of the NAIC to create and maintain for the SVO, electronic facilities to accept: 1) electronic data-feeds provided by NAIC CRPs containing and specifically identifying the PL securities rated by that NAIC CRP and the credit rating assigned to the PL securities or 2) PDF files of private rating letters provided by insurers to the SVO containing the NAIC CRP credit rating for the PL security.

(G) The PL Process - It shall be the responsibility of the SVO to identify PL securities in the AVS+ system for insurance companies to use when reporting PL securities to the NAIC as part of the NAIC's Financial Statement Blank reporting process. The SVO identifies PL securities when it conducts the quarterly compilation of the SVO List of Securities. Please refer to Part One, Section 3 (l) of this Manual for a discussion of the compilation process.

(H) Producing NAIC Designations for PL Securities - he SVO shall produce NAIC Designations for securities subject to private letter ratings as follows:

- The insurance company shall file a copy of the private rating letter with the SVO if not included in the applicable NAIC CRP Rating feed(s) (or other form of direct delivery from the CRP) noted above in (C). In instances where the PL security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure in (iii) above.
- In instances where a private letter is filed, the SVO shall evaluate the private letter to determine whether the security has been assigned an Eligible NAIC CRP Rating in accordance with Part One, Section 4(c)(ii). Similar to public securities where rating is received directly from the CRP via electronic feeds, conditions 3 and 4 of Part One, Section 4(c)(ii) are deemed to be met, as a normal part of the CRP rating process, absent

evidence to the contrary in the rating letter (e.g., evidence that the rating applies only to principal or interest, in a deviation from the normal CRP rating process).

- If the SVO verifies that the security has been assigned an Eligible NAIC CRP Rating, it assigns an NAIC Designation in accordance with the policy and procedure specified in sub-paragraphs (i) and (ii) above. The assumption in the application of this step of the procedure is that PL securities are typically assigned a credit rating by only one NAIC CRP. However, if this assumption is inaccurate for any PL security, the SVO applies the same procedure specified for FE securities above in (iii).
- If the SVO verifies that the security:
  - Has been assigned a credit rating but that the credit rating is not an Eligible NAIC CRP Credit Rating; or
  - Has not been rated by an NAIC CRP; or
  - Is no longer subject to a private letter rating;

SVO shall notify the insurer that the security is not eligible for filing exemption. The insurance company shall then either file that security and necessary documentation with the SVO for an independent credit assessment per Section 1 (a) of this Part or assign an **NAIC 5\*** GI Regulatory Designation to the security in the related Interrogatory.

An NAIC 5\* designation may also be used in connection with the designation of PL securities rated by an NAIC CRP (i.e., for private letter ratings issued on or after January 1, 2018) when the documentation is not available for the SVO to assign an NAIC Designation. For purposes of this section, the documentation is not available for the SVO to assign an NAIC Designation if the NAIC CRP credit rating is not included in the applicable CRP credit rating feed (or other form of direct delivery from the NAIC CRP) and the insurer is unable to provide a copy of the private letter rating documentation necessary for the SVO to assign an NAIC Designation. Please see Part Three, Section 1 (b) of this Manual for related guidance.

**Comment [RC3]:** As discussed above, this text, recommended by the ACLI in a comment letter was added here instead of where originally proposed to reflect that the Special Reporting Instruction had been itself amended. The suggestion of the ACLI and the SVO was accepted by the VOS TF on November 13, 2017.

