



Purposes and Procedures Manual of the NAIC Investment Analysis Office

**NAIC Securities Valuation Office and
NAIC Structured Securities Group**

Effective for Statements ending December 31, 2013

December 31, 2013

(volume/issue 18/01)



The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of regulators, insurers and researchers by providing detailed and comprehensive insurance information. The NAIC offers a wide range of publications in the following categories:

Accounting & Reporting

Information about statutory accounting principles and the procedures necessary for filing financial annual statements and conducting risk-based capital calculations.

Consumer Information

Important answers to common questions about auto, home, health and life insurance — as well as buyer's guides on annuities, long-term care insurance and Medicare supplement plans.

Financial Regulation

Useful handbooks, compliance guides and reports on financial analysis, company licensing, state audit requirements and receiverships.

Legal

Comprehensive collection of NAIC model laws, regulations and guidelines; state laws on insurance topics; and other regulatory guidance on antifraud and consumer privacy.

Market Regulation

Regulatory and industry guidance on market-related issues, including antifraud, product filing requirements, producer licensing and market analysis.

NAIC Activities

NAIC member directories, in-depth reporting of state regulatory activities and official historical records of NAIC national meetings and other activities.

Special Studies

Studies, reports, handbooks and regulatory research conducted by NAIC members on a variety of insurance-related topics.

Statistical Reports

Valuable and in-demand insurance industry-wide statistical data for various lines of business, including auto, home, health and life insurance.

Supplementary Products

Guidance manuals, handbooks, surveys and research on a wide variety of issues.

Capital Markets & Investment Analysis

Information regarding portfolio values and procedures for complying with NAIC reporting requirements.

White Papers

Relevant studies, guidance and NAIC policy positions on a variety of insurance topics.

For more information about NAIC publications, view our online catalog at:

<http://store.naic.org>

© 1990-2018 National Association of Insurance Commissioners. All rights reserved.

ISBN 978-1-64179-003-1

Printed in the United States of America

No part of this book may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any storage or retrieval system, without written permission from the NAIC.

NAIC Executive Office
444 North Capitol Street, NW
Suite 700
Washington, DC 20001
202.471.3990

NAIC Central Office
1100 Walnut Street
Suite 1500
Kansas City, MO 64106
816.842.3600

NAIC Capital Markets
& Investment Analysis Office
One New York Plaza, Suite 4210
New York, NY 10004
212.398.9000

TABLE OF CONTENTS

RECENT CHANGES TO THE PURPOSES AND PROCEDURES MANUAL OF THE NAIC INVESTMENT ANALYSIS OFFICE	XVIII
AMENDMENTS TO THE P&P MANUAL EFFECTIVE IN 2019	XXV
PART ONE PURPOSES, GENERAL POLICIES AND INSTRUCTIONS TO THE SVO.....	1
SECTION 1. ABOUT THE NAIC	2
a) <i>The NAIC</i>	2
b) <i>The VOS/TF and the SVO Staff Function</i>	2
SECTION 2. POLICIES DEFINING THE SVO STAFF FUNCTION	4
a) <i>Directive to Conduct Ongoing SVO Operations.....</i>	4
b) <i>NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office</i>	4
(i) <i>NAIC Designations Do Not Communicate Statutory Accounting or Reporting</i>	4
(ii) <i>Sources and Application of Statutory Accounting Guidance.....</i>	5
(iii) <i>Impact on SVO Operations.....</i>	5
(iv) <i>Communication and Coordination Between SVO and Statutory Accounting Principles (E) Working Group Staff.....</i>	5
c) <i>SVO Administration of the Filing Exempt Process.....</i>	6
(i) <i>Determinations</i>	6
(ii) <i>Directives</i>	7
d) <i>SVO Regulatory Products.....</i>	7
(i) <i>NAIC Designations.....</i>	7
(ii) <i>Other Non-Payment Risk in Securities</i>	8
(iii) <i>Authority to Direct Insurers on Reporting.....</i>	8
e) <i>Special Instructions to the SVO</i>	9
(i) <i>Authorization to Use Public Information Sources</i>	9
(ii) <i>Circular Transactions.....</i>	9
(iii) <i>Special Instruction for Mandatory Convertible Securities.....</i>	9
(iv) <i>Clarifying Instruction for Unrated Hybrid Securities</i>	10
f) <i>Application of Analytical Instructions</i>	10
(i) <i>Relationship to Policy</i>	10
(ii) <i>Parameters for Use of Instructions and Methodologies</i>	10
(iii) <i>Use of Generally Accepted Techniques or Methodologies</i>	10
(iv) <i>Updating Instructions and Methodologies.....</i>	11
g) <i>SVO Responsibility for Investment Risk Analysis of New Financial Products</i>	11
h) <i>Process for Placing Securities Under Regulatory Review; When Analytical Instructions Are Insufficient or Inadequate.....</i>	11
(i) <i>Notice.....</i>	11
(ii) <i>Deliberation</i>	12
(iii) <i>Hearing and Declaration</i>	12
(iv) <i>Reporting Framework for Securities Under Regulatory Review.....</i>	12
(v) <i>Filing of Securities Under Regulatory Review.....</i>	13
i) <i>Review of SVO Credit or Classification Decisions</i>	13
(i) <i>Requests for Clarification of SVO Decisions</i>	13
(ii) <i>Appeals of SVO Analytical Decisions</i>	13
(A) <i>Condition to Filing of an Appeal.....</i>	13
(B) <i>Procedure for Filing an Appeal.....</i>	13
(iii) <i>SVO Review of the Appeal.....</i>	14

(iv) Status of NAIC Designation During Appeal	15
(v) Review of SVO Decisions	15
(A) Task Force Review for Alleged Violations of Procedures	15
(vi) Review Timeline	16
SECTION 3. INTERNAL ADMINISTRATION	17
a) General	17
b) Definitions of NAIC Designation, NAIC Designation Categories, Valuation Indicators, Administrative Symbols and Conventions	17
(i) Definition of NAIC Designation	17
(ii) NAIC Designation Categories	19
(iii) NAIC Designation Subscript S	20
(A) Regulatory Objectives	20
(B) Description of Other Non-Payment Risk	21
(C) Meaning of the Subscript S Symbol	22
(D) Directive to Conduct Analysis for Other Non-Payment Risk	22
(iv) SVO Notching Guidelines	22
(A) Definition and Purpose	22
(B) Notching NAIC Designation Categories (to Reflect Credit Risk)	23
(C) Notching for NAIC Designation Subscript (to Reflect Non-Payment Risk Unrelated to Credit Risk)	24
(v) SVO Administrative Symbols	26
(A) SVO Analytical Department Symbols	26
c) Credit Committee	30
d) SVO Departments	30
e) VOS Process	30
f) Monitoring of VOS Process	30
(i) Monitoring	30
(A) General Directive	30
(B) Directive Applicable to Filing Exempt Securities	31
(ii) Annual Review	31
(iii) Administrative Procedure for Carryover Population	31
g) Filing Exempt Securities Process	33
h) RMBS/CMBS Modeled Securities Process	33
i) U.S. Treasury Securities Process	33
j) Exempt U.S. Government Securities Process	34
k) Compilation and Publication of the SVO List of Investment Securities	34
l) Reference to SVO List of Securities	35
(i) Acknowledgment	35
(ii) Status of an Investment on the SVO List of Investment Securities	36
SECTION 4. NAIC POLICY ON THE USE OF CREDIT RATINGS OF NRSROs	37
a) Providing Credit Rating Services to the NAIC	37
b) Procedure to Become an NAIC Credit Rating Provider	37
c) Adding the NRSRO to the NAIC Credit Rating Provider List	37
(i) Regulatory Significance – Filing Exempt Rule	38
(ii) Definition – Credit Ratings Eligible for Translation to NAIC Designations	38
(iii) Special Rating System	39
(iv) Disclosures and Considerations Related to the Translation of Credit Ratings into NAIC Designations	39
d) Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider List	39
e) No Waiver/Express Reservation of Authority	40

SECTION 5. NAIC POLICIES PERTAINING TO SVO WORK PRODUCT.....	41
a) <i>For NAIC Members Only – Official Source.....</i>	41
b) <i>This Manual.....</i>	41
c) <i>Prohibition on Use of NAIC Designation in a Covenant.....</i>	42
d) <i>Statement of Practice.....</i>	43
SECTION 6. PROCEDURES TO AMEND THIS MANUAL.....	44
SECTION 7. ADMINISTRATIVE GUIDANCE AND INFORMATION.....	49
a) <i>Investment Analysis Office Staff and Responsibilities.....</i>	49
b) <i>NAIC Valuation of Securities (E) Task Force Members.....</i>	51
c) <i>Fees for Services and Publications.....</i>	51
PART TWO FILING WITH THE SVO.....	53
SECTION 1. GENERAL DEFINITIONS USED IN THIS MANUAL.....	54
SECTION 2. GENERAL REPORTING FRAMEWORK.....	59
a) <i>Obligation to Report.....</i>	59
b) <i>Authority to Require a Filing with the SVO.....</i>	60
c) <i>Reporting.....</i>	59
d) <i>Reporting Responsibilities.....</i>	60
e) <i>Use of a Filing Agent.....</i>	60
f) <i>Security Identification Numbers.....</i>	60
SECTION 3. SHORT-TERM INVESTMENTS.....	61
SECTION 4. REPORTING EXEMPTIONS.....	62
a) <i>Statement of Policy.....</i>	62
b) <i>Certain Separate Accounts.....</i>	62
c) <i>U.S. Government Securities.....</i>	62
(i) <i>Initial Filing Conventions and Documentation.....</i>	62
(A) <i>U.S. Government Securities Required to Be Filed with the SVO.....</i>	62
(B) <i>SVO Publishing Conventions for Filing Exempt U.S. Government Securities.....</i>	62
(C) <i>Filing Requirements for U.S. Government Securities.....</i>	63
(ii) <i>U.S. Government Securities – Subsequent Reporting.....</i>	63
(A) <i>Subsequent Filing.....</i>	63
(iii) <i>Filing Exemption.....</i>	64
(iv) <i>Filing Exemption for Direct Claims on, or Backed by, Full Faith and Credit of, the United States.....</i>	64
(v) <i>Filing Exemption for other U.S. Government Obligations.....</i>	65
d) <i>Filing Exemption for Public Common Stock.....</i>	66
e) <i>Filing Exemption for Certificates of Deposit Reported as Bonds under SSAP No. 26R.....</i>	66
SECTION 5. SPECIAL REPORTING INSTRUCTION.....	67
a) <i>NAIC Designations Related to the Special Reporting Instruction.....</i>	67
SECTION 6. THE MECHANICS OF REPORTING WITH THE SVO.....	68
SECTION 7. REPORTING CONVENTIONS AND REQUIRED DOCUMENTS.....	69
a) <i>Initial Report.....</i>	69
b) <i>Informational Deficiencies.....</i>	69
c) <i>Reporting Conventions and Required Documents.....</i>	70
(i) <i>Corporate Issues.....</i>	70
(A) <i>Unrated.....</i>	70
(B) <i>Foreign Issuers.....</i>	70

(ii) Municipal Issues.....	75
(A) Unrated	75
(B) Industrial Development Revenue Bonds and Pollution Control Revenue Bonds	76
(C) Canadian Municipals	76
(iii) Structured Issues.....	76
(A) Structured Securities Reporting a Subsequent Report.....	76
(iv) Mutual Funds	76
(v) Exchange Traded Funds	77
(A) No Purchase / No Initial Report.....	77
(B) Purchase Prior to or Contemporaneously with RTAS – Emerging Investment Vehicle Service Application	77
(C) Purchases Subsequent to Listing of ETF on ETF List	77
(vi) Preferred Stock	77
(A) Unrated	77
d) Subsequent Reporting (Annual Update Filings).....	78
(i) Filing Exempt Securities	78
(ii) All Other Securities.....	78
(iii) Material Credit Events Filing	78
SECTION 8. STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES	79
a) General	79
b) Sectors/Industries and Corresponding SVO Analysts.....	80
PART THREE CREDIT ASSESSMENT.....	93
SECTION 1. CORPORATE BONDS.....	94
a) Methodology for Independent Credit Quality Assessments	94
(i) Independent Assessment.....	94
(ii) Financial Analysis	94
(A) Audited Financial Statement Required	94
(B) Calculation of Ratios.....	94
(C) Foreign Securities, Foreign Sovereign Government and Supranational Entities.....	95
(D) Parent-Subsidiary Situations	97
(iii) Qualitative Analysis; Senior Unsecured Credit.....	97
(iv) Terms of the Security; Final Designation.....	97
b) Procedure Applicable to Filing Exempt (FE) Securities and to Private Letter (PL) Rating Securities	98
(i) Filing Exemption.....	98
(ii) Identification of FE Securities.....	98
(iii) Direction and Procedure	98
(iv) PL Securities	99
(A) Effective Date of Verification Procedure for PL Securities	99
(B) Definitions.....	99
(C) Conditions to Filing Exemption for PL Securities Issued on or After January 1, 2018	100
(D) Conditions to Filing Exemption for PL Securities Issued Prior to January 1, 2018.....	100
(E) Procedure.....	100
(F) SVO to Administer Verification Procedures	101
(G) The PL Process.....	101
(H) Producing NAIC Designations for PL Securities	101
(I) Policy Considerations.....	102
(v) Application of the FE Procedure to Specific Populations	103
(vi) List of NAIC CRP's	103
(vii) CRP Credit Rating Equivalent to NAIC Designations and to NAIC Designation Categories.....	105
(viii) Securities No Longer Assigned an Eligible NAIC CRP Credit Rating	108

(ix) Limitations on Use of NAIC CRP Ratings.....	108
(A) NAIC Designation is Capped to Highest NAIC CRP Rating.....	108
(B) Split Ratings.....	108
(C) Unrated Transaction of Issuer with NAIC CRP-Rated Debt.....	108
SECTION 2. PREFERRED STOCK.....	109
a) Directive.....	109
b) General Procedure for Credit Assessment and Classification of Preferred Stock.....	109
(i) Preferred Stock Not Rated by an NAIC CRP.....	109
(A) Determining an NAIC Designation.....	109
(B) Classification of Preferred Stock.....	110
(ii) Preferred Stock Rated by an NAIC CRP.....	110
(A) Determining an NAIC Designation.....	110
(B) Classification of Preferred Stock.....	111
SECTION 3. SPECIAL ASSESSMENT SITUATIONS.....	112
a) Eleemosynary Organization Bonds.....	112
b) Debtor-in-Possession (DIP).....	112
SECTION 4. CREDIT SUBSTITUTION.....	113
a) Filing Requirements.....	113
b) Definitions.....	113
c) Outline of Credit Substitution Methodology.....	115
SECTION 5. REPORTING CERTAIN SCHEDULE BA ASSETS.....	118
a) Application of Reporting Instruction.....	118
b) Fixed Income and Preferred Stock-Like Schedule BA Assets Defined.....	118
c) Schedule BA Assets to Be Filed with the SVO.....	119
(i) Assets with Underlying Fixed Income Characteristics.....	119
(ii) Special Instruction – Capital and Surplus Debentures.....	119
d) Reporting Exemptions for Certain Separate Accounts.....	119
e) Directive to the SVO.....	119
f) Reporting on Schedule BA Assets.....	120
g) Maintenance and Monitoring of SVO Determinations for Schedule BA Assets.....	120
(i) Maintaining and Publishing SVO Determinations.....	120
(ii) Monitoring of Credit Quality.....	120
(iii) Annual Review Requirement.....	120
(iv) Deletion of Schedule BA Assets from the VOS Process.....	121
(A) Maintenance of Database.....	121
(B) Failure to File Annual Review Information.....	121
h) Filing Exempt Securities Process.....	121
i) NAIC Designation Categories, Valuation Indicators and Administrative Symbols.....	122
(i) NAIC Designations.....	122
(ii) Valuation Indicators.....	122
(iii) Administrative Symbols.....	122
j) Administrative Procedures; Reporting Conventions; Pricing; Credit Assessment.....	122
(i) Administrative Procedure and Reporting Conventions.....	122
(ii) Credit Assessment Procedures Applicable to Schedule BA Assets.....	123
SECTION 6. REGULATORY TRANSACTIONS.....	124
a) Defined.....	124
b) Intent.....	124
c) Guidelines.....	124

SECTION 7. STRUCTURED SECURITIES OR TRANSACTIONS	125
a) <i>Structured Transactions Backed by Credit Enhancement</i>	125
(i) Structured Securities Fully Guaranteed by an NAIC CRP-Rated Entity or U.S. Government Entity	125
b) <i>Structured Securities Backed by NAIC CRP-Rated Financial Assets</i>	126
c) <i>Structured Securities Fully Backed by Financial Assets Insured by NAIC CRP-Rated Insurers</i>	127
SECTION 8. OTHER TRANSACTIONS UNDER THE AUSPICES OF THE SVO	129
a) <i>Replication (Synthetic Asset) Transactions</i>	129
b) <i>Structured Notes</i>	129
(i) Definition	129
(ii) Related Guidance for Mortgage Referenced Security	129
(iii) Applicable Analytical Instructions	129
c) <i>Residual Tranches of ABS, RMBS and CLOs and CDOs</i>	129
d) <i>Principal Protected Notes</i>	130
e) <i>Exchange Traded Funds</i>	130
SECTION 9. POST-DEFAULT CREDIT QUALITY AND VALUATION OF DEFAULTED SECURITIES AND ANALYTICAL CONVENTIONS	131
a) <i>General Instructions</i>	131
b) <i>Procedure for Determining a Post-Default Fair Value for a Loan or a Security</i>	131
c) <i>Procedure for Obtaining a Post-Default Credit Assessment</i>	131
d) <i>Issuer Amends or Refinances an Existing Issue as a Non-Troubled Restructuring</i>	132
e) <i>Required Documents for Credit Assessment and Valuation Analysis</i>	132
f) <i>Analytical Conventions</i>	133
(i) Issuer Liquidation	133
(ii) Reorganizations Under Chapter 11 of the U.S. Bankruptcy Code	133
(iii) Work-out or Restructurings Resulting in Modified Terms	133
SECTION 10. MUNICIPAL BONDS	134
a) <i>Computerized Services</i>	134
b) <i>Unrated Securities</i>	134
(i) General Obligation Bonds	134
(ii) Revenue Bonds	135
(iii) Industrial Development Revenue Bonds; Pollution Control Bonds	135
(iv) Escrowed and Pre-refunded Bonds	135
(v) Credit Enhanced Municipal Transactions	135
(A) Quantitative Analysis	136
(vi) Special Situations	137
(A) Contact the SVO	137
SECTION 11. CREDIT TENANT LOANS	138
a) <i>Filing Instructions</i>	138
(i) Initial Filing Requirements	138
(ii) Subsequent Filing Requirements	138
b) <i>General</i>	138
(i) CTL Categories	138
(ii) Intent	138
(iii) Presumption of Eligibility	139
(iv) SVO Procedure	139
(v) General CTL Issuance	140
(vi) Evaluation Form	141

c)	<i>Bond Lease Based CTL</i>	141
(i)	Definition	141
(ii)	Legal Characteristics of Bond Leases.....	142
(iii)	Structural Characteristics of Bond Lease Based Transactions.....	143
d)	<i>Credit Lease Based CTL</i>	143
i)	Definition	143
ii)	Legal Characteristics of Credit Leases	144
iii)	Structural Characteristics of Credit Lease Based Transactions.....	145
iv)	Risks and Acceptable Mitigants in Credit Lease Based Transactions.....	146
e)	<i>Acceptable CTL Variants</i>	147
f)	<i>Guidelines for Acceptable CTL Variants</i>	148
i)	Acceptable CTL Variants.....	148
g)	<i>Multiple Property Transactions (MPTs)</i>	152
i)	Definition	152
ii)	General Legal Characteristics of MPTs	152
iii)	Legal and Structural Characteristics of Credit Lease Based MPT CTLs	152
iv)	Acceptable CTL Variants Eligible for MPT Treatment.....	153
h)	<i>Variants Requiring an NAIC CRP Rating</i>	154
SECTION 12.	WORKING CAPITAL FINANCE INVESTMENTS	155
a)	<i>Filing Requirements</i>	155
(i)	Initial Filing Requirements	155
(ii)	Subsequent Filing Requirements	157
b)	<i>Definitions in SSAP No. 105—Working Capital Finance Investments</i>	157
c)	<i>Summary of Key Definitions</i>	157
(i)	Confirmed Supplier Receivable	157
(ii)	Dilution Risk	158
(iii)	Finance Agent	158
(iv)	Investor	158
(v)	Obligor	158
(vi)	Operational Risk.....	158
(vii)	Supplier	158
(viii)	Working Capital Finance Program.....	159
(ix)	Working Capital Finance Investment	159
d)	<i>Direction and Program Parameters</i>	159
(i)	Direction.....	159
(ii)	Program Parameters	159
(A)	RTAS Submission Required.....	159
(B)	Variations in Structure	160
(C)	Program Quality	160
(D)	Process and Methodology.....	160
e)	<i>Risk-Assessment Process</i>	160
(i)	Credit Risk	160
(ii)	Dilution Risk	161
(iii)	Operational Risk.....	161
(iv)	Legal, Structural and Regulatory Considerations	161
SECTION 13.	INVESTMENTS IN IDENTIFIED CAPITAL COMPANIES	163
a)	<i>Definition</i>	163
b)	<i>Statutory Accounting Guidance</i>	163
c)	<i>Procedure for Reporting and Filing with the SVO</i>	163

d) Required Documentation.....	164
(i) Unrated.....	164
(A) Initial Filings	164
(B) Subsequent Filings	164
e) Applicable Methodology.....	164
SECTION 14. LOTTERY SECURITIES	165
a) Definition	165
b) Documentation Requirements.....	165
(i) Direct Transfer	165
(ii) Indirect Transfer.....	165
c) No Court Order Required	165
d) Court Order Required.....	166
(i) Direct Transfer	166
(ii) Indirect Transfer.....	166
e) Limited Discretion for Certain Indirect Transfers	167
f) Structured Lottery Securities.....	167
SECTION 15. POWER GENERATION PROJECTS.....	168
a) Documentation Requirements.....	168
b) Definitions.....	169
c) Economic Dynamic of Power Generation Projects.....	173
d) General Methodology for Power Generation Project Finance Transactions	174
e) Tools and Concepts Used in the Application of the General Methodology for Power Generation Projects.....	174
(i) Credit Factor Chart.....	174
(ii) Principles Guiding the Use of the Credit Factor Chart.....	176
(A) Credit Factors	176
(B) Counterparty Exposure and Competitive Position	178
(C) Overall Financial Risk Profile	181
f) Additional Methodological Considerations for Renewable Energy Projects.....	182
(i) Additional Considerations Applicable to Solar Power Generation Projects	182
(ii) Additional Considerations Applicable to Wind Power Generation Projects	183
(iii) Principles Guiding the Use of the Credit Factor Chart, Specific Considerations Unique to Renewable Projects	184
(A) Credit Factors	184
SECTION 16. CATASTROPHE-LINKED SECURITIES	185
a) Definition	185
b) Filing Exemption Status	185
c) Procedure for Other Catastrophe-Linked Bonds.....	185
SECTION 17. SUBSIDIARY, CONTROLLED AND AFFILIATE (SCA) DEBT OR PREFERRED STOCK INVESTMENTS.....	186
a) Filing Instructions.....	186
(i) Common Stock	186
(ii) Bonds	186
(iii) Preferred Stock	186
b) Purpose.....	187
c) Notification Procedure.....	187
d) Procedure for Credit Assessment of Filed SCA Transactions.....	188

