



National Association of
Insurance Commissioners

Amherst Pierpont Insurance Conference

NAIC SVO Updates

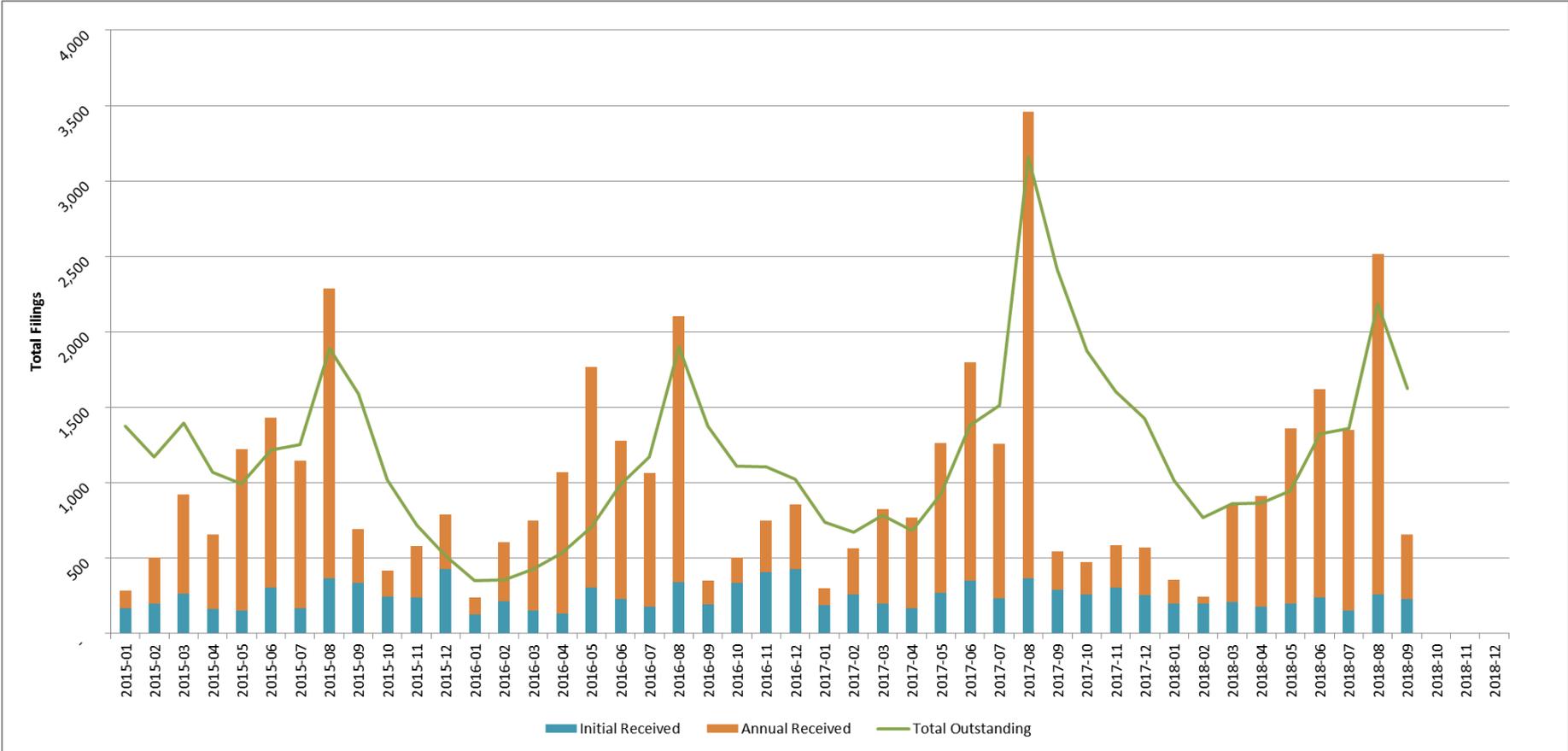
October 24, 2018

Charles Therriault, Director, SVO

SVO Filing Volumes and Backlog 2014-2018



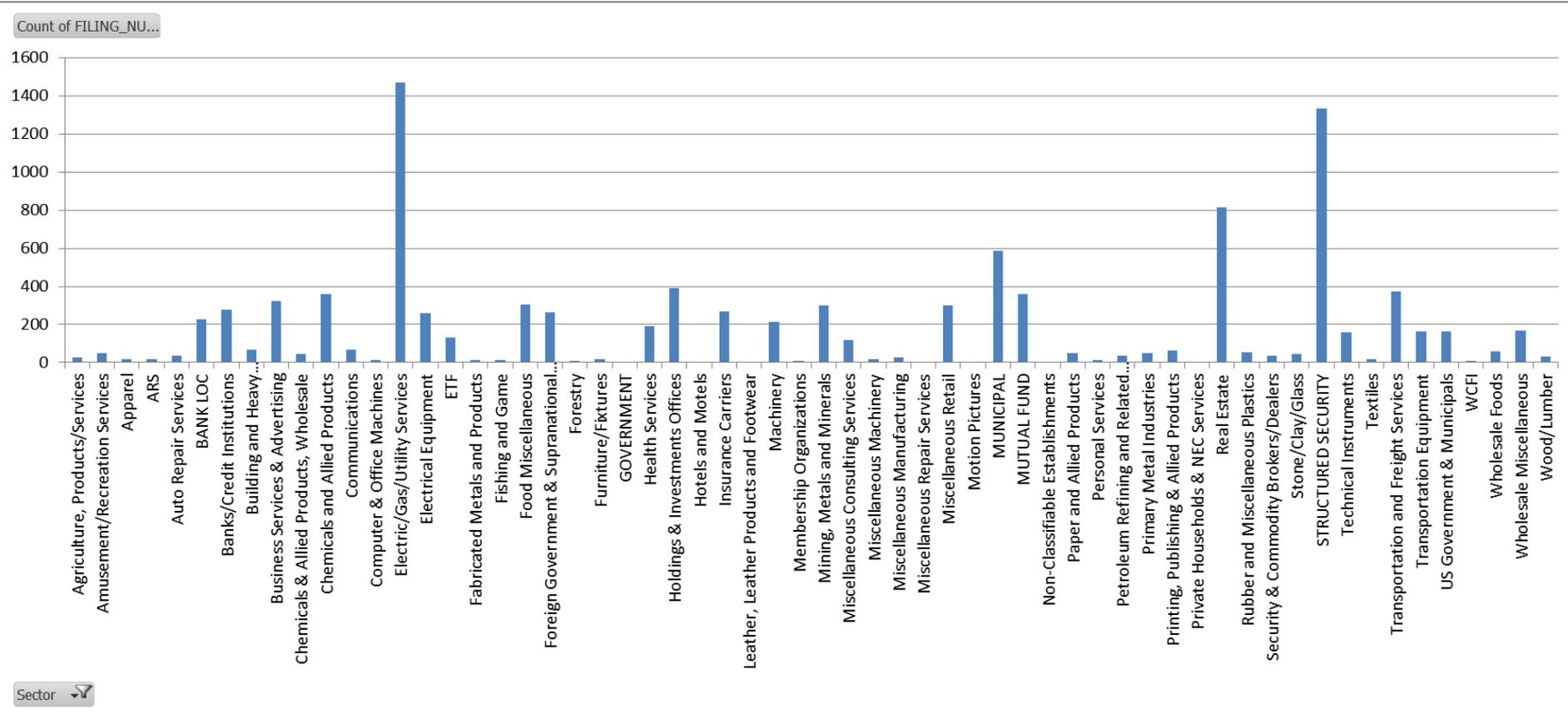
National Association of Insurance Commissioners



© 2018 National Association of Insurance Commissioners – Permission to reprint or distribute any content from this presentation requires prior written approval from the NAIC.

SVO Filings Reviewed in 2017 by Sector

(There are 1,644 separate industry codes)



All NAIC Designations By Source and Type for 2017



Number of Issues by Designation Source and Security Type								
Issue Summary Designation Source/Type	Issue Type CMBS	Corporate	Government	Municipal	RMBS	Sovereign	Structured	Grand Total
FILING_EXEMPT		30,747		157,582		1,906	21,444	211,679
GOVT			16,002					16,002
SSG	4,331				15,610			19,941
VOS		6,479		1,702		74	4,921	13,176