**Comment [RC4]:** The section was re-lettered from H to I.

**(I) Policy Considerations –** In connection with the implementation of the verification procedure for PL securities, the Task Force acknowledges that the practices adopted by NAIC CRPs in relation to the distribution of private rating letters for what the NAIC refers to as PL securities, including their confidentiality procedures and agreements, are integral to the business models of private for profit entities that the NAIC does not regulate and which the NAIC stands in the relation of a customer of rating services. Accordingly, the SVO, as NAIC staff, shall not be responsible for negotiating with NAIC CRPs to modify their confidentiality practices or provide data-feeds to the SVO. However, if an NAIC CRP shall determine that it is willing to modify its confidentiality provisions or provide such data-feed or an alternative process so that the SVO can obtain electronically, copies of private rating letters for PL securities issued by that NAIC CRP instead of by requiring insurers to provide PDF files, then the SVO is authorized to work with the NAIC CRP to obtain and integrate the private rating letters or the data-feeds into NAIC systems to create electronic processes that will permit electronic verification that the insurer owned PL security have been assigned an NAIC CRP Eligible Credit Rating. Individual insurers and or representatives of the insurance industry are encouraged to find ways to resolve confidentiality restrictions imposed by NAIC CRPs on the private rating letter or to influence the process as investors to encourage NAIC CRPs to provide the data-feeds to the SVO or alternative methods to permit the SVO to obtain NAIC CRP credit ratings for PL securities to be used to administer the PL securities verification procedure specified in this section.

**(v) Application of the FE Procedure to Specific Populations**

- The filing exemption procedure does 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.

(vi) List of NAIC CRPs

The CRPs that provide Credit Rating Services to the NAIC are:

- Moody's Investor's Service,
- Standard and Poor's,
- Fitch Ratings,
- Dominion Bond Rating Service (DBRS),
- A.M. Best Company (A.M. Best)
- Morningstar Credit Ratings, LLC (for All Structured Finance Securities)
- Kroll Bond Rating Agency and
- Egan Jones Rating Company.

(vii) Table of Equivalents of Eligible NAIC CRP Ratings to NAIC Designations

(A) **Moody's Investor's Service**

<b>Corporate, Government Counterparty and Municipal Ratings</b>	<b>SVO</b>
Aaa; Aa 1, 2, 3; A 1, 2, 3	1
Baa 1, 2, 3	2
Ba 1, 2, 3	3
B 1, 2, 3	4
Caa, 1, 2, 3	5
Ca, C	6
<b>Commercial Paper and Short Term Counterparty Ratings</b>	<b>SVO</b>
P 1	1
P 2	2
P 3	3
N P (Not prime)	6
<b>Preferred Stock</b>	<b>SVO</b>
Aaa; Aa 1, 2, 3; A 1, 2, 3	1
Baa 1, 2, 3	2
Ba 1, 2, 3	3
B 1, 2, 3	4
Caa	5
Ca, C	6

(B) **Standard and Poor's**

<b>Corporate Counterparty and Municipal Ratings -- Public Bonds</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC+, CCC, CCC-	5
CC, C, D	6

<b>Commercial Paper (Standard &amp; Poor's continued)</b>	<b>SVO</b>
A, A 1	1
A 2	2
A 3	2
B	4
C	5
D	6
<b>Preferred Stock</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC	5
CC, C, D	6

(C) **Fitch Ratings**

<b>Fixed Income and Counterparty Ratings</b>	<b>SVO</b>
AAApr	1*
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC,	5
CC, C, DDD, DD, D	6
* This rating is assigned to pre-refunded municipal debt.	
<b>Commercial Paper</b>	<b>SVO</b>
F 1+, F 1	1
F 2	2
F 3	2
B	4
C	5
D	6
<b>Preferred Stock</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC	5
CC, C	6

(D) **Dominion Bond Rating Service**

<b>Bond and Long Term Debt</b>	<b>SVO</b>
AAA, AA (high), AA, AA (low), A (high), A, A (low)	1
BBB (high), BBB, BBB (low)	2
BB (high), BB, BB (low)	3
B (high), B, B (low)	4
CCC (high)	5
CC, C (low), D	6
<b>Preferred Stock</b>	<b>SVO</b>
Pfd-1 (high), Pfd-1, Pfd 1 (low)	1
Pfd-2 (high), Pfd-2, Pfd-2 (low)	2