SECTION 18. MILITARY HOUSING BONDS OR SECURITIES	190
<i>a) Initial Filing Requirements</i>	<i>190</i>
(i) Analytical Memorandum.....	190
(ii) Certification from Insurer Investment Officer.....	191
(iii) Prospectus.....	191
(iv) Audited Financial Statements	191
<i>b) Subsequent Filing Requirements.....</i>	<i>191</i>
(i) Analytical Memorandum.....	191
(ii) Certification from Insurer Investment Officer.....	191
(iii) Audited Financial Statements	191
<i>c) Direction</i>	<i>192</i>
<i>d) Definition</i>	<i>192</i>
<i>e) Status of Other Military Housing Bonds</i>	<i>192</i>
(i) Bonds with Stand-Alone Ratings	192
(ii) Bonds Newly Issued and Bonds Rated by an NAIC CRP	193
<i>f) Certification Process for Military Housing Bonds.....</i>	<i>193</i>
(i) Documentation	193
(ii) Certification.....	193
(A) Finding.....	193
(B) Analytical Memorandum and Certification	194
(C) SVO Due Diligence Obligation	194
PART FOUR SPECIAL REGULATORY PROCEDURES APPLICABLE TO INVESTMENT ACTIVITY OF INSURERS	197
SECTION 1. REPLICATION (SYNTHETIC ASSET) TRANSACTIONS (RSATs)	198
<i>a) Definitions.....</i>	<i>198</i>
(i) Approved RSAT.....	198
(A) Safe Harbor – Defined RSATs	198
(B) Transactions Subject to RSAT Approval Review	199
(ii) Basket.....	200
(iii) Cash Component.....	200
(iv) Change in Credit Profile	200
(v) Effective RSAT	201
(vi) Identical RSAT	201
(vii) Index	201
(viii) Reference Security	201
(ix) RSAT	202
(x) RSAT Form.....	202
(xi) RSAT-CCA Form	202
(xii) RSAT Basket Form	202
(xiii) RSAT Fixed Income Index Form	202
(xiv) RSAT Index List Application	202
<i>b) Instruction to Report Replication (Synthetic Asset) Transactions.....</i>	<i>203</i>
(i) Instruction.....	203
(ii) Special Instruction Regarding Identical RSATs	203
(iii) Counterparty Risk-Based Capital.....	203
<i>c) Initial Reporting of Replication (Synthetic Asset) Transactions</i>	<i>204</i>
(i) Informational Requirements – General	204
(A) General Filing Instruction.....	204
(B) Additional Instructions for RSATs with a Change in Credit Profile	204

d)	<i>Procedures Applied to Initial Reports of Replication (Synthetic Asset) Transactions</i>	204
(i)	Effective RSAT	204
(ii)	Credit Assessment.....	205
(A)	General Procedures.....	205
(B)	Additional Procedures for RSATs with a Change in Credit Profile	205
e)	<i>Subsequent Reporting of Replication (Synthetic Asset) Transactions</i>	206
(i)	Informational Requirements – General	206
(A)	General Filing Instructions	206
(B)	Additional Instructions for RSATs with a Change in Credit Profile	206
f)	<i>Procedures Applied to Subsequent Reports of Replication (Synthetic Asset) Transactions</i>	206
(i)	Credit Assessment.....	206
(A)	General Procedure.....	206
(B)	Additional Procedures for RSATs with a Change in Credit Profile	207
g)	<i>Additional Procedures for RSATs Using Baskets</i>	207
(i)	Initial Reporting.....	207
(A)	Informational Requirements	207
(ii)	Procedures Applied to Initial Reports of Baskets	207
(A)	Effectiveness Testing.....	207
(B)	Credit Assessment.....	207
(C)	Counterparty	207
h)	<i>Subsequent Reporting</i>	208
(i)	Informational Requirements.....	208
(ii)	Procedures Applied to Subsequent Reports of Baskets	208
i)	<i>Additional Procedures for RSATs Using Indices</i>	208
(i)	Initial Reporting.....	208
(A)	Informational Requirements	208
(B)	Procedures Applied to Initial Reports of Indices	209
j)	<i>Subsequent Reporting</i>	209
(i)	Informational Requirements.....	209
k)	<i>Procedures for Compilation of the RSAT Index List</i>	209
(i)	Compilation of List	209
(ii)	Eligibility Requirements	210
(A)	Rule-Based	210
(B)	Information Available.....	210
(C)	Components Rated.....	210
(D)	Independent.....	210
(iii)	Initial Reporting.....	210
(iv)	Subsequent Reporting.....	211
(v)	Publication	211
l)	<i>RSAT Index List</i>	211
SECTION 2.	THE RTAS – EMERGING INVESTMENT VEHICLE	212
a)	<i>Emerging Investment Vehicle</i>	212
(i)	Finding.....	212
(ii)	Definition of “Probable Regulatory Treatment”	212
(iii)	Definition of “Emerging Investment Vehicle”	212
(iv)	Who May Request an Analysis Under This Section	213
(v)	Submission Procedure.....	213
(vi)	Requirement of a Substantially Finalized Transaction	213
(vii)	Discretion.....	214
(viii)	Communication of Determination	214

(ix) Standing of EIV Application in the NAIC Financial Condition Framework	215
PART FIVE VALUATION OF SECURITIES.....	217
PART SIX SVO VERIFICATION ACTIVITIES IN SUPPORT OF CERTAIN REGULATORY PROCESSES	219
SECTION 1. LIST OF QUALIFIED U.S. FINANCIAL INSTITUTIONS	220
a) <i>Regulatory Purpose and Objectives</i>	220
b) <i>Directive to Compile the List of Qualified U.S. Financial Institutions</i>	220
c) <i>List of Nationally Recognized Statistical Rating Organizations</i>	221
(i) Establish a List of Nationally Recognized Statistical Rating Organizations	221
(ii) Procedure.....	221
(iii) Policy and Legal Disclosure Pertaining to the List of NRSROs	222
d) <i>List of Qualified U.S. Financial Institutions</i>	222
(i) Application to be on the List of Qualified U.S. Financial Institutions	222
(A) Process	222
(ii) Procedure.....	223
(A) Initial Application	223
(B) Annual Updates.....	223
(C) Failure to Timely Respond.....	223
e) <i>Eligibility Standards to Be Placed on the List of Qualified U.S. Financial Institutions</i>	224
f) <i>SVO Monitoring of Movements in the Credit Quality of Financial Institution on the List of Qualified U.S. Financial Institutions</i>	224
(i) SVO Monitoring.....	224
(ii) Outline of Methodology.....	225
(iii) Notice of Credit Deterioration	225
g) <i>LOC Requirements Under the Model Law</i>	226
(i) Not an SVO Activity	226
(ii) Information	226
h) <i>List of Qualified U.S. Financial Institutions</i>	227
i) <i>List of Nationally Recognized Statistical Rating Organizations and Methodology and Criteria Used to Monitor Institutions on the NAIC List of Qualified U.S. Financial Institutions</i>	233
SECTION 2. MUTUAL FUNDS	234
a) <i>SVO Administration</i>	234
b) <i>Mutual Fund Lists</i>	234
(i) U.S. Direct Obligations/Full Faith and Credit Exempt List	234
(ii) Bond Fund List.....	234
c) <i>Approval of Listing</i>	235
d) <i>Exchange Traded Funds</i>	235
(i) Regulatory Presumption	235
(ii) ETFs Eligible for Classification Analysis.....	236
(iii) Determining Whether an Eligible ETF Has Debt or Preferred-Stock Characteristics	236
(iv) The ETF List	237
(v) Relationship Between the Regulatory Investment Analysis Service Application Process and the Initial and Subsequent Reporting of ETFs	237
e) <i>List of Securities That Are Considered "Exempt Obligations" for Purposes of Determining the Asset Valuation Reserve and the Risk-Based Capital Calculation</i>	238
f) <i>List of Money Market Funds Filed with the SVO (U.S. Direct Obligations/Full Faith and Credit Exempt List)</i>	239
g) <i>List of Bond Mutual Funds Filed with the SVO (Bond Funds)</i>	243

h)	List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond.....	244
i)	List of Exchange Traded Funds Eligible for Reporting as Schedule D Preferred Stock	248
SECTION 3.	COUNTERPARTY EXPOSURE; NETTING ELIGIBILITY	249
a)	NAIC Designation.....	249
b)	Netting Eligibility	249
c)	List of Counterparties Rated by the SVO for Schedule DB, Part D, Section 1	249
(i)	General.....	249
(A)	Association Values.....	249
(B)	Accounting and Documentation Guidance	250
(ii)	Procedures for Determining NAIC Designations and Netting Eligibility for Derivative Instrument Counterparties	250
(A)	Purpose	250
(B)	Counterparties Rated by the SVO for Purposes of Assignment into SVO Rating Categories for Schedule DB, Part D, Section 1	250
d)	List of Foreign (non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1.....	252
(i)	Procedures for Determining NAIC Designations and Netting Eligibility for Derivative Instrument Counterparties	252
(A)	Purpose	252
PART SEVEN THE NAIC STRUCTURED SECURITIES GROUP		255
SECTION 1.	THE NAIC STRUCTURED SECURITIES GROUP	256
SECTION 2.	DEFINITIONS	257
SECTION 3.	POLICIES DEFINING THE NAIC STRUCTURED SECURITIES GROUP	260
a)	Directive to Conduct Ongoing Operations	260
b)	SOG Regulatory Products	260
(i)	NAIC Designations.....	260
(ii)	Price Grids	260
c)	Other Applicable Policies – Application of Analytical Instructions; Responsibility for Investment Risk Analysis in New Financial Products; Process for Placing Securities Under Regulatory Review	260
SECTION 4.	ADMINISTRATIVE AND OPERATIONAL MATTERS	261
a)	Certain Administrative Symbols.....	261
b)	Quarterly Reporting of RMBS and CMBS	261
c)	Filing Exemptions.....	261
(i)	Limited Filing Exemption for RMBS and CMBS.....	261
(A)	RMBS and CMBS That Can Be Financially Modeled	261
(B)	RMBS and CMBS That Cannot Be Financially Modeled	262
(ii)	Filing Exemption for ABS.....	262
d)	Review of Decisions of the SOG	262
SECTION 5.	REQUIRED DATA AND DOCUMENTATION FOR TRANSACTIONS SUBMITTED TO THE SOG	263
a)	General Policy on Required Data and Documentation	263
b)	Documentation Standards and Process for Annual Surveillance of RMBS and CMBS.....	263
(i)	Documentation Standard	263
(ii)	Initial Information Requirements.....	264
(A)	Initial Sufficiency Information Filing.....	264
(B)	Safe Harbor	266
(iii)	Ongoing Information Requirements	266
(iv)	Special Rules for Certain Re-REMICs	267

SECTION 6. ANALYTICAL ASSIGNMENTS	268
<i>a) Annual Surveillance of RMBS and CMBS – Modeled and Non-Modeled Securities – General</i>	
Instructions.....	268
(i) Scope.....	268
(ii) Important Limitation on the Definitions of RMBS and CMBS	268
(iii) Analytical Procedures Applicable to RMBS and CMBS Securitizations Subject to Financial Modeling	
Methodology.....	268
(A) Filing Exemption Status of RMBS and CMBS	268
(B) Use of Financial Modeling for Year-End Reporting for RMBS and CMBS	269
(C) Analytical Procedures for RMBS and CMBS	269
<i>b) Mortgage Referenced Security</i>	<i>270</i>
(i) Definition	270
(ii) Not Filing Exempt	271
(iii) NAIC Risk Assessment	271
<i>c) The RTAS – Emerging Investment Vehicle</i>	<i>271</i>
(i) Purpose	271
(ii) Extension of Authority	271
(iii) Interpretation.....	271
(iv) Translation of Preliminary into Official Price Grids	272

DISCLOSURE STATEMENT

An NAIC designation for quality (NAIC Designation), the Unit Price of a security or a classification of a security is produced solely for NAIC members who should interpret the designation for quality, the Unit Price or the classification decision in the context of the NAIC Financial Conditions Framework, a member's state insurance laws and regulations, and the regulatory or financial solvency profile of a specific insurance company.

While NAIC members are the officials responsible for state insurance regulation, and while the NAIC as an association works to express regulatory consensus on issues pertaining to insurance regulation, the NAIC SVO staff has no statutory or regulatory authority.

Because an NAIC Designation, Unit Price or a classification are not produced to aid the investment decision-making process, they are not deemed to be suitable for use by anyone but NAIC members.

NAIC Designations are not intended to be and should not be used as if they were the functional equivalent of the ratings of nationally recognized statistical rating organizations or other rating organizations whose ratings are intended to be used by investors as predictive opinions of default risk.

Similarly, the Unit Price of a security is not intended to be and should not be used as an indication of the price at which a security could be bought or sold in the marketplace.

The use or adoption of NAIC Designations or Unit Prices by anyone other than NAIC members is improper and is not authorized by the NAIC.

NOTICE

Users of this Manual are advised that valuable, up-to-date information is available to them in the “How to File Securities with the SVO” class presented by the NAIC Education & Training Department. For more information, please call 816-783-8200, email education@naic.org or visit www.naic.org/education_home.htm.

NOTE: This section identifies amendments to this Manual adopted by the Valuation of Securities (E) Task Force in 2018. Amendments made in any given year are deemed to be guidance applicable to insurers for reporting in that year-end. The date on which an amendment was adopted is shown below to facilitate research by interested persons on the topic in or issues raised by the amendment in the NAIC *Proceedings*. NAIC *Proceedings* capture and preserve the minutes that document deliberations, the issues that were discussed and the material that was considered during such deliberations of the various NAIC committees, task forces or working groups. Prior to their publication in this Manual, at year-end and as of December 31 of that year, all amendments to the Manual are published within days of their adoption on this SVO web page maintained for the Task Force: www.naic.org/cmte_e_vos.htm.

- **Policy Statement – Principles for NAIC staff on coordination of the work of the Statutory Accounting Principles Working Group (E) and the Valuation of Securities (E) Task Force** – The policy, which was added to [Part One, Section 2](#), provides a framework to guide coordination between the NAIC credit assessment and statutory accounting reporting frameworks. Consistent with that objective, it is published as part of this Manual and as part of the NAIC *Accounting Practices and Procedures Manual*. The policy makes clear that the use of NAIC Designations (whether assigned by the SVO or derived by the SVO from credit ratings of NAIC CRPs under filing exemption) is limited to that, if any, specified in a Statement of Statutory Accounting Principles (SSAP) and cannot be derived or implied by language in this Manual. Obtaining an NAIC Designation or an NAIC credit rating for a security does not change the statutory accounting posture or status of the investment; or the annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to be an admitted asset.

The Valuation of Securities (E) Task Force adopted this amendment on February 8, 2018.

- **Modernize the Credit Assessment Procedure Applicable to SCA Investments** – The phrase SCA stands for “subsidiary, controlled and affiliated” and refers to entities deemed to be related parties under statutory accounting guidance. The Manual contains a procedure to be applied by the SVO to assess credit risk in transactions between SCAs. The procedure, which is published in [Part Three](#), was modernized to align it with NAIC statutory accounting requirements. Under the revised procedure, the SVO is first required to determine whether an SCA debt or preferred stock investment between related parties have terms, structure, complexity and purpose like those in investments between unaffiliated parties. If so the SVO has a basis to assume it can apply the credit risk assessment methodologies used for investments between unaffiliated parties. The SVO is required not to assess a security or assign an

NAIC Designation if it concludes that the SCA investment was not like those between *unaffiliated* persons. The procedure also contains a process for an insurer to request that the SVO consider whether it is possible to develop a methodology specific to the transaction.

The Valuation of Securities (E) Task Force adopted the amendment on March 25, 2018.

- **Simplifying Amendments** – In partial response to concerns that this Manual was becoming unwieldy and unnecessarily complex, the SVO formulated a series of proposed amendments whose common goal was to unite filing instructions and documentation instructions housed in [Part Two](#), with applicable methodology instructions in [Part Three](#) so all guidance applicable to a security type would be found in one location. The subject matter of the first series of such “simplifying amendments” are identified below.

The Valuation of Securities (E) Task Force adopted simplifying amendments for: Power Generation; Work-in-Progress; Capital Finance Investments; Credit Tenant Loans; Structured Transactions; Post-Default Securities; Identified Capital Companies and Lottery Securities on March 25, 2018.

- **Definition of NAIC CRPs is Amended** – CRP stands for “credit rating provider.” The definition of NAIC CRP was modified to reflect that H.R. Ratings de Mexico has been recognized as an NRSRO in additional categories of rating activity. Information related to NAIC CRPs and to the related issue of filing exemption is contained in [Part One, Section 4](#) and [Part Three, Section 1 b](#)).

The Valuation of Securities (E) Task Force adopted the amendment relative to H.R. Ratings de Mexico on March 25, 2018.

- **Simplifying Amendments** – A second series of “simplifying amendments” (amendments to unite filing instructions and documentation instructions housed in [Part Two](#) with applicable methodology instructions in [Part Three](#)) was adopted as discussed below.

The Valuation of Securities (E) Task Force adopted simplifying amendments for: Catastrophe-Linked Bonds; Sovereign and Supra-Nationals; Preferred Stock; U.S. Government Securities and Military Housing Securities on June 11, 2018 and a simplifying amendment for SCA Investments on July 12, 2018.

- **Adopted a policy framework for the Filing Exemption Procedure** – In 2017, the VOS/TF drafted a memorandum in which it identified policy objectives for the decision to transfer the administration of the filing exemption process to the SVO. The VOS/TF adopted the memorandum and based the decision to have the SVO administer filing exemption on the policies in the memorandum. However, those policies were not expressed in this Manual in 2017. An amendment to [Part One, Section 2 c\)](#) incorporated the policies into this Manual.

The Valuation of Securities (E) Task Force adopted this amendment on June 11, 2018.

- **Definition of NAIC Designation is amended to incorporate a new NAIC Designation Category** – The NAIC Capital Adequacy (E) Task Force intends to increase the number of risk-based capital (RBC) factors for bonds to 20 based on credit rating default probabilities of NAIC CRPs. The NAIC Designation Category provides the framework for the assignment of NAIC Designations corresponding to the new RBC factors. The VOS/TF adopted an amendment to incorporate the NAIC Designation Category into the definition of NAIC Designations and provide for mapping of NAIC CRP credit ratings to the RBC factors. NAIC Designation Categories would only be used for RBC purposes. NAIC Designations (NAIC 1 through NAIC 6) would continue to be used for statutory accounting, investment purposes and other purposes. Changes required by this amendment were made to [Part One, Section 2 b\)](#) and [Section 3 b\)](#); [Part Two, Section 1](#); and [Part Three, Section 1 b\)](#).

The Valuation of Securities (E) Task Force adopted this amendment on June 11, 2018.

- **Definition of NAIC CRPs is amended** – CRP stands for “credit rating provider.” The definition of NAIC CRP was modified to include Affiliates of the named Nationally Recognized Statistical Rating Organization (NRSRO). Such Affiliates are identified on the NRSRO’s Form NRSRO. The amendment recognizes that such Affiliates of NRSROs are subject to the same regulation as the named NRSRO and, therefore, they are considered to be NAIC CRPs. NAIC CRPs are vendors of credit rating services. The NAIC uses the credit rating it purchases from NAIC CRPs to produce NAIC Designations for insurer-owned bonds and other securities from credit ratings under filing exemption. Information related to NAIC CRPs and to the related issue of filing exemption is contained in [Part One, Section 4](#) and [Part Three, Section 1 b\)](#).