Grand Total	4,331	37,226	16,002	159,284	15,610	1,980	26,365	260,798

Percent of Issues by Designation Source and Security Type								
Issue by Percent Summary Designation Source/Type	Issue Type CMBS	Corporate	Government	Municipal	RMBS	Sovereign	Structured	Grand Total
FILING_EXEMPT	0%	83%	0%	99%	0%	96%	81%	81%
GOVT	0%	0%	100%	0%	0%	0%	0%	6%
SSG	100%	0%	0%	0%	100%	0%	0%	8%
VOS	0%	17%	0%	1%	0%	4%	19%	5%
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%

Percent of Issues to Total by Designation Source and Security Type								
Issue percent to Total Summary Designation Source/Type	Issue Type CMBS	Corporate	Government	Municipal	RMBS	Sovereign	Structured	Grand Total
FILING_EXEMPT	0%	12%	0%	60%	0%	1%	8%	81%
GOVT	0%	0%	6%	0%	0%	0%	0%	6%
SSG	2%	0%	0%	0%	6%	0%	0%	8%
VOS	0%	2%	0%	1%	0%	0%	2%	5%
Grand Total	2%	14%	6%	61%	6%	1%	10%	100%

© 2018 National Association of Insurance Commissioners – Permission to reprint or distribute any content from this presentation requires prior written approval from the NAIC.