Pfd-3 (high), Pfd-3, Pfd-3 (low)	3
Pfd-4 (high), Pfd-4, Pfd-4 (low)	4
Pfd-5 (high),	5
Pfd-5, Pfd-5 (low), D	6
<b>Commercial Paper and Short Term Debt</b>	<b>SVO</b>
R 1 (high), R-1 (middle), R-1 (low)	1
R 2 (high), R-2 (middle), R-2 (low)	2
R-3	3
R-4	5
R-5, D	6

(E) **A.M. Best Company**

<b>Bond, Long Term Debt and Preferred</b>	<b>SVO</b>
aaa, aa+, aa, aa-, a+, a, a-	1
bbb+, bbb, bbb-	2
bb+, bb, bb-	3
b+, b, b-	4
ccc+, ccc, ccc-	5
cc, c, d	6
<b>Commercial Paper and Short Term Debt</b>	<b>SVO</b>
AMB-1+, AMB-1	1
AMB-2	2
AMB-3	3
AMB -4	6

(F) **Morningstar Credit Ratings, LLC**

<b>for All Structured Finance Securities</b>	<b>SVO</b>
AAA, AA, A	1
BBB	2
BB	3
B	4
CCC, CC, C*	6
D	6
* Morningstar defines CCC, CC, C as "likely to default" which we here equate to the NAIC 6 definitional concept of a security "in or near default." Morningstar's D, defined as "in default" is also equated to an NAIC 6.	

(G) **Kroll Bond Rating Agency**

<b>Long-Term Corporate, Counterparty and Municipal Ratings</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC+, CCC, CCC-	5
CC, C, D	6
<b>Short-Term and Commercial Paper Ratings</b>	<b>SVO</b>
K1+, K1	1
K2	2
K3	3
B	4

C	5
D	6
<b>Preferred Stock Ratings</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC+, CCC, CCC-	5
CC, C, D	6

(H) **Egan Jones Rating Company**

<b>Corporate Ratings</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC+, CCC, CCC-	5
CC, C, D	6
<b>Commercial Paper</b>	<b>SVO</b>
A, A1, A1+	1
A2	2
A3	2
B	4
C	5
D	6
<b>Preferred Stock</b>	<b>SVO</b>
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC	5
CC, C, D	6

(viii) Securities no longer assigned an Eligible NAIC CRP Credit Rating

Any Bond or Preferred Stock that at one time was assigned an Eligible NAIC CRP Credit Rating by an NAIC CRP but is no longer rated must be filed with the SVO within 120 days of the loss of the credit rating, as if the security had never been filing exempt.

(ix) Limitations on Use of NAIC CRP Ratings

(A) **NAIC Designation Is Capped To Highest NAIC CRP Rating**

The SVO shall not assign an NAIC Designation for a rated security that reflects an opinion of credit quality greater than that indicated by the rating assigned by an NAIC CRP, except as provided in Paragraph (B) below, and except that the SVO may assign the NAIC Designation it deems appropriate to:

- (1) Municipal bonds and;
- (2) Military housing bonds or securities as defined in Part Four, Section 5(b) of this Manual.

(B) **Split Ratings**

For filing exempt securities as defined in Part Two, Section 4 (d) of this Manual, the NAIC Designation assigned will be the NAIC Designation equivalent that results from the application of the filing exemption process described in Part Two, Section 4 (d) of this Manual. This rule will also apply to replication

transactions defined in Part Four, Section 2(a) of this Manual and other instances where NAIC CRP ratings are used by the SVO.

- (C) **Unrated Transaction of Issuer with NAIC CRP Rated Debt**  
When presented with an unrated security of an issuer that has another issue rated by an NAIC CRP, the staff may consider the rated issue and its position in the capital structure of the issuer to arrive at an NAIC Designation for the unrated security, provided that the staff shall first consult with the rating agency and independently consider the terms of the unrated security and its impact on payment risk.