The Valuation of Securities (E) Task Force adopted an amendment to identify NRSRO Affiliates as NAIC CRPs on June 11, 2018.

- **The Large Company Standard of Swiss GAAP FER was added as a National Financial Presentation Standard** – The Large Company Standard of Swiss GAAP FER was added to the National Financial Presentation Standard component of the NAIC’s definition of “Audited Financial Statement.” Other NFPSs are identified on the NAIC List of Countries and Associated National Financial Presentation Standard which is published in [Part Two, Section 7 c\)](#). The amendment permits an insurer to file a security with the SVO with Audited Financial Statements prepared in accordance with The Large Company Standard of Swiss GAAP FER without a reconciliation to US GAAP. This Manual identifies information to be filed as part of an Audited Financial Statement under the Large Company Standard of Swiss GAAP FER.

The Valuation of Securities (E) Task Force adopted this amendment on August 5, 2018.

- **The List of Broker-Dealers Eligible to Act as Custodians of Insurance Company Assets was deleted** – The List of Broker-Dealers Eligible to Act as Custodian for Insurance Company Assets was added to this Manual effective December 31, 2005. It permitted broker-dealers that met minimum criteria identified in the NAIC *Model Act on Custodial Agreements and the Use of Clearing Corporations* (#295) and the NAIC *Model Regulation on Custodial Agreements and the Use of Clearing Corporations* (#298) to apply to have their names added to the List after the SVO confirmed their eligibility. The List was eliminated because no broker-dealer ever filed an application with the SVO and because NAIC staff indicated that the *Models* and the NAIC *Financial Condition Examiners Handbook* provide the necessary guidance to these insurance departments. The List was deleted from Part Six, Section 4.

The Valuation of Securities (E) Task Force adopted this amendment on August 5, 2018.

- **Valuation Instructions were deleted and the SVO’s Valuation Function was eliminated** – Changes to the valuation rules and procedures adopted by the VCU/TF in 2008 for this Manual and to the statutory accounting guidance in 2010 (which established a framework for determining fair value) provide for the regulatory needs that led to the creation of the SVO valuation function. SVO recommended that the valuation instructions be deleted from this Manual and that the SVO’s valuation mission be eliminated. The amendment made a number of changes to this Manual, substantially as follows: added text to the SVO compilation instructions ([Part One, Section 3 k\)](#) to require the SVO to assign values to securities not reported with a price by the insurer and to publish such values in the AVS+; delete the valuation mission from [Part One, Section 1 b\)](#) and [Section 2](#); delete effective December 31, 2019, certain Administrative Symbols from [Part One, Section 3 b\) \(v\)](#) and delete effective 2018 conventions from Part One, Section 3 b) (vi) and the UP Administrative Symbol and procedure from [Part One, Section 3 f\) \(ii\)](#); modify [Part One, Section 3 e\)](#), [Part Two, Section 1](#) and [Part Two, Section 2](#); delete valuation procedures from Part Two, Section 10 c) and the valuation instructions and rules in [Part Five, Section 1](#).

The Valuation of Securities (E) Task Force adopted this amendment on September 4, 2018.

- **The Modified Filing Exemption procedure was deleted** – Modified Filing Exemption (MFE) is applied by insurers to loan-backed and structured securities (LBaSS) that are not subject to financial modeling and that are assigned NAIC CRP credit ratings. MFE was adopted by the Task Force in 2010. Deletion of MFE eliminates paragraph 26 (b) of *Statement of Statutory Accounting Principles (SSAP) No. 43R—Loan-Backed and Structured Securities* and text in [Part Seven, Section 6 a\) \(iii\) \(A\)](#) and [Part Seven, Section 6 a\) \(iii\) \(C\)](#). The deletion of paragraph 26 (b) means insurer valuation calculations would be based on paragraph 25, which bases the valuation method strictly on the NAIC Designation assigned to the LBaSS. This change to SSAP No. 43R is effective as of March 31, 2019; however, early adoption is permitted

The Valuation of Securities (E) Task Force adopted this amendment on October 11, 2018.

- **The description of financial modeling in Part Seven of the Manual was moved** – The non-technical and high-level narrative description of the financial modeling process was moved from [Part Seven, Section 6 a\)](#) to the website maintained by the NAIC Structured Securities Group (SSG). The website is identified in [Part Seven, Section 6 a\) \(iii\) \(C\) \(ii\)](#).

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

- **The description of SVO operations was expanded** – [Part One, Section 2 a\)](#) was amended to include administration of filing exemption as an ongoing SVO assignment. Administration of filing exemption became an SVO assignment in November 2017. The new assignment is reflected in a new subparagraph (vi).

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

- **Old filing and documentation instructions were deleted from the Manual** – The deletion involved a single clause inserted in text describing procedures for different investment types in Part Two, Section 10 and Part Two, Section 11. The deleted clause provided that if a filing exempt security has to be filed with the SVO, the insurance company is to submit a completed securities acquisition report and evidence of the NAIC CRP rating. The clause was deleted because the SVO produces NAIC Designations for filing exempt securities at all times in an automated process in which credit ratings are obtained from NAIC CRPs via electronic data feeds for publicly rated securities and either via electronic data feeds or PDF files for securities subject to private rating letter.

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

- **SVO notching guidance was modified** – The recently adopted NAIC Designation Category (discussed above) contains its own notching convention; i.e., seven notches for NAIC 1 marked 1A through 1G, five for each of NAIC 2 through NAIC 5, and none for NAIC 6. The notches are assigned RBC factors. The amendment aligns SVO notching guidance to this new framework and deletes a description of internal symbols (plus and minus). The deleted text explained that when notching, credit risk SVO would consider each NAIC Designation to consist of three implied quality segments: a higher quality segment (expressed with the NAIC Designation modified with a plus symbol); a middle quality segment (expressed with the NAIC Designation without a symbol); and a lower quality segment (expressed with the NAIC Designation modified with a minus symbol). These symbols do not have any regulatory significance. Notching guidance is contained in [Part One, Section 3 b\) \(iv\)](#).

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

- **NAIC Standard Procedures for Amending Manuals/Handbooks replaced the existing process to amend the Manual** – The procedure for making changes to this Manual was brought into compliance with the NAIC standard procedure adopted by the NAIC Governance Review (EX) Task Force of the NAIC Executive (EX) Committee. The guidance is contained in [Part One, Section 6](#). The NAIC standard procedure requires a uniform process for any NAIC work product that, like this Manual, is automatically incorporated by reference into state law through the NAIC Financial Regulation Standards and Accreditation Program.

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

- **SVO Compilation Instructions were amended** – SVO compilation instructions, contained in [Part One, Section 3 k\)](#) and [Part One, Section 3 l\)](#), identify the process used by the SVO to produce the quarterly SVO List of Investment Securities, the contents of which are published in the NAIC AVS+ database on a quarterly basis. The List identifies all securities reported as owned by insurers with their (official) assigned NAIC Designations. NAIC reinsurance standards, including but not limited to the NAIC *Credit for Reinsurance Model Law* (#785) and the NAIC *Credit for Reinsurance Model Regulation* (#786), refer to the SVO List of Investment Securities and provide (under different formulations) for the use of securities on the List as collateral in reinsurance transactions. The amendment clarifies that securities on the List are stand-alone investments; that the focus of the reinsurance guidance is the right the owner of such a security has to the cash flow owed to the insurer by the obligor; that the stand-alone security on the List when combined in a broader reinsurance arrangement cannot be assumed or presumed to constitute collateral under NAIC Standards simply because the stand-alone security is on the List given that the status of a security as reinsurance collateral is not determined by the VOS/TF or the SVO or SAG.

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

- **Credit substitution methodology was modernized** – General narrative text for this investment activity was replaced with an analytical framework consisting of filing instructions, documentation requirements, definitions, analytical criteria and methodology. The methodology, which is published in [Part Three](#), applies in transactions where a third party enters into an unconditional and legally enforceable promise to pay the investor the money and make other performance due to the investor from an unrated or lower rated obligor. In these cases, the NAIC Designation is based on the credit quality of the third party.

The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.

The following amendments were adopted by the VOS/TF in 2018 to be effective for year-end 2019. These amendments will be reflected in the July 1, 2019, and will be published in the December 31, 2019, Manual.

- **The Administrative Symbols RP or P and a related methodology was deleted.** The deletion follows adoption of the February 28, 2018, Blanks Proposal and Interrogatory that replaced the SVO methodology with an instruction that the insurer aggregate the amount of such securities on a specified line.

*The Valuation of Securities (E) Task Force adopted this amendment on August 5, 2018. However, the amendment is **effective December 31, 2019**, and will not appear in this Manual until then.*

- **The Administrative Symbols A, V, L, U and UP** were used by the SVO in connection with the Valuation Procedures for common stock. The Valuation Procedures were deleted effective for year-end 2018, but the identified Administrative Symbols were retained until December 31, 2019, to align with the effective date of the related NAIC Blanks (E) Working Group activity.

*The Valuation of Securities (E) Task Force adopted this amendment on September 1, 2018. **effective December 31, 2019**.*

- **The Administrative Symbol NR was modified to ND.** The Administrative Symbol NR, which means “Not Rated” was changed to ND, which means “Not Designated” to align with NAIC terminology and avoid the technical and legal meaning of “rating” under federal securities law.

*The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018. However, it will not be possible to implement changes to electronic processes **until year-end 2019**.*

Not for Distribution

**PART ONE
PURPOSES,
GENERAL POLICIES AND
INSTRUCTIONS
TO THE SVO**

SECTION 1. ABOUT THE NAIC

a) The NAIC

The National Association of Insurance Commissioners (“NAIC” or “Association”) traces its origin to 1871. The NAIC is a not-for-profit corporation whose members are the commissioners, directors, superintendents and other state officials who regulate the insurance business within the 50 states, the District of Columbia and the four U.S. territories. The purpose that the members of the Association seek to advance is the promotion of uniformity in their regulatory efforts. The NAIC is not itself a regulatory entity.

The 56 members of the Association are supported by the Executive Headquarters, which maintains offices in Washington, D.C., Kansas City, Mo., and New York, N.Y. Committees composed of NAIC members conduct the work of the Association.

Prior to regularly scheduled tri-annual meetings, regulatory and administrative issues are assigned to expert groups of NAIC members for consideration and recommendation. Progress on assigned work is reported to the next level of the committee system at the tri-annual meetings until the matter is disposed of without action or sent to the plenary session for consideration by the entire membership. If adopted by the Plenary, the recommendation becomes Association policy, reflecting national regulatory consensus and serving as guidance to state insurance departments and state legislatures.

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, NAIC Members, in their capacity as state insurance regulators, establish standards and best practices, conduct peer review and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

b) The VOI/TF and the SVO Staff Function

The NAIC has determined that credit quality of insurance company investments provide a sound empirical anchor for certain regulatory functions related to financial solvency regulation.

The VOI/TF formulates and implements NAIC’s credit assessment and related policies.

Section 1. About the NAIC

The SVO is the professional staff of the VOS/TF responsible for day-to-day credit quality assessment of securities owned by state-regulated insurance companies. The SVO also performs such other duties as are specified by VOS/TF.

SECTION 2. POLICIES DEFINING THE SVO STAFF FUNCTION

a) **Directive to Conduct Ongoing SVO Operations**

The SVO shall conduct the following ongoing operations:

- (i) Analysis of credit risk for purposes of assigning an NAIC Designation.
- (ii) Identification and analysis of securities that contain other non-payment risk and communication of this information by assignment of the NAIC Designation subscript to such securities.
- (iii) Other analytical assignments requested by the VOS/TF or members of the regulatory community; in accordance with the directives, procedures and general methodologies described in this Manual.
- (iv) Compile and publish the AVS+ Products in accordance with instructions in this Manual.
- (vi) Administer the filing exemption for insurer-owned securities that are assigned publicly available credit ratings and the verification procedure for securities whose credit rating is communicated to the issuer in a private rating letter.

b) **NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office**

The purpose of this policy statement is to detail the coordination and collaboration between the Securities Valuation Office (SVO) and the Statutory Accounting Principles (E) Working Group (Working Group) support staff, the relationship between the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) and the *Accounting Practices and Procedures Manual* (AP&P Manual) and the expectations of the Valuation of Securities (E) Task Force (VOS/TF) and the Working Group.

(i) NAIC Designations Do Not Communicate Statutory Accounting or Reporting

The assessment of credit risk for an obligation or asset, as specified in the P&P Manual, is a separate and distinct process from the determination of statutory accounting or reporting under the AP&P Manual. The manner in which an NAIC designation is used within statutory accounting guidance is limited to that, if any, specified in a Statement of Statutory Accounting Principles (SSAP) and cannot be derived or implied by language in the P&P Manual. Obtaining an NAIC designation does not change an investment's applicable SSAP, annual or quarterly statement reporting schedule, or override other SSAP guidance required for the investment to

Section 2. Policies Defining the SVO Staff Function

be an admitted asset. There are limited instances in which a SSAP specifically identifies, within its scope, the inclusion of specific SVO-Identified investments. The SVO review required for an investment to be included on an SVO listing is a separate evaluation process that focuses on the structure of the investment. This process is distinct from the SVO's assessment of an investment's credit risk, which results in a NAIC designation. As stated in the Statutory Hierarchy, Section V of the Preamble, the AP&P Manual is the highest level of authoritative guidance.

(ii) Sources and Application of Statutory Accounting Guidance

The authority to determine and interpret existing statutory accounting guidance in, or to develop new statutory accounting guidance for, the AP&P Manual, is a charge assigned by the Financial Condition (E) Committee through its Accounting Practices and Procedures (E) Task Force to the Statutory Accounting Principles (E) Working Group. The application of statutory accounting guidance to any specific obligation or asset to determine its status under the AP&P Manual is the obligation of the insurance company and its management. The state of domicile is the final authority with respect to statutory accounting and reporting guidance. Deviations from the authoritative guidance in the Statutory Accounting Hierarchy are reflected as a permitted or prescribed practice.

(iii) Impact on SVO Operations

Because SVO analytical determinations of credit quality do not convey opinions, conclusions or information content relative to statutory accounting status, the SVO may assign a NAIC designation to any obligation or asset that is filed by an insurer, provided that its credit quality can be assessed consistently with the policies and methodologies specified in the P&P Manual.

(iv) Communication and Coordination Between SVO and Statutory Accounting Principles (E) Working Group Staff

The following processes are intended to assist optimum communication and coordination between the SVO and the Statutory Accounting Principles (E) Working Group support staff functions.

- Maintain ongoing dialogue regarding investments, investment-related SSAPs and relevant developments in the areas assigned to support staff of both groups.

- Maintain an ongoing dialogue relative to obligations and assets filed with the SVO, including communications about new types of obligations or assets filed with the SVO and their likely treatment under existing investment-related SSAPs.
- Maintain an ongoing dialogue relative to new obligations or assets, in which no statutory accounting guidance exists, or uncertainty exists about how current statutory accounting guidance applies to features or characteristics of the obligation or asset.
- Investment Analysis Office (IAO) and Financial Regulatory Services (FRS) staff shall provide notice to, and consult with, each other when either staff determine that existing technical guidance or procedures administered by the staff are no longer adequate to secure the original regulatory objective for which it was designed. Upon receipt of such notice, both staff will formulate a statement of the issues and, if possible, recommendations, and thereafter coordinate discussion between the Working Group and the VOS/TF consistent with the NAIC procedures and policies that apply to the situation. Such proposed recommendations shall be discussed consistent with the NAIC Policy Statement on Open Meetings, and any revisions to the authoritative guidance will be exposed for comment for a period of time commensurate with the significance of the change, to provide a formal forum for interested parties and regulators to provide input and allow for adequate due process.
- In situations in which NAIC staff (SVO or FRS) are contacted directly with questions on statutory accounting application, it shall be noted that opinions of NAIC staff are not authoritative and are based on the information provided and existing authoritative statutory accounting guidance. Information and issues can be submitted to the Statutory Accounting Principles (E) Working Group for consideration, as detailed in the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process.

c) SVO Administration of the Filing Exempt Process

(i) Determinations

The VOS/TF has resolved that the benefit obtained from the use credit ratings in state regulation of insurance must be balanced against the risk of blind reliance on credit ratings. To ensure the Task Force properly understands the composition and risk of the filing exempt securities population; promote uniformity in the production of NAIC Designations,

Section 2. Policies Defining the SVO Staff Function

reduce reporting exceptions for filing exempt securities and increase the efficiency of this NAIC process, the SVO and SSG (hereafter, the IAO) is charged with administration of the filing exempt process defined in [Part Three, Section 1 b\) of this Manual](#).

(ii) Directives

The IAO shall:

- Recommend improvements to the production of NAIC Designations based on NRSRO credit ratings.
- Identify monitoring and communication procedures that enhance the possibility of regulatory intervention by the VOS/TF to respond to risks to insurer solvency posed by securities in the filing exempt population.
- Identify and develop correctives to the administrative, operational and system-based causes of reporting exemptions in the filing exempt process.
- Change the NAIC Designation equivalent calculation for filing exempt securities when necessary to correct error or other anomaly that occur in the automated filing exempt process.
- Develop a staff-administered reporting exceptions resolution process that incorporates state insurance regulator and insurance companies' participation.

d) **SVO Regulatory Products**

(i) NAIC Designations

The result of SVO's credit analysis as it pertains to credit risk (hereafter defined), shall be expressed as an opinion of credit quality by assignment of an NAIC Designation, notated to reflect the position of the specific liability in the issuer's capital structure. Collectively, NAIC Designation, defined in [Part One, Section 3 b\) \(i\) of this Manual](#), describes a credit quality-risk gradation range from highest quality (least risk) to lowest quality (greatest risk). Subject to the application of [Part One, Section 2 h\)](#) of this Part, NAIC Designations express opinions about credit risk except when accompanied by the NAIC Designation subscript, described in paragraph (iii) below.

Credit risk is defined as the relative financial capability of an obligor to make the payments contractually promised to a lender. Credit analysis is performed solely for the purpose of designating the quality of an

investment made by an insurance company to enable the NAIC member's department of insurance to determine regulatory treatment.

Credit risk is determined by analyzing the information and documentation provided to the SVO by the reporting insurance company and its advisors. The SVO does not audit the information submitted and assumes the information to be timely, accurate and reliable.

The ability of an insurance company to realize payment on a financial obligation can be affected by factors not related to credit risk or by the manner in which the repayment promise has been structured.

NAIC Designations do not measure other risks or factors that may affect repayment, such as volatility/interest rate, prepayment, extension and liquidity risk.

An NAIC Designation must be interpreted by the NAIC member in context of the NAIC Financial Regulation Standards and Accreditation Program, other characteristics of the investment, and the specific regulatory status of the insurance company. The result of SVO's credit analysis, expressed as an opinion of credit quality by assignment of an NAIC Designation shall be further expanded into NAIC Designation Categories as, and for the purposes, discussed in Part One, Section 3 b) (ii) of this Manual.

(ii) Other Non-Payment Risk in Securities

The result of SVO's analysis of securities for other non-payment risk shall be expressed by assignment of an NAIC Designation subscript S and the application of the notating procedures, described in Part One, Section 3 b) (iv) and Section 3 b) (v), respectively, of this Manual.

(iii) Authority to Direct Insurers on Reporting

The SVO has responsibility and authority to assess securities that are reportable on Schedule D and Schedule BA of the NAIC Financial Statement Blank. It is, therefore, part of the role of the SVO to determine when financial instruments or securities are not eligible for reporting on Schedule D and Schedule BA. The SVO may, therefore, be required to inform an insurer filer to redirect a financial instrument or security reported to the SVO to another schedule. Similarly, the SVO may also be required to inform an insurer filer that an instrument filed with the SVO pursuant to Part Two, Section 2 a) of this Manual does not meet the definition of an Investment Security and cannot be assessed as such or that a financial transaction or security filed with the SVO meets the definition

Section 2. Policies Defining the SVO Staff Function

of a Regulatory Transaction eligible for assessment by the SVO under [Part Three, Section 6 of this Manual](#). In all cases in which a situation described in this subparagraph is presented, final determination as to what statutory accounting and reporting applies to the instrument or security is made in consultation between NAIC statutory accounting staff and the SVO.

e) Special Instructions to the SVO

(i) Authorization to Use Public Information Sources

The staff may consider any publicly available credit, pricing, statistical, economic or other information relevant to the matter under consideration and may use such information for the purpose of forming its own conclusions if the staff has determined that the information has an appropriate level of reliability.

(ii) Circular Transactions

For purposes of this paragraph, a circular transaction shall be deemed to exist whenever the SVO shall find that the essential financial characteristic of a reported security is that the obligor depends on funds advanced by an insurance company to make debt service payments to the same insurance company and that the interdependency of the entities involved in this or related transactions and the lack of any arms-length economic dealings renders the application of the credit assessment or valuation techniques provided for in this Manual analytically meaningless and therefore misleading to NAIC members.

The SVO is instructed to assign an **NAIC 6** Designation to circular transactions and to provide written confirmation of this action to the department of insurance of the reporting insurance company's state of domicile. The department of insurance may appeal the SVO decision to an appropriate working group of the VOS/TF.