SVO Assigned NAIC Designations by Sector



National Association of Insurance Commissioners

Industry Class	12/31/2017			
	Total Issues	%Issues	Exposure (\$millions)	% Exposure
Electric, Gas, Water & Waste Utility Services	1503	22.00%	\$77,954.6	27.58%
Business & Personal Services	864	12.64%	\$26,381.9	9.34%
Financial Services	594	8.69%	\$25,569.3	9.05%
Transportation Services & Equipment	577	8.44%	\$22,870.1	8.09%
Electrical Equipment & Tech Instruments	433	6.34%	\$18,209.8	6.44%
Chemicals & Pharmaceuticals	390	5.71%	\$15,675.2	5.55%
Retail	377	5.52%	\$10,581.6	3.74%
Oil & Gas Equipment	374	5.47%	\$13,875.6	4.91%
Food, Beverage & Tobacco	343	5.02%	\$19,821.7	7.01%
Wholesale Goods	307	4.49%	\$15,886.1	5.62%
Manufacturing	306	4.48%	\$8,192.7	2.90%
Indl/Comm Machinery & Computer Equip	266	3.89%	\$6,423.1	2.27%
Telecommunications	87	1.27%	\$3,586.1	1.27%
Construction	84	1.23%	\$3,937.6	1.39%
Entertainment & Leisure	79	1.16%	\$2,928.4	1.04%
Printing & Publishing	74	1.08%	\$3,707.5	1.31%
Metal Mining	73	1.07%	\$3,794.0	1.34%
Forestry & Paper Products	67	0.98%	\$2,331.3	0.82%
Agriculture	35	0.51%	\$873.3	0.31%
TOTAL	6833	100.00%	\$282,599.9	100.00%

12/31/2016			
Total Issues	%Issues	Exposure (\$millions)	% Exposure
1499	20.52%	\$75,728.8	26.66%
896	12.26%	\$27,538.9	9.70%
757	10.36%	\$22,157.2	7.80%
618	8.46%	\$22,243.4	7.83%
429	5.87%	\$16,197.8	5.70%
433	5.93%	\$17,368.5	6.12%
403	5.52%	\$13,907.3	4.90%
436	5.97%	\$16,037.7	5.65%
333	4.56%	\$18,368.8	6.47%
329	4.50%	\$16,534.6	5.82%
318	4.35%	\$8,658.7	3.05%
282	3.86%	\$6,872.6	2.42%
120	1.64%	\$4,118.5	1.45%
86	1.18%	\$4,269.2	1.50%
79	1.08%	\$2,729.2	0.96%
78	1.07%	\$3,565.2	1.26%
86	1.18%	\$4,241.5	1.49%
82	1.12%	\$2,549.3	0.90%
42	0.57%	\$919.1	0.32%
7306	100.00%	\$284,006.4	100.00%

Total Issue Change	Exposure Change (\$ millions)
4	\$2,225.7
(32)	(\$1,157.0)
(163)	\$3,412.0
(41)	\$626.7
4	\$2,012.1
(43)	(\$1,693.3)
(26)	(\$3,325.8)
(62)	(\$2,162.0)
10	\$1,453.0
(22)	(\$648.6)
(12)	(\$466.0)
(16)	(\$449.6)
(33)	(\$532.4)
(2)	(\$331.6)
-	\$199.3
(4)	\$142.2
(13)	(\$447.5)
(15)	(\$217.9)
(7)	(\$45.9)
(473)	(\$1,406.5)

© 2018 National Association of Insurance Commissioners – Permission to reprint or distribute any content from this presentation requires prior written approval from the NAIC.

Private Placement* Holdings by Insurers

As of 12/31/2017



National Association of
Insurance Commissioners

Sector	Sum of BACV	Count of Distinct Issuers By Sector	Count of Distinct Issues by Sector
Agriculture	\$ 1,331,469,976	23	52
Banking	\$ 12,487,943,056	131	331
Business & Personal Services	\$ 33,211,654,889	476	880
Chemicals & Pharmaceuticals	\$ 18,775,164,621	101	325
Construction	\$ 4,847,934,906	38	78
Electric, Gas, Water & Waste Utility Services	\$ 103,257,930,114	557	1,747
Electrical Equipment & Tech Instruments	\$ 17,551,221,526	103	365
Entertainment & Leisure	\$ 8,393,460,034	58	135
Financial Services	\$ 26,749,485,554	243	595
Food, Beverage & Tobacco	\$ 21,864,739,185	139	332
Foreign Government & Supranational	\$ 1,597,740,860	22	32
Forestry & Paper Products	\$ 2,438,707,288	28	66
Indl/Comm Machinery & Computer Equip	\$ 6,711,013,963	64	226
Insurance Carriers	\$ 11,371,060,966	149	1,221
Manufacturing	\$ 8,804,830,498	139	258
Metal Mining	\$ 4,397,511,907	20	68
MUNICIPALS	\$ 1,901,847,007	43	1,562
Oil & Gas Equipment	\$ 16,833,915,788	106	279
Printing & Publishing	\$ 4,077,960,519	26	77
Real Estate	\$ 47,146,873,934	324	935
Retail	\$ 12,562,962,632	106	343
Telecommunications	\$ 3,680,634,567	31	49
Transportation Services & Equipment	\$ 30,678,401,348	215	539
Wholesale Goods	\$ 20,295,698,356	113	309
#N/A	\$ 65,320,628,933	1,722	2,442
Grand Total	\$ 486,290,792,427	4,977	13,246

* Securities reported with a Private Placement Number (PPN).

© 2018 National Association of Insurance Commissioners – Permission to reprint or distribute any content from this presentation requires prior written approval from the NAIC.

Private Letter Ratings



- ▶ The Task Force required insurance companies to submit evidence to the NAIC that securities subject to private letter ratings (PLR) have actually been assigned a credit rating and tasked the SVO with producing the NAIC Designations for such securities.
- ▶ A **new administrative symbol** “PL” was created and applies to securities subject to private ratings. “PL” securities follow the same eligibility rules as “FE” securities; being a subset of that population.
- ▶ A **new General Interrogatory** “PLGI” process was created for PLR securities issued prior to Jan. 1, 2018 where the insurer is unable to share the PLR with the NAIC.
- ▶ The manual filing of private rating letters into the filing platform VISION was completed last year and activated on July 1st.
- ▶ We have also been actively working with industry and the Credit Rating Providers (CRPs) to receive this information electronically directly from the CRPs to lessen the filing burden on insurers.
- ▶ PLR data feeds from Moody’s, S&P, DBRS and EJR went live on Oct. 11th.

Private Letter Ratings

- ▶ Issues encountered so far ...
 - Outdated – private letter ratings need to be updated annually. Both the physical letter and data need to reflect a current calendar year update.
 - Not eligible for FE – PLRs are a subset of the Filing Exempt policy. A security must first be eligible for FE before it can be eligible for a PLR filing. For example, we have received a handful of filings for securities that appear, from the description, to be Credit Tenant Loans (CTLs). CTLs are not eligible to use credit rating provider (CRP) ratings for conversion to NAIC designations under the FE policy.
 - Different securities – PLR filings have been submitted for one security identifier (ex. 123456ABC) but the private letter itself refers to a different, but similar, security identifier (ex. 123456XYZ). Reviewing the two securities revealed that they are indeed separate securities.
 - Issuer rating – The PLR must be for a specific security and not the issuer. A PLR for an issuer without reference to specific securities will be rejected from NAIC systems.
 - Private ratings – PLR are only for privately issued ratings. Publicly rated issues continue to go through the FE process. Unrated securities issued by publicly rated issuer should continue to be submitted as a filing through VISION.
 - Missing letter – A PLR document must be included to support each reported private rating.

NAIC Designation Category



- ▶ The Investment Risk–Based Capital (E) Working Group adopted a proposal to increase the number of risk–based capital (RBC) categories for bonds to 20 based using credit rating default probabilities of NAIC CRPs.
- ▶ The IAO proposed creating a new field, NAIC Designation Category, as the credit framework the Working Group could use to assign the more granular RBC factors and link it to the prevailing NAIC Designation framework.
- ▶ The new NAIC Designation Category would apply to NAIC Designations produced by the SVO, independently or based on CRP credit ratings for filing exempt and PL securities as well as those assigned to RMBS and CMBS based on financial modelling by the SSG or other structured securities subject to the modified filing exempt process.
- ▶ The NAIC Designation Category proposal was subsequently **adopted** by the Task Force and the Financial Condition (E) Committee. We are now working to get funding approved for the necessary development work to update NAIC systems. We hope to have NAIC systems updated by 2020.