(iii) Special Instruction for Mandatory Convertible Securities

Mandatory convertible securities are defined as a type of convertible bond or convertible preferred stock that has a required conversion or redemption feature either on or before a contractual conversion date, the holder must convert the mandatory convertible bond or preferred stock into the underlying common stock. Mandatory convertible securities are not assigned NAIC Designations or Unit Prices by the SVO. Prior to conversion, insurers shall report mandatory convertible securities in accordance with the SSAP of the current nature of the investment

(e.g., *SSAP No. 26R—Bonds* or *SSAP No. 32—Preferred Stock*). Insurers should also report an NAIC Designation in Schedule D, which they can self-assign or determine in accordance with the filing exempt rule discussed in Part Three, Section 1 b) of this Manual. Please refer to paragraphs 2, 10 and 20 of SSAP No. 26R for further guidance.

(iv) Clarifying Instruction for Unrated Hybrid Securities

An unrated hybrid security is filed with the SVO for an NAIC Designation, but the insurance company reports the hybrid security as a bond pursuant to NAIC Annual Statement Instructions using the NAIC Designation assigned by the SVO. Please refer to the NAIC Annual Statement Instructions, Investment Schedules, General Instructions for guidance on the securities that fall within the definition of hybrid securities.

f) Application of Analytical Instructions

(i) Relationship to Policy

The directives in Part One, Section 2 a) and Part One, Section 2 b) provide a policy determination to ensure analytical resources to support financial solvency objectives of state insurance regulators as expressed in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law.

(ii) Parameters for Use of Instructions and Methodologies

The description of methodologies and the instructions pertaining to the application of those methodologies in this Manual are general and mandatory instructions from the VOS/TF to the SVO. The SVO shall have reasonable professional judgment to interpret how the instructions and methodologies contained in this Manual apply to specific securities, financial products or different analytical situations. Factors that may affect how the SVO interprets instructions and methodologies include, but are not limited to, the terms of individual securities, unique features or characteristics of securities, legal or regulatory issues associated with structured transactions, the issuer's industry, the introduction of a new security type or asset class and NAIC regulatory objectives.

(iii) Use of Generally Accepted Techniques or Methodologies

The SVO is expressly authorized to employ any analytical technique that is taught in standard undergraduate and graduate business school financial analysis curriculum and any analytical technique otherwise widely or commonly used by lending officers, securities professionals, credit rating analysts, valuation professionals, statisticians or members of other similar

professions, despite the lack of an express authorization to use the technique in this Manual.

(iv) Updating Instructions and Methodologies

The SVO shall have ongoing professional responsibility to advise the VOS/TF of developments that may suggest the need for the NAIC to develop regulatory policy for new or existing investments or the need for the NAIC to amend or provide for additional instructions and/or methodologies.

g) SVO Responsibility for Investment Risk Analysis of New Financial Products

The SVO has responsibility for assisting NAIC members and individual states to assess investment risk in new securities and financial products. The SVO exercises this responsibility:

- (i) When requested to do by the VOS/TF, any of its working groups, any other NAIC task force or working group or any individual state insurance department.
- (ii) Through the RTAS – Emerging Investment Vehicle Service process discussed in [Part Four, Section 2 of this Manual](#).
- (iii) Through ongoing research and analysis activity aimed at identifying both broad developments in the capital markets and the introduction of specific new classes of securities that insurance companies may purchase.
- (iv) By providing biannual or more frequent reports to the VOS/TF on innovative structures filed by insurance companies and the risks they contain.
- (v) By sharing information obtained through interaction with market participants with the VOS/TF.

h) Process for Placing Securities Under Regulatory Review; When Analytical Instructions Are Insufficient or Inadequate

(i) Notice

The Director shall promptly inform the Chair of the VOS/TF of his or her conclusion that market or other developments; the aspects of a new or existing security, financial instrument or analytical situation, requires the NAIC to formulate new financial solvency policy or develop new or additional instructions and/or methodologies for the SVO. The Director shall prepare a written report for the VOS/TF explaining the reasoning that led to the conclusion.

(ii) Deliberation

The Chair shall call a meeting of the VOS/TF to consider and discuss the SVO report and the issues it presents and to consider how to proceed. If the VOS/TF determines that the nature of the security and/or the issues raised by the SVO requires formulation of new policy or regulatory instructions or the development of new or additional instructions and/or methodologies, the VOS/TF shall consider whether to declare the security or financial product to be under regulatory review.

On its own initiative or at the direction of the NAIC Executive (EX) Committee, the Financial Condition (E) Committee may instruct the VOS/TF to place a security under regulatory review. The VOS/TF may, on its own initiative place a security under regulatory review as discussed in this section.

(iii) Hearing and Declaration

If the VOS/TF is instructed or if it determines that a security should be formally declared to be under regulatory review, it shall hold a public hearing to discuss the issue and make a formal declaration of this decision. The staff shall cause notice of the determination to be published to interested persons and to other NAIC groups that have jurisdiction over reporting issues, have relevant expertise or would be affected by the activities of the VOS/TF.

(iv) Reporting Framework for Securities Under Regulatory Review

Upon a public declaration that a security is under regulatory review, insurance companies that own the security shall report it on the NAIC Financial Statement Blank with the administrative symbol **NR*** if the security is under review for an assessment of regulatory policy for the investment or regulatory reporting instructions to implement applicable policy or with the administrative symbol **Z*** if the security is under regulatory review for development by the VOS/TF of the instructions or methodologies for application by the SVO in its risk assessment.

In September of each year, the VOS/TF will publicly identify which classes of securities, if any, are under regulatory review and therefore eligible to take the regulatory treatment prescribed for NR*/Z* in the NAIC Annual Statement Instructions for that year's year-end NAIC Financial Statement Blank.

Section 2. Policies Defining the SVO Staff Function

(v) Filing of Securities Under Regulatory Review

Unless the VOS/TF shall provide other instructions to insurance companies, securities under regulatory review that are otherwise reportable to the SVO shall continue to be filed with the SVO during the period of regulatory review.

i) **Review of SVO Credit or Classification Decisions**

(i) Requests for Clarification of SVO Decisions

Any insurer that owns a security, for which the SVO has provided an NAIC Designation or a classification, may request a clarification of the decision from the SVO. The SVO analyst responsible for the decision may respond informally to informal requests for clarification and, in response to written requests, shall provide as much clarification as possible in writing within 10 days after receipt of the written request. Any reply from the SVO shall be a confidential communication between the SVO and the insurer.

(ii) Appeals of SVO Analytical Decisions

(A) *Condition to Filing of an Appeal*

Any insurer that owns a security for which the SVO has performed a credit assessment or a classification analysis, may appeal the SVO credit assessment or classification, provided that the appeal must be filed within 120 days of the SVO decision. Any insurer can ascertain the date of the original SVO decision by accessing VISION and noting the Review Date shown therein. The Review Date is the date of the original decision.

An appeal is initiated by filing a completed Appeal ATF with a written correspondence specifically and clearly identifying the analytic basis of the appeal, supported by such documents or financial or other information or data in the insurer's opinion supports the claim that the original decision of the SVO should be reviewed.

(B) *Procedure for Filing an Appeal*

Filing an appeal with the SVO is accomplished through a computer link with the VISION computer system of the SVO. See Part Two, Section 6 of this Manual for a more complete description of the filing process.

This appeal procedure applies only to situations where the SVO has expressed an analytical conclusion in the exercise of its quality assessment, credit risk assessment, classification or, valuation functions. The stated procedure encompasses initial filings, annual updates and securities not rated by an NAIC CRP.

Securities rated by an NAIC CRP may be appealed only if the SVO designates securities differently than the NAIC CRP and the SVO retains responsibility for review of NAIC CRP-rated transactions.

(iii) SVO Review of the Appeal

The SVO analyst to whom the Appeal ATF is directed will alert the SVO Credit Committee that an appeal of an SVO decision has been made and provide it with copies of the correspondence, documents and information presented by the insurer as well as copies of the original analysis that led to the conclusion appealed from.

The Credit Committee chair will then set a date, not to exceed 45 days from the date the insurer submits a complete file to the SVO, for the Credit Committee to meet to deliberate the issues presented. Prior to the meeting, the members of the Credit Committee will review the original decision and the correspondence, documents and information presented by the insurance company. The insurer shall be notified of the date of the meeting, and shall be given the opportunity to present its appeal in person to the Credit Committee.

The Credit Committee is composed of those senior staff members whose expertise may be necessary or desirable to the discussion of the issues presented, including, whenever possible, persons who did not previously participate in the formulation of the original decision. The original analyst is present during all deliberations of the Credit Committee and participates in its deliberations by providing information and responding to questions. However, the original analyst does not vote on nor decide the issues presented in the appeal.

After evaluation of the correspondence, documents and information presented by the insurance company, the Credit Committee will render a decision within 10 days of its meeting to consider the appeal. Once the Credit Committee renders a decision, a representative of the Credit Committee, which may be the original analyst, is chosen to communicate the decision to the insurance company or companies that filed the appeal. After it has communicated its decision to the insurer, the SVO will

Section 2. Policies Defining the SVO Staff Function

entertain such further reasonable discussions with the insurer as it shall deem reasonably necessary to ensure that the Credit Committee has considered and responded to all of the issues deemed relevant by the insurer.

Not later than 10 days after the verbal communication of its decision, the SVO will provide the insurer with a letter specifying whether the SVO has determined to modify or affirm its previous decision and addressing the issues posed by the insurer. The letter shall be issued directly to the insurer that filed the appeal as a confidential communication between the SVO and that insurer. At the request of any other insurer holding the same security, the SVO shall provide a copy of the letter to such other insurer.

(iv) Status of NAIC Designation During Appeal

Until such time as the SVO Credit Committee determines that a previous credit assessment, classification analysis or valuation should be amended and the NAIC Designation, classification decision or price is changed, the previous decision of the SVO remains in full force and effect.

(v) Review of SVO Decisions

(A) *Task Force Review for Alleged Violations of Procedures*

(1) Request for Review

Any insurer that has filed a security for an NAIC Designation, a classification or a valuation, and is concerned that a decision relative to the security was not made in accordance with the procedures in this Manual, may request consideration of this concern by the VOS/TF.

(2) Condition to Request; Exhaust SVO Remedies

Before making a request to the VOS/TF, the insurance company must submit a written statement to the Director of the SVO, or to the person then exercising the executive function of the SVO, whatever the title then used, with a copy to the Chair of the VOS/TF. The written statement must identify the specific procedure or procedures in this Manual that the insurance company believes have been ignored or improperly applied.

Upon receipt of the written statement, the Director will fully investigate the assertions and communicate its factual findings back to the insurance company with a copy forwarded to the Chair of the VOS/TF within 30 days. Should the result of the SVO investigation not resolve the factual issues expressed by the insurance company, a request for further consideration can be made to the Chair of the VOS/TF. The Chair of the VOS/TF may then choose to review the matter.

(3) Basis of Review by the Task Force

If the VOS/TF chooses to review the matter further, its focus is on determining whether the SVO decision was made in a manner that is inconsistent with the applicable provisions of this Manual. If the VOS/TF finds that the SVO decision was made in a manner that is inconsistent with the applicable provisions of this Manual, it will provide the SVO with interpretive guidance respecting the meaning of the applicable language or procedures in the Manual and instruct the SVO to reformulate a decision.

(vi) Review Timeline

The SVO's goal is to complete all work on an appeal and communicate a decision to the insurer within 90 days of receipt of a complete file for the appeal. The time periods for action by the SVO identified in this section shall not be deemed to restrict the exercise of management discretion by the Director of the SVO as to the proper disposition of SVO resources in the fulfillment of SVO priorities and commitments. Any of the time periods in this section may be extended by mutual agreement of the insurer and the SVO or Task Force, respectively, to the stage of the appeal.

Section 3. Internal Administration

SECTION 3. INTERNAL ADMINISTRATION

a) General

The staff of the SVO shall be organized in a manner that the NAIC Executive Vice President shall deem to be the most appropriate and efficient for the conduct of day-to-day credit assessment operations, consistent with the resources provided to the office by the NAIC. The staff shall promulgate such internal administrative procedures, protocols, policies and guidelines, as it shall deem necessary for the proper execution of its delegated functions. Such procedures, protocols, policies and guidelines as are promulgated by the staff shall be open to review and oversight by the VOS/TF.

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

(i) Definition of NAIC Designation

NAIC Designations are proprietary symbols that the NAIC SVO uses to denote a category or band of credit risk. NAIC Designations are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law.

NAIC Designations are adjusted in accordance with the notching procedures described in subparagraph (v) (B) and (C) below, so that an NAIC Designation for a given security reflects the position of that specific security in the issuer's capital structure.

NAIC Designations may also be adjusted by notching to reflect the existence of other non-payment risk in the specific security in accordance with the procedures described in subparagraph (iii) and (iv) (C) below.

When applied to preferred stock the valuation indicator **P** is placed in front of the NAIC Designation to indicate that the SVO has classified the security as a perpetual preferred stock. The valuation indicator **RP** is placed in front of the NAIC Designation to indicate that the SVO has classified the security as a redeemable preferred stock for the purposes of valuation under MAP.

(NOTE: The instruction in this paragraph will be deleted effective December 31, 2019.)

NAIC 1 is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected. An **NAIC 1** obligation should be eligible for the most favorable treatment provided under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 2 is assigned to obligations of high quality. Credit risk is low but may increase in the intermediate future and the issuer's credit profile is reasonably stable. This means that for the present, the obligation's protective elements suggest a high likelihood that interest, principal or both will be paid in accordance with the contractual agreement, but there are suggestions that an adverse change in circumstances or economic, financial or business conditions will affect the degree of protection and lead to a weakened capacity to pay. An **NAIC 2** obligation should be eligible for relatively favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 3 is assigned to obligations of medium quality. Credit risk is intermediate and the issuer's credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer's capacity to make timely payments. An **NAIC 3** obligation should be eligible for less favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 4 is assigned to obligations of low quality. Credit risk is high and the issuer's credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer's capacity to make timely payments. An **NAIC 4** obligation should be accorded stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

Section 3. Internal Administration

NAIC 5 is assigned to obligations of the lowest credit quality, which are not in or near default. Credit risk is at its highest and the issuer's credit profile is highly volatile, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is significantly impaired given any adverse business, financial or economic conditions. An **NAIC 5** Designation suggests a very high probability of default. An **NAIC 5** obligation should incur more stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NAIC 6 is assigned to obligations that are in or near default. This means that 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.

(ii) NAIC Designation Categories

Upon the determination of an NAIC Designation, the SVO produces NAIC Designation Categories, as described and defined in Part Three of this Manual below.

NAIC Designation	+	NAIC Designation Modifier	=	NAIC Designation Category
1		A		1.A
1		B		1.B
1		C		1.C
1		D		1.D
1		E		1.E
1		F		1.F
1		G		1.G
2		A		2.A
2		B		2.B
2		C		2.C
3		A		3.A
3		B		3.B
3		C		3.C
4		A		4.A
4		B		4.B
4		C		4.C
5		A		5.A
5		B		5.B
5		C		5.C
6		A		6

NAIC Designation Categories are a subset of NAIC Designations and are used by the VOS/TF to link the NAIC risk-based-capital (RBC) framework adopted by the NAIC Capital Adequacy (E) Task Force to the VOS/TF's credit assessment process. The NAIC Capital Adequacy (E) Task Force assigns RBC factors to each NAIC Designation

(iii) NAIC Designation Subscript S

(A) *Regulatory Objectives*

Regulators attach certain economic expectations to certain of the terms used to describe securities or financial instruments owned by insurers and reported as invested assets. This reflects that the regulatory objective is to assess the financial ability of an insurer to pay claims. For purposes of this provision, the regulatory assumption is that any fixed income instrument denominated debt by its originator or issuer requires the issuer to make scheduled payments of interest and requires the full repayment of the principal amount on a date certain. The regulatory assumption for any fixed income instrument denominated preferred stock by its originator or issuer is that the issuer will make scheduled payments of dividends and return principal subject to a grant of financial flexibility to the issuer to not pay that is circumscribed by economic events quantifiable in the context of the issuer's credit risk profile.

Any contractual modification of these regulatory assumptions is deemed to create a rebuttable inference that the security or instrument contains an additional or other non-payment risk—albeit one that is sanctioned by the contract—that may result in the insurer not being paid in accordance with the underlying regulatory assumption. The purpose of the procedure described in this subparagraph is to authorize and require the SVO to identify securities that contain such contractual modifications and to quantify the possibility that such contracts will result in a diminution in payment to the insurer so this can be reflected in the NAIC Designation assigned to the security through the application of the weighting process described in paragraph (iv) below.

(B) *Description of Other Non-Payment Risk*

It may not be practical, desirable or possible to specifically define other non-payment risk given the assumption that it originates as a result of a contractual agreement or the presence of a structural element of a transaction that is agreed upon between the issuer and the insurer. Accordingly, what follows is intended as general guidance to insurers and others.

Most typically, other non-payment risk has been associated with contractual agreements between the insurer and the issuer in which the issuer is given some measure of financial flexibility not to make payments that otherwise would be assumed to be scheduled, given how the instrument has been denominated, or the insurer agrees to be exposed to a participatory risk.

Other non-payment risk differs from the type of issues encountered in credit risk. This is because typically, credit assessment is concerned with securities in which the parties create subordination by modifying the lender's priority of payment (for example, senior unsecured versus junior subordinated) but in a context where the contract otherwise specifies that the failure to make payments on a scheduled basis (defined in the contract) is an event of default (in the case of a bond) or triggers some other specific and identifiable lender remedy (in the case of other fixed income securities).

Using the broad concepts identified above, non-payment risk may be present when:

- A reporting insurance company takes on a participatory risk in the transaction.

Illustration – *The contract promised payment of a dollar denominated obligation in non-U.S. currency but does not require an exchange rate that would yield foreign currency sufficient to buy a defined principal amount of U.S. dollars. The other non-payment risk in this illustration consists of the reporting insurance company's acceptance of currency risk which may diminish the principal amount of the investment. Currency risk here is not related to the issuer's ability or willingness to pay and therefore is not appropriately reflected in the NAIC Designation of the issuer or captured by notching for credit risk.*

- The contract governing the loan provides for a degree of permanence in the borrower's capital structure that is incompatible with notions of a loan that is expected to be repaid.

***Illustration** – A loan stated to be perpetual and giving the issuer the right to miss interest or dividend payments otherwise said to be scheduled where the missed payments are not required to be paid on a subsequent date.*

***Illustration** – An instrument denominated as a bond but lacking a maturity date, a mechanism to determine a maturity dates (for example, a mandatory redemption) or that states a maturity equal to or exceeding 40 years.*

- Agrees to an exposure that has the potential to result in a significant delay in payment of contractually promised interest and/or the return of principal in an amount less than the original investment.

(C) *Meaning of the Subscript S Symbol*

An SVO determination that a specific security contains other non-payment risk is communicated by assigning the NAIC Designation subscript **S** to the specific CUSIP and applying the notching procedure described in subparagraph (iv) below. The subscript follows the NAIC Designation as follows: **NAIC 2 S**.

(D) *Directive to Conduct Analysis for Other Non-payment Risk*

The SVO shall assess securities for other non-payment risk:

- Routinely, for any security or financial product filed with the office;
- As part of the analysis of a security or financial product submitted to the SVO under the ETAS – Emerging Investment Vehicle process discussed in [Part Four, Section 2 of this Manual](#);
- When requested to do so by any state insurance regulator acting pursuant to [Part Two, Section 2 b\) of this Manual](#); and
- When requested by the Task Force, including in support of the Invested Assets (I) Working Group; or
- In support of any other NAIC group engaged in the analysis of investment risks in new securities.

(iv) SVO Notching Guidelines

(A) *Definition and Purpose*

Notching is defined as the process used to make distinctions between different liabilities in an issuer capital structure to reflect differences in credit or other non-payment risk smaller than a whole grade.

Notching expresses differences in expected loss (i.e., severity) of an issuer's liabilities by their relative priority of claim in bankruptcy.

With the exception of **NAIC 6**, notching distinctions are expressed by combining an NAIC Designation with an NAIC Designation Modifier to produce an NAIC Designation Category. For example, as shown in the table above, **NAIC 1** is combined with NAIC Designation Modifier 1.A to produce the NAIC Designation Category 1.A. Modifiers are used with or assigned to the **NAIC 6** Designation.

(B) *Notching NAIC Designation Categories (to Reflect Credit Risk)*

(1) Illustration

The distinctions in credit risk made in the notching process involve (conceptually) the issuer's actual capital structure. The hypothetical capital structure below is shown to illustrate and explain notching.

Senior secured	Notch up from the benchmark
Senior unsecured	Benchmark NAIC Designation Category
Senior subordinated	Notch down from the benchmark
Junior subordinated	Notch down from benchmark
Preferred stock	Notch down from benchmark

(2) Methodology

The SVO determines the benchmark NAIC Designation Category for the senior unsecured obligation of the issuer or its equivalent.

The SVO adjusts the benchmark NAIC Designation Category up or down to reflect the difference in risk between the benchmark security and the specific liability under review by the SVO.

(3) SVO Guidelines for Notching

The SVO shall notch an NAIC Designation Category for an issuer up or down to reflect the position of a specific liability in the issuer's capital structure.

Notching upward from a benchmark NAIC Designation Category is almost exclusively associated with transactions in which the SVO determines that collateral act to further reduce the probability of default from that implied by the issuer's senior unsecured NAIC Designation Category.