NAIC Designation Category



National Association of Insurance Commissioners

			Credit Rating Providers (Pursuant to the terms of Section 4 of Part One and as specifically noted in Part Three, Section One, (vi) List of NAIC CRPs.)								
NAIC Designation	NAIC Designation Modifier	NAIC Designation Category	Moody's Investor's Service	Standard and Poor's	Fitch Ratings	Dominion Bond Rating Service	A.M. Best Company	Morningstar Credit Ratings, LLC	Kroll Bond Rating Agency	Egan Jones Rating Company	HR Ratings de Mexico, S.A. de C.V.
1	A	1.A	Aaa	AAA	AAApr, AAA	AAA, Pfd-1 (high)	aaa	AAA	AAA	AAA	HR AAA (G)
1	B	1.B	Aa1	AA+	AA+	AA (high), Pfd-1	aa+	AA+	AA+	AA+	HR AA+ (G)
1	C	1.C	Aa2	AA	AA	AA, Pfd-1 (low)	aa	AA	AA	AA	HR AA (G)
1	D	1.D	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	AA-	HR AA- (G)
1	E	1.E	A1	A+	A+	A (high)	a+	A+	A+	A+	HR A+ (G)
1	F	1.F	A2	A	A	A	a	A	A	A	HR A (G)
1	G	1.G	A3	A-	A-	A (low)	a-	A-	A-	A-	HR A- (G)
2	A	2.A	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high)	bbb+	BBB+	BBB+	BBB+	HR BBB+ (G)
2	B	2.B	Baa2	BBB	BBB	BBB, Pfd-2	bbb+	BBB	BBB	BBB	HR BBB (G)
2	C	2.C	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	BBB-	HR BBB- (G)
3	A	3.A	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	BB+	HR BB+ (G)
3	B	3.B	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	BB	HR BB (G)
3	C	3.C	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	BB-	HR BB- (G)
4	A	4.A	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	B+	HR B+ (G)
4	B	4.B	B2	B	B	B, Pfd-4	b	B	B	B	HR B (G)
4	C	4.C	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	B-	HR B- (G)
5	A	5.A	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	CCC+	HR C+ (G)
5	B	5.B	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	CCC	HR C (G)
5	C	5.C	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	CCC-	HR C- (G)
6	6	6	Ca	CC	CC	CC (high)	cc	D	CC	CC	HR D (G)
6	6	6	C	C	C	CC	c	C	C	C	
6	6	6		D	DDD	CC (low)	d	D	D	D	
6	6	6			DD	C (high)					
6	6	6			D	C					
6	6	6				C (low)					
6	6	6				D					

© 2018 National Association of Insurance Commissioners – Permission to reprint or distribute any content from this presentation requires prior written approval from the NAIC.

NAIC Designation Category



- ▶ In anticipation of this move to greater granularity through NAIC Designation Categories, the SVO staff has undertaken a project to review all of the Credit Rating Providers rating symbols and symbol documentation.
- ▶ We have identified a number of corrections that need to be made to our master ratings symbol translation table. Many of these corrections are related to local country ratings that are based on a different ratings scale than the global ratings permitted for Filing Exemption.
- ▶ We anticipate eventually publishing this ratings symbol translation table with over 2,200+ rating symbols on the SVO's web page.

Investment Risk Based Capital Working Group (IRBCWG)



- ▶ The table to right is from the American Academy of Actuaries updated recommendation to the IRBCWG for the Life corporate bond C1 factors dated Oct. 10, 2017. The table also shows the prior modeling output.
- ▶ The PC and Health RBC groups are considering the Life factors. This will likely be discussed by these groups and the Capital Adequacy Task Force at the Fall National Meeting.
- ▶ The final factors will be aligned to the NAIC Designation Categories.

Appendix A
Base C1 Factors for Corporate Bonds for the Life RBC Formula
 Before Tax, Direct Model Output

	Current	August 2015	June 2017	Sept 2017
Aaa	0.40%	0.28%	0.22%	0.31%
Aa1	0.40%	0.43%	0.32%	0.43%
Aa2	0.40%	0.63%	0.44%	0.57%
Aa3	0.40%	0.79%	0.56%	0.72%
A1	0.40%	0.96%	0.68%	0.86%
A2	0.40%	1.13%	0.82%	1.06%
A3	0.40%	1.30%	0.98%	1.24%
Baa1	1.30%	1.49%	1.13%	1.42%
Baa2	1.30%	1.68%	1.32%	1.69%
Baa3	1.30%	2.01%	1.57%	2.00%
Ba1	4.60%	3.55%	2.88%	3.75%
Ba2	4.60%	4.39%	3.74%	4.76%
Ba3	4.60%	5.62%	4.89%	6.16%
B1	10.00%	5.99%	5.07%	6.35%
B2	10.00%	7.86%	6.89%	8.54%
B3	10.00%	10.31%	9.45%	11.82%
Caa1	23.00%	14.45%	13.87%	17.31%
Caa2	23.00%	19.85%	19.02%	23.22%
Caa3	23.00%	29.82%	29.06%	34.11%*

*The factor for Caa3 should be capped at the 30% factor for unaffiliated common stock. Under current RBC scheme, the factor for NAIC 6 bonds in or near default is set equal to the base factor for unaffiliated common stock.

Bank Loans

- ▶ The Task Force **re-released** an amended version of a proposed amendment to the P&P Manual on bank loans for a 60-day public comment period that ended May 25.
- ▶ The Task Force had previously referred the amendment to the Statutory Accounting Principles (E) Working Group for consideration in its project to clarify definitions and scope issues for bank loans in the AP&P Manual.
- ▶ The release of the amended text anticipates receipt of comments from the Statutory Accounting Principles (E) Working Group that will help ensure consistency between the P&P Manual and changes made to SSAP No. 26R in the AP&P Manual in 2017.
- ▶ The amended text added definitions and filing requirements covering: Bilateral Loan, Borrowing Base Loan, DIP Financing, Leveraged Loan, Assignments, Participation, Revolving Credit Facility, Syndication, Syndicated Loan and Term Loan.
- ▶ The Working Group deferred considering this item during the Summer National Meeting and hopefully will pick it up this fall.

Fund Investments



National Association *of*
Insurance Commissioners

- ▶ SVO **proposed** adding comprehensive instructions for fund investments to the P&P Manual and the Spring National Meeting.
- ▶ The proposal seeks to ensure that all funds that hold bonds are subject to the same principles in the P&P Manual regardless of the schedule on which the fund would be reported on.
- ▶ The proposal would apply “look through analysis” to the fund’s portfolio. The “look through” financial dynamic implies that the fund’s cash flow to the insurer should have the same predictability, periodicity and credit quality as when a non-fund entity directly holds the individual bonds of that issuer in its portfolio.
- ▶ The proposal retained the existing verification procedures for the money market and bond funds, as would existing instructions for ETFs and Schedule BA private funds.
- ▶ The proposal would expand fixed income treatment to qualifying funds issued by any investment company type registered with and regulated by the U.S. Securities and Exchange Commission (SEC): Open End Management Company, Closed End Fund and nit Investment Trusts.
- ▶ It would exclude the use of NAIC credit rating provider (CRP) credit ratings in this activity.
- ▶ The proposal was referred to SAPWG, there was no objection to including an NAIC designation to Schedule D2.2, It will be referred to Blanks and Capital Adequacy too.
- ▶ The VOS/TF will likely pick this up again by the Fall National Meeting.

Additional Information and Updates

CRP Affiliates



- ▶ **Adopted** an amendment to the P&P Manual to redefine the term credit rating provider in the NAIC CRP List.
- ▶ The amendment clarifies that the named credit rating provider includes those of its affiliates identified to the SEC by the credit rating provider as a separate legal entity or a separately identifiable department or division of the credit rating provider that determines credit ratings that are credit ratings of the credit rating provider and which the SEC treats as a credit rating issued by the credit rating provider for purposes of Section 15E of the Securities and Exchange Act of 1934 and the SEC's rules thereunder.

Japan Credit Rating Agency Ltd.



- ▶ The SVO received an application from the Japan Credit Rating Agency Ltd. to be added to the NAIC CRP List.
- ▶ The Task Force instructed the SVO to proceed with contract negotiations as required by the NAIC Policy on the Use of Credit Ratings of NRSROs and to report back to the Task Force when the contracts had been concluded.
- ▶ Given our current project workload, I anticipate this will be a 2019+ initiative.

Carryover Procedures

- ▶ The Task Force **adopted** a recommendation by the SVO to improve the process for its yearend carryover population.
- ▶ Properly filed securities that the SVO was unable to designate by year end will get new administrative symbols: the symbol “YE” will be assigned to all properly filed annual update securities and the symbol “IF” to all properly filed initial filings.
- ▶ The SVO would extend the existing NAIC designation for annual update securities in this carryover population into the next year and the insurer would report that NAIC designation with the symbol “YE”.
- ▶ The insurer would report initial filing securities to regulators with the symbol “IF” and self-assign an NAIC Designation.
- ▶ We would report the total carryover population to the TF annually.
- ▶ This is expected to be a 2019 project. Insurance companies should continue to use the existing “Z” rule for 2018.

Swiss GAAP as an accepted NFPS



- ▶ **Adopted** an amendment to the P&P Manual to add Swiss GAAP as an National Financial Presentation Standard that is permitted in the NAIC definition of “audited financial statement” for filings to the SVO.
- ▶ The SVO is authorized to accept Audited Financial Statements prepared in accordance with the following National Financial Presentation Standards:
 - Canadian Accounting Standards for Private Enterprises but only for non–financial institutions.
 - UK Financial Reporting Standard (FRS) 102 (which encompasses Irish companies reporting under FRS 102)
 - Australian GAAP
 - German GAAP
 - French GAAP but subject to the presentation of additional documentation
 - Dutch (Netherlands) GAAP
 - Italian GAAP but subject to the presentation of additional documentation
 - Belgium GAAP
 - Swiss GAAP FER presented on the basis of the whole body of rules and regulations of Swiss GAAP FER (“Core FER” and other Swiss GAAP FER Standards), but subject to the presentation of additional documentation

Proposal to delete the modified filing exemption (MFE)



- ▶ The Task Force is considered and subsequently **adopted** a proposal to delete the modified filing exemption (MFE) procedure from the P&P Manual and paragraph 26 b of Statement of Statutory Accounting Principles (SSAP) No. 43R—Loan-Backed and Structured Securities.
- ▶ The adoption included the option for early implementation for 12/31/2018 with a mandatory implementation effective March 2019.
- ▶ The Structured Securities Group was also requested to research broadening its modeling capabilities to include international and non-agency RMBS and CMBS.