In determining the number of notches that should be applied to a security, the SVO shall apply the following guidelines:

(A) Notching Investment Grade Issuers

Notching for issuer's whose senior unsecured benchmark NAIC Designation is **NAIC 1** and **NAIC 2** is based on the following general guidelines:

- Secured debt may be generally rated one notch above the senior unsecured issuer designation.
- Subordinated debt (including junior and senior subordinated) are generally designated one notch below the senior unsecured rating.
- Preferred will generally be designated one notch below subordinated debt (two below senior unsecured or senior implied).
- Holding company debt is generally designated at or below the lowest rated debt security that would be assigned at the principal operating company.

(B) Notching for Non-Investment Grade Issuers

Given the risks associated non-investment grade issuers, notching for issuers whose senior unsecured benchmark NAIC Designation is **NAIC 3**, **NAIC 4** and **NAIC 5** requires greater professional judgment and discretion.

As such, notching differentials for issuers with **NAIC 3**, **NAIC 4** and **NAIC 5** Designations may be wider than for issuer's whose senior unsecured NAIC Designations **NAIC 1** or **NAIC 2**.

(C) *Notching for NAIC Designation Subscript (to Reflect Non-Payment Risk Unrelated to Credit Risk)*

(i) Grant of Significant Discretion

The SVO is granted significant discretion to determine the number of notches it will assign to a security to reflect other non-payment risk. This discretion is to be exercised in the context of the regulatory objective and purpose of this procedure. SVO determinations made under this subparagraph are subject to review in accordance with the procedures described of this Part, above.

(ii) Relevant Considerations

The name given to the security is not relevant to a determination whether this subparagraph should be applied. The relevant criterion is whether the risks in the security are clearly credit risks or whether they are not clearly credit risks.

Factors the SVO may deem relevant to the question of notching for other non-payment risk may include:

- Any security or financial instrument denominated with a term associated with fixed income investments must contain a clearly stated obligation to pay a return and to repay the amount of the principal repayment. Otherwise it is not rational or possible to assign an NAIC Designation.
- Any security or financial instrument denominated as fixed income that does not contain a legally binding obligation to pay shall not be assigned an NAIC Designation and instead will be reported to the Task Force and the Chief examiner of the State of Michigan.
- Any security or financial instrument that is denominated as fixed income and that contains a promise to pay that is otherwise conditional may be notched either under this subparagraph to reflect other non-payment risks or under the notching procedure for credit risk to reflect the expected loss of that obligation in the issuer's specific capital structure, depending on which approach seems more appropriate to the SVO.
- The widest degree of notching for security or financial instrument is likely to be for a security that is denominated as fixed income, but which is deemed to be a perpetual investment and to not require payment of dividends.
- In contracts that permit the issuer flexibility to not make payments, the SVO would focus on the degree of financial discretion afforded the issuer to not make payments and the circumstances under which that financial flexibility will be exercised;
- In contracts where the insurer agrees to accept a risk or participate in an activity that may reduce either the interest or dividend otherwise agreed on or the amount to be repaid to less than the original principal investment, the SVO would consider whether the risk of a loss is structurally or otherwise mitigated;

- Notching differentials are expected to be wider for **NAIC 3, NAIC 4** and **NAIC 5** issuers because the issuer's credit risk is deemed to increase the likelihood that the issuer will avail itself of contractually provided flexibility to not pay or increase the likelihood of a loss as a result of the insurer's participatory activity.
- Deferral of dividends in a security denominated preferred stock is presumed to be subject to notching for credit risk subject to an SVO determination that the denomination is not truly reflective of the terms of the agreement in which case it may be more appropriately notched for other than credit risk.
- In a given capital structure, the priority of payment due to an investor may be so subordinated as to require treatment under the guidelines for other non-payment risk. This is especially true where deep subordination is combined with a right to defer interest.

(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*

All SVO analytical departments use the following administrative symbols:

A means that the Unit Price of the share of common or preferred stock has been analytically determined by the SVO.
(NOTE: This symbol will be deleted effective December 31, 2019.)

V when used to report a Unit Price for common or preferred stock means the Unit Price reported was not provided by the SVO or any market or exchange but was derived by the insurance company itself or from some other source, pending a valuation analysis by the SVO.
(NOTE: This symbol will be deleted effective December 31, 2019.)

L indicates that the Unit Price given for a share of common or preferred stock is the price listed on the New York Stock Exchange, the American Stock Exchange or on the NASDAQ National Market System.

(NOTE: This symbol will be deleted effective December 31, 2019.)

U indicates that the price given for a share of common or preferred stock is the price listed on any market or exchange, including a foreign exchange, other than the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market System.

(NOTE: This symbol will be deleted effective December 31, 2019.)

NOTE: The Administrative Symbols **A**, **L**, **U** and **V**, which identify the manner or source of a Unit Price assigned by the SVO, are collectively referred to as Market Indicators in the NAIC Annual Statement Instructions.

(NOTE: These symbols will be deleted effective December 31, 2019.)

UP means unable to price. This symbol is used with common or preferred stock and indicates that a current market quotation was not obtainable or was not deemed reliable by the SVO.

(NOTE: This symbol will be deleted effective December 31, 2019.)

F means that the NAIC Designation shown was determined by the reporting insurance company and not by the SVO. Unlike the administrative symbol **Z**, the **F** symbol is used for insurers that meet the definitional criteria for a “Sub-paragraph D Company” as defined in Part Three of this Manual, to report ownership of a foreign security for which the company did not have the information necessary to permit the SVO to conduct an assessment or a valuation.

FE means exempt from trading 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 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 practice as described in Part One, Section 3 k) of this Manual. The administrative symbol **FE** is used with an **NAIC 1** through **NAIC 6** Designation, and in the case of preferred stock, in combination with the **P** and **RP** Valuation Indicators.

*(NOTE: The **P** and **RP** Valuation Indicators will be deleted effective December 31, 2019.)*

NR means Not Rated. The symbol is used in the AVS+ Products for bonds and communicates that the information required to arrive at an NAIC Designation is not available to the SVO or that such information was received too late to be processed and reflected in the most current AVS+ Products. Bonds assigned an **NR** symbol will be deleted from the VOS Process if any information deficiency is not rectified by the end of the first quarter following the previous year-end.

(NOTE: This symbol will be changed to ND, meaning “Not Designated,” effective December 31, 2019.)

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 1.2](#) 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 NAIC 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.

(NOTE: The P and RP Valuation Indicators will be deleted effective December 31, 2019.)

Z means that the NAIC Designation reported by the insurance company was not derived by or obtained from the SVO, but has been determined analytically by a reporting insurance company. A security designated with a **Z** must be submitted to the SVO for valuation within 120 days of the date the security was acquired. The **Z** symbol should not be used for securities that are exempt from filing with the SVO pursuant to [Part Three of this Manual](#).

The **Z** symbol is used to identify an insurer-owned security that is in transition in reporting or filing status because:

- 1) It is newly purchased and has not yet been submitted to the SVO;
- 2) It has been properly submitted to the SVO for assignment of an NAIC Designation which is still pending, whether at year-end or otherwise;
- 3) It is in transition from one reporting or filing status to another (for example, a previously filing exempt security is no longer rated by any NAIC CRP making it eligible for filing with the SVO but has not yet been filed); and
- 4) An SVO-assigned NAIC Designation for the security has been dropped from AVS+ and the insurer has otherwise followed all other filing requirements.

(This text shall be amended as additional transition situations are identified.)

YE means that the security is a properly filed annual update that the SVO has determined will not be assigned a NAIC Designation by the close of the year-end reporting cycle. The symbol **YE** is assigned by the SVO pursuant to the capover administrative procedure described in [Part One, Section 3\(f\)\(2\)](#) of this Manual. When the SVO assigns the symbol **YE** it also assigns the NAIC Designation in effect for the previous reporting year.

IF means that the security is an initial filing that has been properly filed with the SVO but which the SVO has determined will not be assigned an NAIC Designation by the close of the year-end reporting cycle. The symbol **IF** is assigned by the SVO and communicates that the insurer should self-designate the security for year-end and identify it with the symbol **IF**. **IF** therefore also communicates to the regulator that the NAIC Designation reported by the insurance company was not derived by or obtained from the SVO, but has been determined analytically by a reporting insurance company.

NR* indicates that the security so designated belongs to a class of securities currently under policy review by the NAIC.

(NOTE: This symbol will be changed to ND, meaning "Not Designated," effective December 31, 2019.)

Z* follows an NAIC Designation and means that the class of securities cannot be rated by the SVO because the valuation procedure is under regulatory review.

c) Credit Committee

The SVO shall establish a Credit Committee composed of its senior staff, non-senior analytical staff or both, possessing expertise relevant to the issues entrusted to the Credit Committee. The Credit Committee shall provide SVO's professional staff with such direction or guidance necessary on analytical or policy issues as may be assigned to it pursuant to procedures promulgated under Section 3 a) of this Part above.

d) SVO Departments

The SVO shall establish such procedures or guidelines as are necessary to delineate analytical and administrative responsibility for specific securities among departmental groups. The SVO also shall establish procedures for sharing administrative and analytical oversight for securities deemed to require application of methodologies from more than one department.

e) VOS Process

Upon determination of an NAIC Designation for an Investment Security, as defined in [Part Two, Section 2 a\) of this Manual](#), the SVO shall enter such NAIC Designation in the NAIC's VOS Process.

The SVO shall not add a Regulatory Transaction, as defined in [Part Three, Section 6 of this Manual](#), to the VOS Process.

f) Monitoring of VOS Process

(i) Monitoring

(A) General Directive

The SVO shall monitor improvements and deterioration of credit quality of securities which are not filing exemption the VOS Process on an ongoing basis. Whenever reports in the financial press, other reliable media, Subsequent Reports or Material Credit Event Filings submitted by a reporting insurance company indicate that the issuer of a security has experienced a material credit event or a change in financial condition, the SVO shall analyze whether the credit event or other change is of sufficient materiality to require a change in the NAIC Designation then assigned to a reported security.

Section 3. Internal Administration

(B) *Directive Applicable to Filing Exempt Securities*

Any security entered into the FE Securities Process shall be assigned a NAIC Designation and monitored on the basis of information provided by the various NAIC CRPs and updated electronically by VISION without the intervention of an SVO analyst. It shall be the responsibility of the insurer to report the security to the SVO if it ceases to be filing exempt as required by [Part Three of this Manual](#).

(ii) Annual Review

On at least an annual basis, the SVO shall review all NAIC Designations assigned by the SVO to securities in the VOS Process in light of the information presented by each issuer's most recent Audited Financial Statements, or other pertinent information, to verify that the assigned NAIC Designation is accurate. As necessary, the SVO shall modify such NAIC Designation for the previously reported security as changed circumstances may require or delete any security that has matured or as to which there is a lack of sufficient or timely information.

Bonds assigned the administrative symbol **NR** shall be deleted from the VOS Process if any information deficiency is not rectified by the end of the first quarter following the previous year-end provided, however, the SVO will not delete any Bond assigned the administrative symbol **NR** from the VOS Process if an ATF annual update filing for the Bond appears in VISION and the SVO has received the necessary information required to assign an NAIC Designation to the Bond. If a Bond is not deleted in accordance with the foregoing process in reliance on an annual update ATF that does not contain the necessary information to permit the assignment of an NAIC Designation, the SVO shall subsequently delete that security from the database.

(NOTE: The symbol NR will be changed to ND, meaning "Not Designated," effective December 31, 2019.)

(iii) Administrative Procedure for Carryover Population

(A) Acceptable Carryover Population Rate

Effective with the adoption of this procedure, the SVO Director shall prepare a report for the VOS/TF, to be presented at the Spring National Meeting, identifying an acceptable annual rate of the carryover population for the year-end reporting period. Thereafter, at the beginning with the subsequent year of analytical operations, the SVO Director shall prepare a report for the VOS/TF, to be presented at the Spring National Meeting, identifying whether the acceptable annual carryover rate was significantly

exceeded and if so, whether the cause is traceable to resource constraints. If so, the Task Force shall consult with NAIC senior staff and the NAIC Internal Administration (EX1) Subcommittee to determine whether and how to evaluate the need for additional SVO staff or other resources.

(B) Definition

When used in this subsection, the term carryover population means, collectively, all insurer-owned securities filed with the SVO for an NAIC Designation and not yet assigned NAIC Designation by the SVO at the conclusion of the year-end reporting process.

(C) Procedures

The following procedures apply to the carryover population.

- The SVO shall identify the carryover population by assigning each security the administrative symbol **YE** or **IF**.
- A security in the carryover population that is an annual update filing as defined in this Manual shall be assigned the NAIC Designation then in effect for the just concluded reporting period, for example: **2YE**, if the security was designated **2** in the just concluded year.
- A security in the carryover population that is an initial filing as defined in this Manual, shall be self-designated by the insurer and reported with the insurer assigned NAIC Designation and the administrative symbol **IF** and shown by the SVO on its systems as **IF** but without an NAIC Designation.
- The SVO shall remove the **YE** symbol when it assigns an NAIC Designation to an annual update security in the carryover population for the current year and publishes the NAIC Designation in AVS+. The SVO shall remove the **IF** symbol when it assigns an NAIC Designation to an initial filing security in the carryover population for the current year and publishes the NAIC Designation in AVS+. The insurer maintains the NAIC Designation assigned by the SVO under **YE** or self-assigned under **IF** until the SVO has published an NAIC Designation in AVS+.

The SVO shall assign top priority to the assessment of the carryover population and the assignment of NAIC Designations to that population in the subsequent year of operation.

g) Filing Exempt Securities Process

A filing exempt (FE) security is an Investment Security, as defined in Part Two, Section 2 a) of this Manual, that is exempt from filing with the SVO pursuant to the filing exemption in Part Three, Section 1 b) of this Manual.

Insurance companies derive NAIC Designations for FE securities by applying the conversion instructions in Part Three, Section 1 b) and the equivalency relationships disclosed in Part Three, Section 1 of this Manual.

NAIC Designations assigned to FE securities are reported by the insurance company to the NAIC and subsequently added by NAIC staff to the Filing Exempt Securities Process.

Insurance companies shall not report a Regulatory Transaction, defined in Part Three, Section 6 of this Manual, as FE securities, and the NAIC staff shall not add a Regulatory Transaction to the Filing Exempt Securities Process.

h) RMBS/CMBS Modeled Securities Process

Residential mortgage-backed securities (RMBS) or commercial mortgage-backed securities (CMBS) are an Investment Security, as defined in [Part Two, Section 2 a\) of this Manual](#). RMBS and CMBS are reported by an insurance company to the NAIC and subsequently added by NAIC staff to the RMBS/CMBS Modeled Securities Process, where on an annual basis and for purposes of the annual surveillance discussed in [Part Seven of this Manual](#), they are evaluated for eligibility to be financially modeled. RMBS and CMBS that are deemed to be subject to financial modeling are retained in the RMBS/CMBS Modeled Process. RMBS and CMBS that are deemed ineligible for financial modeling but that have been assigned credit ratings by NAIC credit rating providers (CRPs) migrate to the Filing Exempt Securities Process. RMBS and CMBS that are deemed ineligible for financial modeling and that have also not been assigned credit ratings by NAIC CRPs are filed with the SSG and entered into the VOS Process.

Insurance companies shall not report Regulatory Transactions, defined in [Part Three, Section 6 of this Manual](#), as eligible for the RMBS/CMBS Modeled Securities Process, and the NAIC staff shall not add a Regulatory Transaction to the RMBS/CMBS Modeled Securities Process.

i) U.S. Treasury Securities Process

A U.S. Treasury Securities are an Investment Security, as defined in [Part Two, Section 2 a\) of this Manual](#), that is exempt from filing with the SVO pursuant to the filing exemption in [Part Three, Section 1 b\) of this Manual](#).

U.S. Treasury Securities are added to the U.S. Treasury Securities Process automatically by electronic processes administered by the SVO and are assigned an **NAIC 1** Designation by a policy-based convention.

Insurance companies shall not report Regulatory Transactions, defined in [Part Three, Section 6 of this Manual](#), as U.S. Treasury Securities, and the NAIC staff shall not add a Regulatory Transaction to the U.S. Treasury Securities Process.

j) Exempt U.S. Government Securities Process

Exempt U.S. Government Securities are an Investment Security, as defined in [Part Two, Section 2 a\) of this Manual](#), that is exempt from filing with the SVO pursuant to the filing exemption in [Part Three, Section 1 b\) of this Manual](#).

An exempt U.S. Government security is reported by the insurance company to the NAIC and subsequently added by NAIC staff to the Exempt U.S. Government Securities Process and by policy convention is assigned **NAIC 1** Designation pursuant to a policy-based convention.

Insurance companies shall not report Regulatory Transactions, defined in [Part Three, Section 6 of this Manual](#), as exempt U.S. Government Securities, and the NAIC staff shall not add a Regulatory Transaction to the Exempt U.S. Government Securities Process.

k) Compilation and Publication of the SVO List of Investment Securities

On a quarterly basis, the SVO shall:

- 1) Compile, or cause to be compiled, a list of Investment Securities from each of the VOS Process, Filing Exempt Securities Process, RMBS/CMBS Modeled Securities Process, U.S. Treasury Process and the Exempt U.S. Government Securities Process (each an SVO Sublist bearing the name of the corresponding Process).
- 2) 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.

3) 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.

4) Compile, or cause to be compiled, sub-lists from the informational content of the Derivative Counterparties Process, Exchange Rates Process, Ex-Dividend Process, Letter of Credit Process, Money Market and Exchange Traded Fund Process (each an SVO Sub-List bearing the name of the corresponding process and collectively the "Other Information").

5) Publish, or cause the SVO List of Investment Securities and the Other Information to be published, by being incorporated into the NAIC AFS+ Product.

1) Reference to SVO List of Securities

(i) Acknowledgment

The NAIC, acting by and through its VOS/TF and its Reinsurance (E) Task Force, acknowledges that the phrase "Securities Listed by the SVO," used in Section 3 B. of the NAIC *Credit for Reinsurance Model Law* (#785) and Section 10 A. (2) of the *Credit for Reinsurance Model Regulation* (#786) refers to the SVO List of Investment Securities as defined in [Section 3 k\) of this Part](#) provided that for purposes of Model #785, the phrase Securities Listed by the SVO also includes:

(A) All U.S. Treasury Securities whether or not on the U.S. Treasury Securities Process Sub-List of the SVO List of Securities as owned by an insurance company;

(B) Any security that meets the criteria specified for U.S. Government Exempt Securities, not owned by an insurance company and therefore not on the SVO Exempt U.S. Government Securities Process Sub-List of the SVO List of Securities; and

(C) Such other or additional type or class of securities as the Reinsurance (E) Task Force shall from time to time determine are suitable for use as collateral in reinsurance transactions and are added to this definition by the VOS/TF at its request.

To avoid confusion, and for purposes of this acknowledgment, the Filing Exempt Securities Process included in the definition of SVO List of Securities includes the SVO listed securities referred to as those “deemed exempt from filing” in the cited sections of the Model #785 and Model #786.

(ii) Status of an Investment on the SVO List of Investment Securities

(A) The reference to “Securities Listed by the SVO,” used in Model #785 and Model #786, refers solely to the individual, stand-alone investment purchased by an insurer and filed with the SVO to obtain an NAIC Designation and to be added to the SVO List of Investment Securities published in the AVS+ product.

References to “Securities Listed by the SVO” as eligible collateral for the purposes of reinsurance arrangements specified in Model #785 and Model #786 reflect that the specific insurer owns the Investment Security and has a corresponding right to receive the cash flow represented by the Investment Security from the security’s issuer, which is the right an insurer may pledge as collateral.

(B) An Investment Security on the SVO List of Investment Securities **cannot be assumed or presumed to constitute** “Primary Security” as defined in the phrase “SVO Listed” in *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (#830)* or in the NAIC *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)*.

(C) Whether an Investment Security on the SVO List of Investment Securities qualifies as “Primary Security” as defined in the *Valuation of Life Insurance Policies Model Regulation (#830)* or Model #787 is not an issue within the scope of the charges entrusted to the VOS/TF or within the analytical function or role of the or SSG.

(D) Whether a Regulatory Transaction as defined in this Manual has any status under Model #785, Model #786, Model #830 or Model #787 is not an issue within the scope of the charges entrusted to the VOS/TF or within the analytical function or role of the SVO or SSG.

Section 4. NAIC Policy on the Use of Credit Ratings of NRSROs

SECTION 4. NAIC POLICY ON THE USE OF CREDIT RATINGS OF NRSROs

a) **Providing Credit Rating Services to the NAIC**

The NAIC uses credit ratings for a number of regulatory purposes, including, but not limited to, those associated with the filing exempt rule, discussed in [Part Three of this Manual](#).

Any rating organization that has been designated a Nationally Recognized Statistical Rating Organization (NRSRO) by the U.S. Securities and Exchange Commission (SEC) and which continues to be subject to federal regulation, may apply to provide Credit Rating Services to the NAIC.

b) **Procedure to Become an NAIC Credit Rating Provider**

An NRSRO that wishes to provide Credit Rating Services to the NAIC may indicate its interest by sending a letter to the Chair of the VOS/TF with a copy to the Director of the SVO, in which it:

- Indicates an interest in providing Credit Rating Services to the NAIC;
- Confirms that it is currently an NRSRO subject to regulation by the SEC;
- Provides a chart, in the format shown in [Part Three of this Manual](#) relating its credit rating symbols to NAIC Designations; and
- Indicates that the NRSRO agrees to enter into a legally binding agreement under which the NRSRO will:
 - Provide Credit Rating Services to the NAIC at no cost;
 - Reimburse the NAIC for all costs associated with: integration of its data feed into NAIC systems; subsequent changes to NAIC systems to accommodate changes in the NRSRO's systems and changes to NAIC systems as a result of the termination of Credit Rating Services by the NRSRO;
 - Give written notice 6 months prior to terminating Credit Rating Services; and
 - Agree not to claim in marketing literature that the provision of Credit Rating Services indicates NAIC approval or endorsement of the NRSRO, its products or services.

c) **Adding the NRSRO to the NAIC Credit Rating Provider List**

When directed to do so by the VOS/TF, the SVO shall add the name of the NRSRO (hereafter described as a Credit Rating Provider (CRP)) to the NAIC Credit Rating Provider List in the publication of this Manual that follows the execution of an agreement between the NAIC and the NRSRO.