Infrastructure Investments

- ▶ The Task Force **discussed** infrastructure investments during the Summer National Meeting.
- ▶ It was noted that Credit Rating Provider and SVO processes appear to be available for such investments.
- ▶ The Task Force said it was receptive to industry concerns that changes may be needed to accommodate further investments; however, the Task Force has not been presented with any detailed requests.
- ▶ Industry was invited to make specific proposals or identify specific impediments within the NAIC's purview that does not incentivize investing in these securities. The NAIC has already communicated that infrastructure investments should not be given favorable treatment when calculating risk back capital.

Working Capital Finance Investments



- ▶ The Task Force **discussed** considering a project to review criteria applicable to working capital finance investments.
- ▶ Two issues were identified that the Task Force can consider within the P&P Manual and two related requirements that need to be considered by the Statutory Accounting Principles (E) Working Group in SSAP No. 105—Working Capital Finance Investments.
- ▶ Staff was directed to draft a memorandum summarizing the history of the overall project, prepare a memorandum of the considerations that led to the establishment of these criteria and recommend changes that can be made to the P&P Manual that would provide the SVO with analytical discretion in the application to the two requirements: recognizing unrated subsidiaries and payments flowing through third parties.
- ▶ Additional issues considered, the requirement that insurers must obtain prior approval from their domestic regulators to invest in WCFI and that these programs are to be reported on Schedule BA.

Proposed Amendments



- ▶ **Proposed** P&P Manual Amendment to Modify the Current Definition of Notching
 - The proposed amendment would align the NAIC designation category with a description of notching, a procedure used to identify and refer to credit risk falling between two grades in a credit rating scale; for example, notching would apply to a security that falls between an NAIC 1 and an NAIC 2.
 - Currently notching and the corresponding NAIC notching procedure are part of an internal SVO procedure where plus and minus symbols are used to identify whether the financial and business profile of a specific company places it at the top, in the middle or at the lower end of a given NAIC Designation (i.e., NAIC 2+, NAIC 2, NAIC 2-, etc.). However, those distinctions are not really public.
 - Until recently distinctions in credit risk between the NAIC Designations grades would not have been made because they did not have an associated risk-based capital (RBC) impact or meaning.
 - The adoption of the NAIC Designation Category framework changed this because it provides a notching framework. Each NAIC Designation Category is defined as a subset of the related NAIC Designation. For the NAIC 1 grade on the left hand side of the chart there are seven NAIC Designation Categories marked A through G. Staff also assign three categories for each of NAIC Designations NAIC 2 through NAIC 5. No category is assigned for NAIC 6.
 - The amendment would delete the current definition of notching and aligns the new text for notching to the NAIC Designation Category framework.

Proposed Amendments

- ▶ **Proposed** P&P Manual Amendment to Improve and Expand Disclosure on Transactions Not Eligible for Filing Exemption
 - The proposed P&P Manual amendment would improve disclosure on securities that are not eligible for FE. These are not new instructions.
 - The P&P Manual has, since the adoption of filing exemption, contained a section that states the principle that some securities are not eligible for FE; the latter traditionally fall into two categories: Subsidiary, controlled and affiliated (SCA) and military housing securities.
 - Other sections of the manual identify security types not eligible for filing exemption and regulatory criteria the SVO is to apply as a condition to a specified treatment.
 - These provisions are scattered throughout the P&P Manual where they are not readily visible. The proposed amendment would collect those references in one place and locate all of the guidance at the start of the discussion of filing exemption.

Proposed Amendments



- ▶ **Proposed** P&P Manual Amendment to Modernize Credit Substitution Methodology
 - The phrase “credit substitution methodology” refers to a technique in which an NAIC Designation is assigned to a security on the basis of the credit strength of a third party (instead of the credit strength of the borrower/obligor) on the basis of an unconditional and legally enforceable promise made by the third party to pay the insurance company the money the obligor owes if it fails to do so.
 - This amendment would replace the general text in the manual with a complete analytical framework that includes filing instructions, documentation requirements, definitions, analytical criteria and methodology.
 - The proposed amendment would also provide guidance on so-called comfort letters, which are usually not a viable documentation for credit substitution.

P&P Manual Simplification and Re-write

- ▶ **Adopted** amendments to the P&P Manual that joins filing instructions, documentation requirements and analytical methodology in one place for:
 - ✓ Power Generation
 - ✓ Working Capital Finance Investments
 - ✓ Credit Tenant Loans
 - ✓ Structured Transactions
 - ✓ Procedures for Defaulted Securities
 - ✓ CAPCOs securities
 - ✓ Lottery Securities
 - ✓ Catastrophe-Linked Bonds
 - ✓ Sovereign and Supranationals
 - ✓ Preferred Stock
 - ✓ U.S. Government Securities
 - ✓ Military Housing securities
- ▶ We continue to propose additional updates to further clarify instructions and guidance,

P&P Manual Simplification and Re-write



- ▶ The next phase was a complete re-write of the *P&P Manual* to separate policy from administrative tasks and methodology.
- ▶ The revised *P&P Manual* was **exposed** at the Summer National Meeting.

Current

PART ONE	Purposes, General Policies And Instructions To The SVO
PART TWO	Filing With The SVO
PART THREE	Credit Assessment
PART FOUR	Special Regulatory Procedures Applicable To Investment Activity Of Insurers
PART FIVE	Valuation Of Securities
PART SIX	SVO Verification Activities In Support Of Certain Regulatory Processes
PART SEVEN	The NAIC Structured Securities Group

Proposed

Part One	Policies of the NAIC Valuation of Securities Task Force
Part Two	Operational and Administrative Instructions Applicable to the SVO <ul style="list-style-type: none">• Operations• SVO Administrative Procedures
Part Three	SVO Procedures and Methodology for Production of NAIC Designations
Part Four	The NAIC Structured Securities Group

Market Value Indicators and Delete Valuation Instructions



- ▶ The Blanks Proposal referred to the Blanks Working Group in February 2018 proposed elimination of the “Market Indicator” column from Schedule D, Section 2 for common stocks and would eliminate the Administrative Symbols A, J, K, L, U and V along with the symbol UP (not mentioned in the original Blanks Proposal).
- ▶ The Blanks Working Group has agreed to **delete these symbols effective December 31, 2019** and the Task Force issued similar instructions.
- ▶ The Task Force **adopted** the deletion of the valuation instructions from the P&P Manual which will eliminate the SVO’s valuation mission.
- ▶ The amendment adds text to clarify that under the compilation instructions, SVO publishes values in the AVS+ for any security reported without a value. The amendment clarifies that insurers are not required to use this valuation – which is provided solely to give regulators a measure of value for the security if they need one.
- ▶ These proposals recognize that the adoption of SSAP No. 100R – Fair Value in 2010 provided a valuation framework that eliminates the need for an SVO valuation function.

Preferred Stock Symbols



- ▶ **Adopted** an amendment to the P&P Manual to delete the administrative symbols RP and P for preferred stock and related text with the change to be made to the P&P Manual **effective Dec. 31, 2019**, to track the effective date of the related blanks proposal.
- ▶ These administrative symbols, P and RP called Valuation Indicators, used to classify shares of preferred stock as redeemable or as perpetual.
- ▶ New Blank guidance would replace the SVO methodology and symbols with an instruction that the insurer aggregate the amount of such securities on a new specified lines.

Proposed Amendments

- ▶ **Proposed** P&P Manual Amendment to Modify Securities Valuation Office (SVO) Compilation Instructions
 - The proposed amendment would incorporate the determinations of the Reinsurance (E) Task Force on the relationship of reinsurance standards to the SVO List.

- ▶ **Proposed** P&P Manual Amendment to Transfer the Description of Financial Modeling used by the Structured Securities Group (SSG) to its Website
 - the proposed P&P Manual amendment was similar to an SVO proposal the Task Force adopted Feb. 22, 2017 which deleted references and information about the obsolete Integrated Securities Information System (ISIS) in the P&P Manual and placed updated information and a related users-guide about the new VISION system on the SVO website instead. The proposed amendment would transfer a high level description of the financial modeling process to the Structured Securities Group (SSG) website and add the link to the P&P Manual, thus improving the speed with which immediate technical information about SSG operations is distributed.

Proposed Amendments

- ▶ **Proposed** P&P Manual Amendment to Add Administration of Filing Exemption to the Description of On-Going SVO Missions
 - The proposed P&P Manual amendment would add text identifying the administration of filing exemption (FE) to the description of SVO operations which the Task Force added in Nov. 2017. The section header titled “Directive to Conduct On-Going SVO Operations” holds the cumulative SVO missions the Task Force assigns.
- ▶ **Proposed** P&P Manual Amendment to Modify the Administrative Symbol NR
 - The term or symbol “NR”, meaning “Not Rated”, is used to communicate to insurance companies that the information required to arrive at an NAIC Designation is not available to the SVO. SVO staff propose to change the symbol to “ND”, meaning not designated. This change would align the term with NAIC terminology and recognize that the adoption of the Credit Rating Agency Reform Act of 2006 the word “rating or rated” has an explicit technical and legal meaning under federal securities law.

Proposed Amendments



- ▶ **Proposed** P&P Manual Amendment to Delete Old Filing Instructions
 - This P&P Manual amendment proposes deleting old filing and documentation instructions. SVO staff discussed the matter with the Task Force last year in connection with the transfer of the FE. Essentially, there is a clause that is used, with minor variations of text, in a number of asset-specific sections. The language does not correspond to any current SVO or SSG operational need. The single clause provides that if a rated security has to be filed with the SVO despite being FE the reporting insurance company is to submit a completed securities acquisition report (SAR) with evidence of the NAIC credit rating provider (CRP) rating.