(i) Regulatory Significance – Filing Exempt Rule

Adding the name of an NRSRO to the Credit Rating Provider List indicates that insurance companies must use the credit ratings assigned by that NRSRO, if any, when determining the NAIC Designation equivalent for a security to be reported under the filing exempt rule, and Part Three of this Manual.

Only those NAIC CRP ratings that meet the definition in Section 4 c) (ii) below may be translated into NAIC Designations under the filing exempt rule discussed in Part Three of this Manual.

Securities assigned ratings by NAIC CRPs that do not meet the definition of Section 4c) (ii) below, shall be filed with the SVO.

The translation of a NAIC CRP rating into an NAIC Designation is conducted in accordance with the procedures described in Part Three, Section 1 b).

(ii) Definition – Credit Ratings Eligible for Translation to NAIC Designations

The credit rating of the CRP to which this Section and the NAIC Credit Rating Provider List refers, is the 1) credit rating assigned by the NAIC CRP, 2) by application of its long-term obligation ratings scale and methodology to 3) securities.

Credit ratings of a NAIC CRP that meet this definition are entitled to a presumption of convertibility to the equivalent NAIC Designation published in the NAIC Credit Rating Provider List, in Part Three of this Manual, except that the presumption of convertibility is subject to the following limitations:

(A) Those rating activities or markets in which the entity has NAIC CRP status;

(B) Securities with monitored NAIC CRP ratings that:

- 1) Are monitored at least annually by the CRP that issued the rating,
- 2) Are assigned to a specific issue that must be specifically identified;
- 3) Apply to securities where the issuer promises to repay principal and interest or dividends;
- 4) (X) Convey an opinion as to the likelihood of payment of both principal and interest/dividends due from the issuer to the holders of the security, or

- (1) those structured to pay only principal or only interest/dividends, if the monitored NAIC CRP rating addresses the likelihood of payment of either the principal, in the case of a security structured to

Section 4. NAIC Policy on the Use of Credit Ratings of NRSROs

pay only principal or the interest/dividends, in the case of security structured to pay only interest/dividends (an “Eligible NAIC CRP Rating”); and

- (C) The NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D of the NAIC Financial Statement Blank or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class.

(iii) Special Rating Systems

Unless otherwise specifically approved by the VOS/TF and published in Part Three of this Manual special rating systems of any CRP, rating agency or rating organization shall not be entitled to a presumption of convertibility. Nevertheless, an SVO analyst assessing a security that has been assigned such a rating by any rating organization, including a CRP, may consider the information imparted by that rating or a related research report as one factor in determining an NAIC Designation.

(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.

d) Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider List

The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments.

In adopting or in implementing the procedure described in this Section, the NAIC acts solely as a private consumer of publicly available credit ratings. The sole NAIC objective in obtaining and using publicly available credit ratings is to conserve limited regulatory resources, for example, the resources of the SVO. The VOS/TF has established the procedure specified in this section solely to ensure that the NAIC can avail itself of publicly available credit rating opinions.

The NAIC is not selecting, approving or certifying NRSROs or other rating organizations or distinguishing among them for any public or policy purpose whatsoever. Nor is the NAIC endorsing the credit rating or analytical product of any CRP or rating organization or distinguishing between CRPs or rating organizations for any specific public purpose. The NAIC disclaims any authority to regulate CRPs or rating organizations.

e) No Waiver/Express Reservation of Authority

Nothing in this Section 4 should be interpreted or construed as a waiver of the authority of the VOS/TF, in its sole and absolute discretion, to modify or change, in any manner whatsoever, the NAIC Policy on the Use of Credit Ratings of NRSROs, including but not limited to: directing the removal of one or more NRSROs from the NAIC Credit Rating Provider List (subject only to the adjustment of any existing contractual obligations); directing the SVO to study any issue related to NRSRO operations in furtherance of state insurance regulatory policy; eliminating the NAIC Credit Rating Provider List or directing any other action or activity the VOS/TF may deem to be useful or necessary to the creation, maintenance or discharge of state based regulatory policy.

SECTION 5. NAIC POLICIES PERTAINING TO SVO WORK PRODUCT

a) **For NAIC Members Only – Official Source**

NAIC Association Values serve as the starting point for a variety of policies detailed in the NAIC Financial Regulation Standards and Accreditation Program, including accounting policy. The rules that detail the application of these accounting standards are found in the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

Association Values are produced solely for the benefit of NAIC members. NAIC members, acting in their capacity as state officials, may incorporate the research produced by the staff of their Association as official regulatory policy. However, state regulators have statutory duties that may require them to incorporate a variety of factors in addition to or in lieu of the research produced by the staff of their voluntary Association.

The AVS+ Products is designated as the official NAIC source for publication of NAIC Designations assigned by the SVO to securities owned by insurance companies. To the extent that an NAIC member, acting in its capacity as a state official, instructs an insurance company to incorporate Association Values in the filings made by that company to the state insurance department, the NAIC member is advised that only NAIC Designations obtained from the most recently published AVS+ Products should be used by an insurance company to report an NAIC Designation on an NAIC Financial Statement Blank prepared in accordance with SAP.

b) **This Manual**

This Manual is the official expression of NAIC's credit assessment methodologies and valuation policies and takes precedence over other SVO publications. The policies, procedures, methodologies or language of this Manual shall be changed only through a resolution adopted by the VOS/TF in accordance with the NAIC Constitution and Bylaws.

NAIC Designations are produced solely to provide NAIC members with a reliable, independent and uniform source for credit risk and pricing information. Accordingly, the NAIC member must interpret the significance of an NAIC Designation in a specific context by reference to the NAIC Financial Regulation Standards and Accreditation Program and applicable state insurance laws, rules and regulations.

NAIC Association Values are not intended or designed to function as an aid to an investment decision.

c) Prohibition on Use of NAIC Designation in a Covenant

An insurance company shall not use:

- (i) An NAIC Designation assigned by the SVO; or
- (ii) An upgrade or downgrade of an NAIC Designation previously assigned by the SVO; or
- (iii) A change in any aspect of how a security is regulated that is the direct or indirect result of an upgrade or downgrade of an NAIC Designation assigned by the SVO, as the basis for an agreement to modify the terms of a transaction (the "Prohibition").

The Prohibition shall apply only to transactions issued on or after September 1, 2010, and to transactions to which the prohibited clause is added after September 1, 2010.

Effective September 1, 2010, insurance companies shall certify to the SVO that the submitted transaction does not contain a prohibited clause or agreement as a condition to filing with the SVO. The SVO is prohibited from processing any transaction it knows or has reason to believe contains a prohibited agreement or clause.

The Prohibition reflects:

- The conclusion of the VOS/TF, as the initial and primary NAIC regulatory group responsible for implementing NAIC policy on risk assessment of insurer-owned securities, that the use of NAIC Designations as indicated in the Prohibition to modify the terms of a security or any other transaction is inconsistent with regulatory objectives; and
- The decision of the NAIC Executive (EX) Committee, as the body charged with directing NAIC corporate activities, that the use of NAIC Designations as indicated in the Prohibition to modify the terms of a security is inconsistent with the corporate objectives of the NAIC.

Insurance companies are, therefore, advised that the NAIC disclaims any and all responsibility whatsoever for surveillance of insurance company investments for purposes of identifying when a deterioration of the borrower's credit quality or other risk attribute suggests that the insurance company should adjust the financial terms of the original transaction to obtain a different overall investment return or compensation for the risks involved.

Section 5. NAIC Policies Pertaining to SVO Work Product

It is the sense of the NAIC that these decisions are private and the proper and exclusive concern of insurance company management. NAIC Designations are not published as investment advice to insurance companies and might lack necessary attributes that would make them suitable for use as investment advice.

The NAIC, therefore, rejects the view that insurance company representatives may reasonably rely on SVO credit assessments or on any other NAIC analytical process as a guide to adjusting the terms of their private investment arrangements with borrowers.

d) Statement of Practice

The SVO routinely receives financial information, legal documents and other data from reporting insurance companies so that it may assess the reported investment for the NAIC. While the NAIC is not a guarantor of the confidentiality of information submitted to the SVO, the SVO does not redistribute documents obtained in the course of its work for other than regulatory purposes or as may be required by law. The NAIC does, however, respect copyright and will not reproduce or externally distribute copyrighted documents without permission.

SECTION 6. PROCEDURES TO AMEND THIS MANUAL

The VOS/TF establishes the following procedure to ensure that any person interested in the work of the VOS/TF who wishes to recommend a change, amendment or modification (Change) to this Manual understand the process for doing so.

- a) The VOS/TF will consider proposals to Change this Manual (a “proposal”) consistent with the manner indicated in this procedure.
- b) A proposal may be considered at any time of the year at any scheduled conference call, interim meeting or national meeting (“meeting”) of the VOS/TF.
- c) A person making a proposal presents the proposal to the SVO in a written letter or memorandum (a “letter”) addressed to the Chair of the VOS/TF and to the Director of the SVO. The letter or memorandum must identify the person presenting the proposal; any affiliation or representative relationship between that person and any others interested in the outcome; must provide a concise statement of the issue to be addressed by the proposal and, if possible, recommend the desired outcome. A proposal should be submitted to the SVO expeditiously with any explanatory or supporting material, information or data necessary to understand the issues presented.
- d) Upon receipt of the letter, the SVO acknowledges its receipt and consults with the Chair of the VOS/TF as to its disposition. When considering when to schedule the proposal for discussion before the VOS/TF, the Chair may consider the technical difficulty associated with the proposal, the time needed by the SVO to research issues, develop recommendations and prepare a memorandum. In rare instances, or where urgent or emergency action may be required, upon a two-thirds majority approval vote of the VOS/TF members present, the Chair may direct that a proposal be considered as an exception to this procedure and timeline. SVO staff support will inform the person making the proposal of the decision of the Chair of the VOS/TF with respect to scheduling public discussion of the proposal.
- e) Subject to the discretion and direction of the Chair of the VOS/TF, the SVO will place any proposal that is ready to be presented to the VOS/TF on the Agenda for the next scheduled VOS/TF meeting. A matter is deemed to be ready to be discussed by the VOS/TF when the Chair has deemed it appropriate. The Chair may charge the SVO to

Section 6. Procedures to Amend this Manual

research the proposed amendment, the issues presented and to develop recommendations, in which case it will prepare a report for the VOS/TF. However, the SVO may advise the Chair if it determines that it cannot make recommendations at that time. The SVO will prepare and present the proposed Agenda, including the amendment and proposal and report, to the Chair of the VOS/TF for approval before it is released. When approved by the Chair of the VOS/TF the SVO will finalize the Agenda, prepare the document package and distribute it for the next scheduled meeting.

- f) Any newly received proposal for a substantive (i.e., material) or technical amendment to the Manual and the SVO memorandum should be distributed to members of the VOS/TF (or to the subgroup formed by the Task Force to study the matter, if any) no less than two weeks prior to any meeting at which it is intended to be discussed.

Any proposal previously discussed and placed on an Agenda for further discussion should be distributed to members of the VOS/TF (or to the subgroup formed by the Task Force when studying the matter, if any) by the SVO no later than two weeks prior to a scheduled meeting where it is to be discussed.

A substantive amendment is one that introduces a policy issue or a regulatory issue not currently addressed in the Manual. A technical amendment is one modifying an existing process without a policy change that relates to the maintenance of existing processes; i.e., a proposal that seeks modification of an established procedure to interpret an existing process, reflect changes in the market or regulatory environment that suggest a need to modify an existing process or for similar purposes.

- g) The content of the SVO memorandum prepared for the VOS/TF would reflect the nature of the issues presented, their technical or policy complexity, whether confidentiality considerations exist or whether the issues are permitted or required to be discussed in a regulator to regulator session under the NAIC Policy Statement on Open Meetings and other similar considerations. As a general matter and subject to the limitations inherent in the considerations identified in the preceding sentence, the SVO should address, as may be relevant to a given proposal, the following matters:

- Identification of the party proposing the Change and any other interested persons represented by the party;
- Whether the proposal is considered to be a substantive amendment or a technical amendment;
- A concise statement of the issue to be addressed by the Change;
- An evaluation of potential or actual impact on operations of the VOS/TF, the Investment Analysis Office or state insurance regulation;
- Suggested approaches or recommendation to resolve the issues presented by the proposal;
- Whether it appears, upon consultation with other NAIC staff, that the proposal or any aspect of it should be considered alongside or against other existing NAIC guidance related to that of the VOS/TF, typically the NAIC Accounting Practices and Procedures Manual, the NAIC Annual Statement Instructions or the risk-based capital (RBC) framework or against the charges of other NAIC regulatory groups and if whether it is the sense of the NAIC staff that the proposal be referred to such other NAIC regulatory group;
- A survey of NAIC activity to evaluate whether any other NAIC groups is already reviewing a similar or related item, their position on the issues and the implication of that work for the proposal made to the VOS/TF;
- Text responsive to the issues or concerns expressed or an outline of the concerns that are relevant in drafting such text and an explanation of why the recommended text will resolve the issue identified by the proposal. If the text is presented in the form of an actual amendment to existing language such proposed text should be in redline format; show how it would be incorporated into the Manual, including where in the Manual it should be placed and any other text that may need to be modified;
- A summary of interested party positions on the proposed text and the regulatory pros and cons of such positions; and

Section 6. Procedures to Amend this Manual

- An explanation of how the Change would affect other sections of the Manual, other NAIC groups, NAIC publications, handbooks or manuals or state insurance regulation.
- h) Upon receipt and consideration of any proposal or the SVO memorandum the VOS/TF may:
- Expose the proposal and SVO memorandum for such period of time as the complexity of the issue may require. This is done by placing the proposal on the VOS/TF – SVO websites and distributing the material to the persons enrolled on the VOS/TF Distribution List;
 - Instruct NAIC staff, the person who made the proposal or other interested parties to conduct further research and/or study and report back to the VOS/TF or other impacted groups;
 - Refer the proposal or recommended resolution to another NAIC group for consideration or resolution; or
 - Decide to table the matter for a later date; or
 - Take a vote to approve, reject or modify the proposed language followed by a vote of the parent committee.
- i) Following a public comment period, the VOS/TF will consider any comments received on the proposal at its next scheduled meeting. At the direction of the Chair, the SVO shall supplement the SVO memorandum with additional research or analysis as necessary to address additional issues presented in the comments or to discuss the recommendations made in such comment letters. The SVO shall also prepare a summary of interested party positions expressed in the comments and the regulatory pros and cons of such positions.
- j) The final proposal for a technical amendment is effective when adopted by the VOS/TF. The final proposal for a substantive amendment is effective when adopted by the VOS/TF and by the Financial Condition (E) Committee. The nature of the proposal is identified in the SVO memorandum.

- k) Proposals adopted by the VOS/TF are published to the VOS/TF web page. Proposals adopted by the VOS/TF but requiring approval of the Financial Condition (E) Committee are published to the VOS/TF web page when adopted by the Financial Condition (E) Committee.
- l) Adopted proposals are incorporated in the next scheduled publication of the Manual and identified in the Recent Changes section of the Manual where the proposal is summarized and the date when the VOS/TF and/or the Financial Condition (E) Committee adopted it, is given. The date of adoption is published so that interested persons can access the minutes and related materials in the NAIC *Proceedings* reflecting the deliberations held and the rationale for the position adopted by the VOS/TF.
- m) The Manual is currently published once a year in accordance with requirements set by NAIC Publications. The instructions and guidance in the newly published Manual is effective for insurance companies for the year-end reporting cycle in the year the Manual is published; i.e., December 31, through April 31 of the following year.
- n) If subsequent to the publication of the Manual in a given year, errors are discovered, the SVO shall identify such errors in Errata which it will publish on its website. The Errata explain the error and provides corrected information. Correction will be reflected in the next published Manual.

Section 7. Administrative Guidance and Information

SECTION 7. ADMINISTRATIVE GUIDANCE AND INFORMATION

a) Investment Analysis Office Staff and Responsibilities

GENERAL OFFICE TELEPHONE: (212) 398-9000

FACSIMILE: (212) 382-4207

STAFF EMAIL AND TELEPHONE NUMBERS

SECURITIES VALUATION OFFICE

Charles Therriault, Director	(212) 386-1920	CTherriault@naic.org
Alexei Tikhomirov, Business Analysis Manager	(212) 386-1963	ATikhomirov@naic.org
(Open), Administrative Assistant	(212) 386-1924	
Robert Carcano, Senior Counsel	(212) 386-1945	RCarcano@naic.org
Peter Kelly, Manager, Credit	(212) 386-1921	LIPhelps@naic.org
Jeffrey Evans, Credit Analyst Supervisor	(212) 386-1977	JEvans@naic.org
Jun Anno, Analyst	(816) 783-8043	JAnno@naic.org
Rosemarie Kalinowski, Analyst	(212) 386-1970	RKalinowski@naic.org
Liley Mehta, Analyst	(212) 386-1923	LMehta@naic.org
Frank Meyers, Analyst	(212) 386-1981	FMeyers@naic.org
Robert Moore, Analyst	(212) 386-1958	RPMoore@naic.org
Susan Ding, Credit Analyst Supervisor	(212) 386-1929	SDing@naic.org
Catherine Cosentino, Analyst	(212) 386-1936	CCosentino@naic.org
Robert Johnson, Analyst	(212) 386-1965	RJJohnson@naic.org
Grace Kennedy, Analyst	(212) 386-1964	CKennedy@naic.org
Dimitri Nikas, Analyst	(212) 386-1925	DNikas@naic.org
Thomas Van Buskirk, Analyst	(212) 386-1961	TVBuskirk@naic.org
Zion Zhu, Analyst	(816) 783-8599	ZZHU@naic.org
Linda Phelps, Manager, Credit	(212) 386-1921	LIPhelps@naic.org
Robert Nelson, Credit Analyst Supervisor	(212) 386-1935	RNelson@naic.org
John Hsin, Analyst	(212) 386-1947	JHsin@naic.org
Michael Maggi, Analyst	(212) 386-1960	MMaggi@naic.org
Nancy Messer, Analyst	(816) 783-8043	NMesser@naic.org
Maxime Rosefort, Analyst	(212) 386-1953	MRosefort@naic.org
Umberto Serrano, Analyst	(212) 386-1958	USerrano@naic.org
Katherine Nolan, Credit Analyst Supervisor	(212) 386-1952	KNolan@naic.org
Kevin Driscoll, Analyst	(212) 386-1940	KDriscoll@naic.org
Eric Friedman, Analyst	(212) 386-1973	EFriedman@naic.org
David Lee, Analyst	(212) 386-1966	DJLee@naic.org
Norman Schindler, Analyst	(212) 386-1954	NSchindler@naic.org
John Yazzo, Analyst	(212) 386-1962	JYazzo@naic.org

STRUCTURED SECURITIES GROUP

Eric Kolchinsky, Director	(212) 386-1943	EKolchinsky@naic.org
Steve Bardzik, CMO Manager	(212) 386-1948	SBardzik@naic.org
Hankook Lee, Analyst	(212) 386-1947	HLee@naic.org
Azar Abramov, Analyst	(212) 386-1982	AAbramov@naic.org

OTHER SERVICES/SVO QUESTIONS		
SVO Help Desk	SVOInquirydesk@naic.org	(212) 386-1905
Regulatory Treatment Analytical Service (RTAS)	Linda Phelps	(212) 386-1921
VISION/Filing Assistance	Alexei Tikhomirov	(212) 386-1963
Mutual Funds	Robert Johnson	(212) 386-1965
Subsidiaries	Jill Youtsey	(816) 783-8419
Controlled and Affiliated (SCA) Companies	Fatima Sedizqad	(816) 783-8894
Derivatives, Counterparty Designations, Credit Tenant Loans (CTL), Replication (Synthetic Asset) Transactions (RSAT)	Kevin Driscoll	(212) 386-1940
Qualified U.S. Financial Institutions (QUSFI)	Susan Ding	(212) 386-1929
Exchange Traded Funds (ETFs)	Eric Friedman	(212) 386-1973
Foreign Governments (SIC 9730A)	Maxime Rosefort	(212) 386-1937
Supra National Organizations (SIC 9800)		

Section 7. Administrative Guidance and Information

b) NAIC Valuation of Securities (E) Task Force Members

Jennifer Hammer, Chair	Illinois
James J. Donelon, Vice Chair	Louisiana
Lori K. Wing-Heier	Alaska
Dave Jones	California
Katharine L. Wade	Connecticut
Trinidad Navarro	Delaware
David Altmaier	Florida
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Doug Ommen	Iowa
Ken Selzer	Kansas
Al Redmer Jr.	Maryland
Gary Anderson	Massachusetts
Bruce R. Ramge	Nebraska
Barbara D. Richardson	Nevada
Marlene Caride	New Jersey
Maria T. Vullo	New York
John D. Doak	Oklahoma
Jessica Altman	Pennsylvania
Kent Sullivan	Texas
Todd E. Kiser	Utah
Scott A. White	Virginia
Mike Kreidler	Washington
Ted Nickel	Wisconsin

NAIC Support Staff: Charles A. Therriault/Robert Caruso

c) Fees for Services and Publications

Effective with this publication of the *Purposes and Procedures Manual*, the List of Fees for Services will no longer be published in this *Purposes and Procedures Manual*, but will instead be published on the NAIC website at this location for the Securities Valuations Office: www.naic.org/svo.htm.

Publications Available from the NAIC Publications Department (816) 783-8300

1. *Purposes and Procedures Manual of the NAIC Investment Analysis Office*
 - Updated each January
 - Annual subscription
2. *Qualified U.S. Financial Institutions / Mutual Fund List:*
 - Annual subscription, updated monthly (both lists)

3. *How to Comply with the Procedures of the Securities Valuation Office*

Please note that this manual has been discontinued. For valuable, up-to-date information, please sign up for the class “How to File Securities with the SVO” presented by the NAIC Education & Training Department. For more information, please call 816-783-8200 or visit:

<http://education.naic.org>.

PART TWO

FILING WITH THE SVO

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.

Audited Financial Statement means, collectively, for any given year, the auditor's Opinion, the issuer's income statement, balance sheet, the statement of cash flows, all notes to the financial statements, and any supplementary information thereto typically created, generated or otherwise provided to investors, in English, and prepared by a certified public accountant or the international equivalent thereto, showing financial results for the reported year together with the prior year prepared and presented in accordance with a Global Financial Presentation Standard, a Reconciled Financial Presentation Standard or a National Financial Presentation Standard. For purposes of this definition:

Global Financial Presentation Standard means:

- U.S. Generally Accepted Accounting Principles (US GAAP); or
- International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

Reconciled Financial Presentation Standard means:

- A standard other than Global Financial Presentation Standard or National Financial Presentation Standard with a reconciliation to US GAAP or IASB IFRS; or
- National IFRS with such additional information as required by IASB standards to make National IFRS comparable to IASB IFRS.

National Financial Presentation Standard means:

- National GAAP or National IFRS, without a reconciliation to US GAAP or IASB IFRS, authorized to be used for filing a transaction with the SVO pursuant to the procedure specified in Section 7 c) (2) of this Part.
- In this definition, National GAAP refers to the generally accepted accounting policies as required by a country's national accounting standards board and National IFRS refers to the international financial reporting standards required by the country's national accounting standards board.
- Please refer to Section 7 c) (5) of this Part for the List of Countries and Associated National Financial Presentation Standard.
- Foreign issuers not using the accounting standards of a country on the List of Countries and Associated National Financial Presentation Standard must provide the SVO with an Audited Financial Statement prepared in accordance with a Global Financial Presentation Standard or a Reconciled Financial Presentation Standard.

For insurance companies, Audited Financial Statement will be prepared in accordance with SAP.

For municipal and U.S. Government securities, an Audited Financial Statement will be prepared in accordance with generally accepted auditing standards and government auditing standards issued by the Comptroller General of the United States. For municipal securities only, the statements will be accepted if they have been submitted to, reviewed and certified by a state comptroller's office.

Authorization to File (ATF) means the component of VISION that permits reporting insurance companies to file a security with the SVO.

Automated Valuation Service (AVS+) means a subscription service offered by the NAIC permitting access to portions of the VOS Process and showing updated Association Values prior to publication in the AVS+ Products.

AVS+ Products refers to the quarterly compilation of the SVO List of Securities and the Other Information as those terms are defined in [Part One, Section 3 k\) of this Manual](#).

Bond means any Obligation with a stated maturity at the time of issuance longer than one year.

CINS stands for **CUSIP International Numbering System** and refers to a numbering system used to identify foreign securities administered by S&P CUSIP.

Credit Rating Services is used in connection with the NAIC Credit Rating Provider List discussed in [Part One, Section 4](#) and [Part Three of this Manual](#) and means:

- Electronic data feed transmissions of credit ratings assigned by the NRSROs with their corresponding CUSIP number and other pertinent security specific information in English, updated as frequently as provided to other customers;
- Other analytical services or products, in English, provided to other customers; and
- Access to the NRSRO's rating analysts by SVO staff.

CRP stands for **Credit Rating Provider** and refers to the NRSROs on the [NAIC Credit Rating Provider List](#) identified in [Part Three of this Manual](#).

CUSIP stands for **Committee for Uniform Securities Identification Procedures** and, as used herein, refers to a numbering system owned by the American Bankers Association and administered by S&P CUSIP that is used to identify publicly traded U.S. securities.

CUSIP Identifier means a security identification number assigned to publicly traded U.S. securities by S&P CUSIP.

Derivative Counterparties Process means a file in NAIC electronic systems used to store the names of counterparties on the List of Counterparties for [Schedule DB, Part D, Section 1](#) for purposes of netting of derivative exposures that is used in connection with the publication of the AVS+ Products.

Exchange Rates Process means a file in NAIC electronic systems used to store currency exchange rates used by insurance companies to convert the value of foreign investments into U.S. dollars for reporting purposes and used in connection with the publication of the AVS+ Products.

Exempt U.S. Government Securities Process refers to a process within NAIC electronic computer systems used to store the names and descriptions of U.S. Government Securities that are exempt from filing with the SVO and that is used in connection with the publication of the AVS+ Products.

Ex-Dividend Process means a file created in NAIC electronic systems used to store information about stock dividends and that is used in connection with the publication of the AVS+ Products.

Executive Headquarters means the NAIC staff function responsible for day-to-day conduct of activity in support of the NAIC members and includes the SVO.

Filing Exempt Securities Process refers to an electronic file within NAIC electronic computer systems used to store the names and descriptions of securities owned by state-regulated insurance companies that are exempt from filing with the SVO because they are assigned credit ratings by NAIC CRPs and that insurers: 1) have reported in quarterly or annual statements (NAIC Financial Statement Blank) filed with the NAIC; or 2) requested to be included in the Filing Exempt Securities Process through the VISION System (VISION) and in both cases, for which a NAIC CRP rating has been confirmed by the NAIC and that is used in connection with the publication of the AVS+ Products.

Guaranteed or Insured means that a guarantor or insurer has made an unconditional and irrevocable promise to perform, insure or purchase the obligation of an obligor upon the default of such obligor.

Initial Report means the first filing of a security with all appropriate documentation filed with the SVO by any insurance company.

InfoReq means an information request sent by the SVO to a reporting insurance company detailing informational deficiencies associated with an Initial or a subsequent Report relative to informational requirements discussed in Part Two, Section 7 and Part Three of this Manual.

Letter of Credit Process means a file in NAIC electronic systems used to store the names of banks that issue letters of credit in support of credit or reinsurance arrangements and that meet eligibility criteria to be placed on the NAIC Bank List that is used in connection with the publication of the AVS+ Products.

Money Market and Exchange Traded Fund Process refers to the component of NAIC electronic systems used to store the names of Money Market Funds and Exchange Traded Funds eligible for reporting as bonds used in connection with the publication of the AVS+ Products.

NAIC Designation means any one of the gradations of credit quality and credit risk identified by the NAIC 1 through NAIC 6 symbols defined and notching pursuant to one or both of the notching procedures discussed in [Part One, Section 3 of this Manual](#).

NAIC Designation Category means and refers to 20 more granular delineations of credit risk in the NAIC 1 through NAIC 6 credit risk scale used by the VOS/TF to relate credit risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of credit risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of credit risk within the NAIC Designation grade. The more granular delineations of credit risk are distributed as follows: seven delineations for the NAIC 1 Designation grade indicated by the letters A through G; three delineations each for each of the NAIC Designation grades NAIC 2, NAIC 3, NAIC 4 and NAIC 5 indicated by the letters A, B and C; and one delineation for NAIC Designation grade NAIC 6. The NAIC Designation Category framework is shown in [Part Three, Section 1 b\) of this Manual](#). All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

NAIC Financial Regulation Standards and Accreditation Program means the instructions, formulas, regulatory treatment, devices or mechanisms set forth in the [NAIC Accounting Practice and Procedures Manual](#), the [NAIC Annual Statement Instructions](#) and the [Financial Condition Examiners Handbook](#) as adopted by the states.

NAIC Financial Statement Blank means the Quarterly and the Annual Statement Blank, as the context may require, in the form then in use by the NAIC that is used by state-regulated insurance companies to report investments to a state insurance department.

NAIC Member means the chief insurance regulatory official from any one of the 50 states, the District of Columbia or the four U.S. territories, or their duly authorized representatives.

Obligation means bonds, notes, debentures, certificates, including equipment trust certificates, production payments, bank certificates of deposit, bankers' acceptances, credit tenant loans, loans secured by financing net leases and other evidences of indebtedness for the payment of money (or a participation, certificates or other evidences of an interest in any of the foregoing), whether constituting general obligations of the issuer or payable only out of certain revenues or certain funds pledged or otherwise dedicated for payment.

Person means an individual, a business entity, a multilateral development bank or a government or quasi-governmental body, such as a political subdivision or a government-sponsored enterprise.

Preferred Stock means preferred, preference or guaranteed stock of a corporation, or other business entity authorized to issue such stock, that has a preference in liquidation over the common stock of the corporation or other business entity.

PPN stands for **Private Placement Number** and refers to a security identification number assigned to privately placed U.S. securities by S&P CUSIP.

RMBS/CMBS Modeled Securities Process refers to a Process within NAIC electronic computer systems used to store the names and descriptions of residential mortgage-backed securities and commercial mortgage-backed securities that have been financially modeled by the NAIC Structured Securities Group (SSG) and that is used in connection with the publication of the AVS+ Products.

SAP stands for **Statutory Accounting Principles**.

S&P CUSIP means the **CUSIP Service Bureau of Standard & Poor's Corporation**.

SIC Code stands for **Standard Industrial Code** and refers to a four-digit classification scheme established by the U.S. Department of Commerce for organizing commercial entities by industry specialization.

SSAP stands for **Statement of Statutory Accounting Principles** and refers to one or more individual statements of statutory accounting principles contained in the NAIC Accounting Practices and Procedures Manual. When used in this Manual, the phrase SSAP is followed by a reference to the specific number (e.g., No. 1) and the title of the SSAP.

Subsequent Report means an annual update filing with all appropriate documentation filed with the SVO by any insurance company when an initial filing has been made.

SVO stands for the **Securities Valuation Office** of the NAIC and refers to the portion of the Executive Headquarters that serves as the professional staff of the VOS/TF.

U.S. Treasury Securities Process refers to a process within NAIC electronic computer systems used to store the names and descriptions of U.S. Treasury Securities and that is used in connection with the publication of the AVS+ Products.

VISION refers to the SVO's electronic computer system for reporting and tracking securities.

VOS Process means the **Valuation of Securities Process** and refers to a process within NAIC electronic computer systems used to store the names and descriptions of securities owned by state-regulated insurance companies, and the NAIC Designation categories and/or Unit Price assigned to them by the SVO and that is used in connection with the publication of the AVS+ Products.

VOS/TF stands for the **Valuation of Securities (E) Task Force** of the NAIC and refers to the NAIC member group responsible for formulating and implementing NAIC's credit assessment and securities valuation policy.

SECTION 2. GENERAL REPORTING FRAMEWORK**a) Obligation to Report**

Insurance companies domiciled in any state of the United States, or any of its territories or possessions, and required by the law of their domiciliary state or territory to report NAIC Designations for their Investment Securities in the NAIC Financial Statement Blank, shall report purchases of Investment Securities to the SVO or, in the case of Investment Securities exempt from filing with the SVO, for example, pursuant to Part Three, to the NAIC, as required by this Manual.

For purposes of this Part Two, Section 2 a), an Investment Security means an instrument evidencing a lending transaction between an insurance company as lender and a non-affiliated borrower, where the borrower's sole motivation is to borrow money and the insurance company's sole motivation is to make a profit on the loan that the state of domicile regulates by reference to the NAIC Financial Regulation Standards and Accreditation Program.

The SVO shall have no authority to issue NAIC Designations or any other NAIC analytical product to an insurance company for a Regulatory Transaction under Section 2 a) of this Part.

See Part Three, Section 6 of this Manual for the definition of Regulatory Transaction and a description of the processes governing their assessment.

b) Authority to Require a Filing with the SVO

The existence of a filing exemption for a transaction, security, financial asset or investment activity in any part of this Manual is not intended to, and shall not be read as, prohibiting a state insurance regulator from requiring its domiciled insurance company to file a transaction, security, financial asset or investment activity with the SVO for analysis.

In addition, nothing in this Manual should be read as prohibiting a state insurance regulator from asking for SVO or SFC analytical assistance with respect to any investment related activity, or in connection with assessment of investment-related aspects of a Regulatory Transaction, as defined in Part Three, Section 6 of this Manual and directing an insurance company to file relevant information with the SVO or the ISG for that purpose.

c) Reporting

Reporting to the SVO is accomplished by filing the appropriate form or application and providing the initial and continuing information required by this Manual or such additional information as may be requested by SVO staff.

d) Reporting Responsibilities

Reporting is the responsibility of the insurance company that has purchased the investment. There are procedures that reduce multiple reporting on the same securities by different insurance companies. These procedures are discussed below.

As a general rule, the reporting of privately placed securities is the responsibility of the insurance company lender with the largest dollar investment in the transaction. Also, only previously unreported investments need be reported to the SVO. To ascertain whether another insurance company has previously reported a security to the SVO, the reporting insurance company should consult the most recent AVS+ Products, the AVS or VISION.

No reporting is necessary if the security: (i) is listed in the AVS+ Products with a recently assigned NAIC Designation; (ii) is listed in AVS+ with a current year review date and a symbol that is other than an **NR**; or (iii) has been logged into VISION.

e) Use of a Filing Agent

Insurance companies may designate an agent to perform filings with the SVO by providing the SVO with written notification of the agent's appointment, on the insurance company's letterhead, identifying the agent, detailing the agent's authority, expiration date of the authority and an acknowledgment that the insurance company remains legally obligated to file all necessary information and to pay all appropriate fees.

f) Security Identification Numbers

No security may be reported to the SVO without a valid CUSIP, PPN or CINS Identifier. Only S&P CUSIP may assign CUSIP Identifiers, PPNs and CINS.

To obtain filing and fee information and a CUSIP Identifier, PPN or CINS number, reporting insurance companies must contact S&P CUSIP at: CUSIP Service Bureau, Standard & Poor's Corporation, Attention: Senior Copy Editor, 55 Water Street, 47th Floor, New York, N.Y. 10041, email address is cusip_ppn@standardandpoors.com, Facsimile (212) 438-6572.

SECTION 3. SHORT-TERM INVESTMENTS

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.

SECTION 4. REPORTING EXEMPTIONS

a) Statement of Policy

It is the reporting company's responsibility to classify filing exempt (FE) securities in accordance with the requirements imposed in this Manual.

Insurance companies and their investment advisors are encouraged to consult with the VOS/TF, the SVO, individual state regulators or to use the RTAS – Emerging Investment Vehicle Service process discussed in Part Four, Section 2 of this Manual to gain an understanding of classification, including the probable regulatory treatment for new or previously existing but substantially evolved or modified securities.

b) Certain Separate Accounts

Insurance companies need not report securities or other relevant transactions to the SVO if such assets are held in a separate account that is not subject to either the asset valuation reserve (AVR) or risk-based capital (RBC) charges. All other securities and relevant transactions held in a separate account must be filed with the SVO unless they are filing exempt as set forth in Part Three of the Manual.

c) U.S. Government Securities

(i) Initial Filing Conventions and Documentation

(A) *U.S. Government Securities Required to Be Filed with the SVO*
U.S. Government debt that is not issued by, or guaranteed or insured by, those entities listed in below are subject to the filing exemption provided for in when rated by an NAIC CRP; otherwise, must be filed with the SVO.

(B) *SVO Publishing Conventions for Filing Exempt U.S. Government Securities*

(1) U.S. Treasury Obligations

U.S. Treasury Obligations are added to the VOS Process automatically, and they appear in the VOS Product. The NAIC Designation is **NAIC 1**.

(2) Other Filing Exempt U.S. Government Securities

A single entry is in the AVS+ Products in its normal CUSIP sequence followed by the description "All Issues" for the securities listed in below.

Because these securities are Filing Exempt, CUSIP numbers are not published in the AVS+ Products. The securities should, however, be reported with a CUSIP in the appropriate section of Schedule D. The NAIC Designation is **NAIC 1**.

(C) *Filing Requirements for U.S. Government Securities*

No filing is required for the securities deemed exempt from filing unless a state insurance department has specifically requested the SVO to evaluate an exempt security.

For U.S. Government Securities required to be filed with the SVO, the reporting insurance company shall submit: (a) a completed SAR; and (b) a prospectus of the security that includes a description of the U.S. government program under which it is issued, and appropriate evidence that the security or other obligation is backed by the U.S. government, an agency of the U.S. government or a U.S. government-sponsored enterprise.

A variety of documents are acceptable as evidence that the issuer in question has some degree of support from the U.S. government. A copy of the legislation that created the entity or the program is acceptable as evidence of government support. Additionally, a copy of the guaranty or insurance policy for the transaction is also good evidence of government support. Another acceptable form of evidence is evidence of an NAIC CRP rating with a copy of the rating rationale memorandum discussing the role of U.S. government support. Oftentimes, the prospectus for the security describes in sufficient detail the relationship of the entity to the U.S. government, its agency or its government-sponsored enterprise.

It is not enough to merely establish a relationship between the U.S. government and the entity. It is necessary to provide materials that specifically describe all of the financial terms of the obligation and the manner in which the U.S. government will pay the obligation.

(ii) U.S. Government Securities – Subsequent Reporting

(A) *Subsequent Filing*

No subsequent report (i.e., an annual update filing) is required for non-exempt U.S. government securities. However, a material credit events filing, pursuant to [Part Two, Section 7 d\) of this Manual](#) is required for non-exempt U.S. government securities, if:

- (1) The legislation authorizing the program has been rescinded;
- (2) The transaction terms and/or the transaction documents have been waived, amended or modified; or
- (3) If the legal commitment of the U.S. government, U.S. government agency or U.S. government-sponsored entity has been allowed to lapse or has been withdrawn.

(iii) Filing Exemption

This section defines what the NAIC deems to be U.S. Government Obligations. They are not required to be filed with the SVO.

NOTE: 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.

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 RTAS – Emerging Investment Vehicle Service process described in Part Four, Section 2 of this Manual and obtain an opinion on exemption for that security.

(iv) Filing Exemption for Direct Claims on, or Backed by Full Faith and Credit of, the United States

U.S. Government Obligations means all direct claims (including securities, loans, and leases) on, and the portions of claims that are directly and unconditionally issued, guaranteed or insured by the U.S. Government or its agencies.

U.S. Government agency means 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 Services (AAFS)
 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 Corporation (OPIC)
 Small Business Administration (SBA)
 U.S. Agency for International Development (AID)
 U.S. Department of Agriculture (USDA)
 U.S. Department of Health and Human Services (HHS)
 U.S. Department of Housing and Urban Development (HUD)
 U.S. Department of the Treasury
 U.S. Department of Veterans Affairs (VA)
 U.S. Maritime Administration (MARAD)
 Washington Metropolitan Area Transit Authority

(v) **Filing Exemption for other U.S. Government Obligations**

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. 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 (ii).

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

Federal Agricultural Mortgage Corporation (Farmer Mac)
 Federal Farm Credit Banks (FFCB)
 Federal Financing Bank (FFB)
 Federal Home Loan Banks (FHLB)
 Federal Home Loan Mortgage Corporation (Freddie Mac)
 Federal National Mortgage Association (Fannie Mae)
 Financing Corporation (FICO)
 Reconstruction Funding Corporation (REFCorp)
 Tennessee Valley Authority (TVA)

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 of this Manual. Some documentation requirements for securities filed with the SVO are set forth in Part Two, Section 7 of this Manual; most are in Part Three in the sections for specific asset security types. These documentation requirements apply when a security must be filed with the SVO.

e) Filing Exemption for Certificates of Deposit Reported as Bonds under SSAP No. 26R

- (i) A Certificate of Deposit that meets the definition of a bond in SSAP No. 26R—Bonds is exempt from filing with the SVO if it is issued by a bank whose deposits are fully insured by the FDIC and is for an amount:
 - (1) Equal to or less than the maximum FDIC deposit insurance provided however, that the insurer's aggregate deposits with the bank are equal to or less than the maximum FDIC insurance limit.
 - (2) Greater than the maximum FDIC deposit insurance provided the issuing bank is rated and monitored by an NAIC CRP.
- (ii) The NAIC Designation for Certificates of Deposit described in e) (i) (1) above shall be **NAIC 1**. The NAIC Designation for Certificates of Deposit described in e) (i) (2) above shall be derived by application of the filing exempt conversion process discussed in Part Three, Section 1 b) of this Manual.

NOTE: Please refer to the NAIC Accounting Practices and Procedures Manual for the text of SSAP No. 26R—Bonds as it applies to Certificates of Deposit.

SECTION 5. SPECIAL REPORTING INSTRUCTION**a) NAIC Designations Related to the Special Reporting Instruction**

NAIC 5GI is permitted to be assigned by insurance companies to certain obligations that meet all of the following criteria: (1) documentation necessary to permit a full credit analysis of a security by the SVO does not exist or an NAIC CRP credit rating for an FE or PL security is not available; and (2) the issuer or obligor is current on all contracted interest and principal payments; and (3) the insurer has an actual expectation of ultimate payment of all contracted interest and principal.

An insurance company that self-assigns a **5GI** must attest that securities receiving this designation meet all required qualifications by completing the appropriate general interrogatory in the statutory financial statements. If documentation necessary for the SVO to perform a full credit analysis for a security does not exist or if an NAIC CRP credit rating for an FE or PL security is not available, but the issuer is not current on contractual interest and principal payments and/or if the insurer does not have an actual expectation of ultimate payment of all contracted interest and principal, the insurance company is required to self-assign this security an **NAIC 6***.

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 **5GI** are not met.

Securities with **NAIC 5GI** Designations are deemed to possess the credit characteristics of securities assigned an **NAIC 5** Designation. A security assigned an **NAIC 5GI** Designation incurs the regulatory treatment associated with an **NAIC 5** Designation.

Securities an insurance company previously assigned as **NAIC 5GI** are permitted to subsequently receive this designation if the requirements for an **NAIC 5GI** designation continue to be met.

Securities with **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.

NOTE: The **GI** after the quality indicator **5** refers to General Interrogatory and distinguishes the **NAIC 5GI** from an **NAIC 5** Designation. The asterisk (*) after the quality indicator **6** distinguishes the **NAIC 6*** Designation from an **NAIC 6** Designation.

SECTION 6. THE MECHANICS OF REPORTING WITH THE SVO

Information about the VISION platform, including general information, user guides and online demonstrations can be found at www.naic.org/svo_vision.htm and the application itself can be found at <https://vision.naic.org>.

SECTION 7. REPORTING CONVENTIONS AND REQUIRED DOCUMENTS**a) Initial Report**

An initial filing consists of a completed form(s) and information, documentation and data in quantity and quality sufficient to permit the SVO to conduct an analysis of the creditworthiness of the issuer and the terms of the security to determine an Association Value. It is the obligation of the reporting insurance company to provide the SVO with all necessary information. It is the responsibility of the SVO to determine whether the information provided is sufficient and reliable for its purposes and to communicate informational deficiencies to the reporting insurance company.

b) Informational Deficiencies

Upon receipt of a submission by a reporting insurance company, the submission is logged by date and time received and assigned to the appropriate staff analyst for credit assessment or unit pricing. If the staff analyst determines that there is an informational deficiency, he or she will so advise the reporting insurance company.

The transaction for which a request for additional information is requested will be held without processing for a period not to exceed 45 days. If, at the completion of the 45 days, the reporting insurance company has failed to provide the information requested, the SVO will discard the filing and all documentation submitted with it in VISION will reflect that the filing was discarded due to insufficient information.

On an exception basis, the SVO may grant a response extension to the reporting insurance company but not to exceed 90-days in total with the time-period to begin on the date that the information request was issued. If such an extension is granted, and if the reporting insurance company has failed to provide the information requested within the time provided, the SVO will discard the filing and all documentation submitted with it at the end of the 90-day period and Work Flow will reflect that the filing was discarded due to insufficient information.

Either at the expiration of the 45-day or 90-day period, the reporting insurance company shall be obligated to file the security again if it wishes to obtain an NAIC Designation.

If the SVO determines it requires additional information after it has received a response to its request for additional information, a new 45-day period shall begin, unless an extension is granted as indicated above, in which case a new 90-day period will begin.

c) Reporting Conventions and Required Documents

Specific reporting conventions for initial reports that all reporting insurance companies should follow are described below.

(i) Corporate Issues

(A) Unrated

In the case of a corporate issue not rated by an NAIC CRP, the reporting insurance company shall complete an SAR and shall attach the issue's public offering statement or private placement memorandum, as the case may be, the insurance company's internal Credit Committee memorandum and the Audited Financial Statement of the issuer for the last three consecutive years. If an issue is rated by a rating organization other than an NAIC CRP, submit evidence of such rating. The SVO will contact the reporting insurance company if additional information is required. If none of these documents are available, the reporting insurance company must obtain and complete the SVO's VIM form and submit it with the required documents and attachments. Insurance companies reporting bonds of not-for-profit entities shall follow the same filing conventions applicable to bonds of profit-making entities.

(B) Foreign Issuers

(1) General Rule on Presentation of Financial Results

Any security owned or eligible for purchase by an insurance company that is issued or otherwise the obligation of a non-U.S. obligor, must be accompanied by an Audited Financial Statement prepared in accordance with a Global Financial Presentation Standard or a Reconciled Financial Presentation Standard unless the SVO has been specifically authorized to use a National Financial Presentation Standard for issuers using the accounting standards of that country in accordance with the procedure described in this subsection.

(2) Procedure to Authorize SVO Use of a National Financial Presentation Standard

A national insurance association (but not individual insurers or other persons) may, by written request, ask the SVO to study the feasibility of adding a country and the associated National GAAP or National IFRS to this Manual. The SVO is authorized, but not required, to hold discussions with representatives of the national insurance association to evaluate whether the criteria specified below has been met and to formulate a recommendation to the VOS/TF. The SVO may not assign an NAIC Designation to or otherwise assess a

security under the proposed national standard until the VOS/TF has, by amendment to this Manual, added the proposed country and the associated National GAAP or National IFRS to this Manual.

(3) Pre-Conditions to the Exercise of SVO Authority to Conduct a Requested Study

(a) *Information Supporting the Request*

As part of its request, the national insurance association shall:

- (i) Demonstrate that the request to add a National GAAP or National IFRS standard reflects that the borrower population the industry would target is not required to use a Global Financial Presentation Standard or the Reconciled Financial Presentation Standard to obtain financing in its local market and otherwise lacks the economic or market incentive to use a Global Financial Presentation Standard or the Reconciled Financial Presentation Standard in the absence of a requirement.
- (ii) Provide evidence of both investment opportunity and industry interest to make investments in the country;
- (iii) Explain the relationship of the proposed National GAAP or National IFRS financial presentation standard within the larger context of the country's economic, financial, regulatory and legal traditions; and
- (iv) Explain how the proposed National GAAP or National IFRS financial presentation standard, viewed from the perspective of an investor and from that of the SVO as a risk assessor, is of a quality and of a transparency sufficient to enable the creation of NAIC Designations analogous to those prepared using a Global Financial Presentation Standard.

(4) Parameters of the SVO Study

(a) *Objective of the SVO Study*

- (i) The objective of the SVO study is to assess whether the proposed national accounting standard result in similar or materially different presentation (i.e., consistently more conservative or aggressive presentation for significant transactions) of financial results and position from that under a Global Financial Presentation Standard or a Reconciled Financial Presentation Standard. This reflects that the role of financial information in a credit risk assessment is to provide

an adequate basis to make an assessment of the issuer's financial profile, both by itself and compared to other issuers.

(ii) The SVO's primary focus will be on identifying the material differences between accounting methods for the income statement, balance sheet, and, to a lesser extent, the statement of cash flows.

(iii) The agreed-upon expectation is that similar presentation of financial results and position generally require no change in determination of credit risk while material differences in presentation could lead to a change in determination of credit risk.

(iv) If local accounting standards lead to material differences, it will be necessary to determine which differences in accounting method apply to the company being analyzed and whether the differences are broadly observed (i.e., across industries).

(b) *Process*

(i) The national insurance association will, if necessary, identify an accounting firm that is an expert in the national accounting system of the country proposed for inclusion on the List of Countries and associated National Financial Presentation Standard.

(ii) The national insurance association will work with the SVO to create an educational session on those aspects of financial presentation relevant to the SVO for purposes of its credit risk assessment.

(iii) The educational session will focus on the material differences between accounting methods for the income statement and balance sheet, and shall include such further or additional areas as the SVO shall deem necessary in view of the specific country and national accounting system proposed.

(iv) At the conclusion of such educational session, the SVO shall assess whether the educational session provides a sufficient basis for it to make needed adjustments to the financial information presented under the national accounting standard.

- (v) The SVO shall then assess whether the application of the adjustments in one or more transactions confirms that the use of the national accounting standard leads to the creation of NAIC Designations analogous (in the information they convey about credit risk) to those created by the use of a Global Financial Presentation Standard.

(c) *Information Requirements Associated with the Use of a National Financial Presentation Standard*

Insurance companies who file securities whose issuers present financial information in accordance with a National Financial Presentation Standard shall:

- (i) Where materially different from Global Financial Presentation Standards, identify how local accounting standards treat specific issues relevant to assessment of credit risk;
- (ii) Provide written descriptions of the accounting difference the insurer considered, and of how it resolved concerns about the accounting differences during the investment decision making process;
- (iii) Be prepared to provide SVO with access to the issuer's management or to conduct questions and retrieve information from the issuer's management.
- (iv) Include a consolidated statement of cash flows for the past three years. (See the definition of Audited Financial Statement in [Part Two, Section 1](#) and [Part Three, Section 1\(a\)\(ii\)\(A\)](#) of this Manual for additional guidance pertaining to this requirement.)
- (v) For filings presented on the basis of French generally accepted auditing standards GAAP, the following additional documentation is required:
 - Disclosure of finance lease obligations;
 - Disclosure of operating lease commitments in a manner similar to that required by IRFS or US GAAP;
 - Disclosure of pension assets and liabilities as well as any other post-employment plan obligations. Key is disclosure of any unfunded amount;
 - Disclosure of the amount of treasury stock, if any, and how it is accounted for;

- Segment reporting of sales, assets, income and depreciation.
- (vi) For filings presented on the basis of Italian GAAP, the following additional documentation is required:
 - A consolidated statement of cash flows for three years;
 - Disclosure of finance lease obligations;
 - Disclosure of operating lease commitments in a manner similar to that required by IFRS or US GAAP;
 - Disclosure of pension assets and liabilities, as well as any other post-employment plan obligations, especially of any unfunded amounts;
 - Disclosure of the amount of Treasury stock, if any, and how it is accounted for.
- (vii) For filings presented on the basis of the whole body of rules and regulations of Swiss GAAP FER (“Core FER” and other Swiss GAAP FER Standards), the insurer always provides the following information:
 - Full set of audited financial statements, including a statement of cash flows;
 - Disclosure of finance lease and operating lease commitments in a manner similar to that required by IFRS or US GAAP;
 - Disclosure of pension assets and liabilities as well as any other post-employment plan obligations, especially of any unfunded amount;
 - Disclosure of the amount of treasury stock, if any, and how it is accounted for;
 - Segment reporting of sales, assets, income and depreciation;
 - Signed Auditor’s Opinion;
 - Consolidation information and consolidated financial statements where relevant.

(5) Countries and Associated National Financial Presentation Standards

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 as part of an initial or of an annual filing.
- Dutch (Netherlands) GAAP.
- Italian GAAP but subject to the presentation of additional documentation as part of an initial or of an annual filing.
- 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 as part of an initial or of an annual filing.

(ii) Municipal Issues(A) *Unrated*

In the case of an unrated municipal transaction where the bond to be filed is within one year of the date interest payments are to begin accruing; the reporting insurance company shall file a completed SAR, together with a copy of the official statement for the issue.

If the unrated municipal transaction is more than one year beyond the date interest payments began accruing, the reporting insurance company shall file a completed SAR, together with the issuer's latest available Audited Financial Statements.

If the municipal bond issue in question has been escrowed to maturity or pre-refunded, the reporting insurance company must file a completed SAR together with a copy of the escrow agreement or other evidence of the escrow or pre-refunding, such as a letter from the venture trustee.

(B) *Industrial Development Revenue Bonds and Pollution Control Revenue Bonds*

In the case of an industrial development revenue bond, a pollution control revenue bond or similar transaction, the reporting insurance company shall submit the Audited Financial Statement of the corporate entity that guarantees or otherwise supports the issue.

(C) *Canadian Municipals*

This subsection (ii) also is applicable to issues of Canadian municipal issuers.

(iii) Structured Issues

(A) *Structured Securities Reporting a Subsequent Report*

Please refer to Part Seven of this Manual for instructions applicable to RMBS, CMBS and asset-backed (ABS) securitizations.

(iv) Mutual Funds

Any money market fund wishing to establish that it meets the conditions for listing on the U.S. Direct Obligations/Full Faith and Credit Exempt List, and any bond mutual fund wishing to establish that it meets the conditions for listing on the Bond List, must submit a completed submission package to the SVO with the following documentation:

- (A) The appropriate money market or bond mutual fund application form;
- (B) Authorization letter requesting review of the fund for approved list purposes;
- (C) Prospectus of the fund;
- (D) Statement of Additional Information (SAI);
- (E) Most recent annual report of the fund, and, if more recent, the latest semi-annual report; and
- (F) Rating letter from an NAIC CRP dated in the year of the filing.

Reporting insurance companies that invest in mutual funds on the U.S. Direct Obligations/Full Faith and Credit Exempt List, or Bond List need not file an application with the SVO. Mutual funds not rated by an NAIC CRP, and/or those that do not meet the above-listed documentation requirements, will not be considered for listing.

(v) Exchange Traded Funds(A) *No Purchase / No Initial Report*

An insurance company must make an Initial Report in connection with shares of an Exchange Traded Fund (ETF) only when it has purchased the shares of an ETF. If the insurance company has not purchased shares of the ETF when it files the application for RTAS – Regulatory Treatment Analysis Service, then the insurance company is not obligated to file an Initial Report with the SVO at that time.

(B) *Purchase Prior to or Contemporaneously with RTAS – Emerging Investment Vehicle Service Application*

If the insurance company has purchased shares of the ETF when it files the RTAS – Emerging Investment Vehicle Service Application, the insurance company should file an Initial Report with the SVO at the same time as it files the RTAS – Emerging Investment Vehicle Service Application.

An Initial Report of shares of an ETF in these circumstances consists of the Corporate Bond ATF Form and a statement that the insurance company has submitted an RTAS – Emerging Investment Vehicle Service Application to the SVO for the shares of the ETF.

(C) *Purchases Subsequent to Listing of ETF on ETF List*

If an insurance company purchases shares of the ETF after the SVO has placed the name of the ETF on one of the List discussed in Part Six of this Manual, then the insurance company should ascertain whether another insurance company has reported purchase of the ETF to the SVO. If no other insurance company has previously reported the purchase of shares to the SVO, then the insurance company should file an Initial report. See Section 2 d) of this Part above for a description of how to determine if another insurance company has already reported the purchase of the shares of the ETF.

(vi) Preferred Stock(A) *Unrated*

In the case of preferred stock not rated by an NAIC CRP, the reporting insurance company shall submit any stock purchase agreement and the issuer's Certificate or Articles of Incorporation setting forth the terms and characteristics and the rights and preferences of the preferred stock, the issuer's prospectus or private placement memorandum and the Audited Financial Statement of the issuer for the last three consecutive years.

d) Subsequent Reporting (Annual Update Filings)

(i) Filing Exempt Securities

No subsequent report is required for filing exempt securities unless they no longer qualify as filing exempt. Instructions for filing exempt securities are detailed in [Part Three Section 1 b\) of this Manual](#).

(ii) All Other Securities

Any insurance company that owns a security that is not filing exempt can make an annual update filing by providing the additional or annual information described in Part Three or elsewhere in this Manual for a specific security type. For purposes of this Manual, it is assumed that reporting responsibility is borne by the company that has filed the Initial Report. However, the SVO recognizes the possibility that the initial reporting insurance company may have sold its investment. Therefore, any insurance companies with an interest in a security may need to submit the information necessary to enable the SVO to complete its annual review. Annual filings should be reported to the SVO on the Annual ATF.

(iii) Material Credit Events Filing

It is the responsibility of the reporting insurance company to file all information that indicates a change in the credit characteristics of the issuer or a material change in the terms of the agreement.

What constitutes a material change will vary in accordance with the nature of the transaction. For purposes of this subsection, a material credit event is any occurrence that affects or is substantially likely to affect the issuer's ability to pay the obligation in accordance with its terms.

A determination that a bond is impaired for purposes of *SSAP No. 26R—Bonds* is a material credit event under this subsection. Accordingly, when an insurer determines that a bond is impaired under SSAP No. 26R, it shall file relevant information with the SVO under this subsection.

Material events should be reported to the SVO on the Material Change/Additional Information ATF. The SVO assumes that the information filed will be accurate and will reflect all information relevant to the material event in the possession of the reporting insurance company. The SVO will not audit the information submitted by the insurance company.

SECTION 8. STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES

a) General

The SVO will not publish SIC Codes in AVS+.

The general rule for applying these codes is to ascertain the business of the primary payer of interest, principal, lease or guarantee on the relevant cash flows. In those instances where more than one SIC Code has been assigned to establishments within the organizational structure of the entity issuing the investment the SIC Codes listed should be the SIC Codes which best describe the primary activity, principal product, group of products, or services rendered of the issuing entity.

If the issuer's security is guaranteed or contractually supported by another entity, with a superior rating, the code assigned should be that of the underlying guarantor or supporting creditor of the security. Insurers may complete the last two digits of the code if they have such information.

b) Sectors/Industries and Corresponding SVO Analysts

SIC CODE	Industry	Analyst
0100-0783 – Agriculture, Products/Services		
0100	AGRICULTURE PRODUCTION-CROPS	Messer
0110	CASH GRAINS	Messer
0111	WHEAT	Messer
0112	RICE	Messer
0115	CORN	Messer
0116	SOYBEANS	Messer
0119	CASH GRAINS, NEC	Messer
0130	FIELD CROPS, EX CASH GRAINS	Messer
0131	COTTON	Messer
0132	TOBACCO	Messer
0133	SUGARCANE AND SUGAR BEETS	Messer
0134	IRISH POTATOES	Messer
0139	FIELD CRPS, EX CASH GRAIN, NEC	Messer
0160	VEGETABLES AND MELONS	Messer
0161	VEGETABLES AND MELONS	Messer
0170	FRUITS AND TREE NUTS	Messer
0171	BERRY CROPS	Messer
0172	GRAPES	Messer
0173	TREE NUTS	Messer
0174	CITRUS FRUITS	Messer
0175	DECIDUOUS TREE FRUITS	Messer
0179	FRUITS AND TREE NUTS, NEC	Messer
0180	HORTICULTURAL SPECIALTIES	Messer
0181	ORNMENTAL FLORICULTURE, NURSERY PD	Messer
0182	FOOD CROPS GROWN UNDER COVER	Messer
0190	GENERAL FARMS, PRIMARILY CROP	Messer
0191	GENERAL FARMS, PRIMARILY CROP	Messer
0200	AGRIC PROD-LVSTK, ANIMAL SPEC	Yazzo
0210	LIVESTOCK, EX DAIRY & POULTRY	Yazzo
0211	BEEF CATTLE FEEDLOTS	Yazzo
0212	BEEF CATTLE, EXCEPT FEEDLOTS	Yazzo
0213	HOGS	Yazzo
0214	SHEEP AND GOATS	Yazzo
0219	GEN LIVESTK, EX DAIRY, POULTRY	Yazzo
0240	DAIRY FARMS	Yazzo
0241	DAIRY FARMS	Yazzo
0250	POULTRY AND EGGS	Yazzo
0251	BROILER, FRYER, ROASTER CHICKEN	Yazzo
0252	CHICKEN EGGS	Yazzo
0253	TURKEYS AND TURKEY EGGS	Yazzo
0254	POULTRY HATCHERIES	Yazzo
0259	POULTRY AND EGGS, NEC	Yazzo
0270	ANIMAL SPECIALTIES	Yazzo
0271	FUR-BEARING ANIMALS, RABBITS	Yazzo
0272	HORSES AND OTHER EQUINES	Yazzo
0273	ANIMAL AQUACULTURE	Yazzo
0279	ANIMAL SPECIALTIES, NEC	Yazzo
0290	GEN FARMS-LVSTK, ANIMAL SPEC	Yazzo
0291	GEN FARMS-LVSTK, ANIMAL SPEC	Yazzo
0700	AGRICULTURAL SERVICES	Yazzo
0710	SOIL PREPARATION SERVICES	Yazzo
0711	SOIL PREPARATION SERVICES	Yazzo
0720	CROP SERVICES	Yazzo
0721	CROP PLANTING, CULTIVATING, PROTECT	Yazzo
0722-0783 – Agriculture, Products/Services		
0722	CROP HARVESTING-BY MACHINE	Yazzo
0723	CROP PREP SVCS, EX COTTON GIN	Yazzo
0724	COTTON GINNING	Yazzo
0740	VETERINARY SERVICES	Yazzo
0741	VETERINARY SERVICE-LIVESTOCK	Yazzo
0742	VETERINARY SVCS-ANIMAL SPECS	Yazzo
0750	ANIMAL SERVICE, EX VETERINARY	Yazzo
0751	LIVESTOCK SVCS, EX VETERINARY	Yazzo
0752	ANIMAL SPEC SERVICES, EX VET	Yazzo
0760	FARM LABOR & MANAGEMENT SVCS	Yazzo
0761	FARM LABOR CNTRCTRS, CRW LEAD	Yazzo
0762	FARM MANAGEMENT SERVICES	Yazzo
0780	LANDSCAPE, HORTICULTURAL SVCS	Yazzo
0781	LANDSCAPE COUNSEL & PLANNING	Yazzo
0782	LAWN AND GARDEN SERVICES	Yazzo
0783	ORNAMENTAL SHRUB & TREE SVCS	Yazzo
0800-0850 – Forestry		
0800	FORESTRY	Messer
0810-11	TIMBER TRACTS	Messer
0830-31	FOREST NURSERY, FOREST PRODS	Messer
0850-51	FORESTRY SERVICES	Messer
0900-0970 – Fishing and Game		
0900	FISHING, HUNTING & TRAPPING	Messer
0910	COMMERCIAL FISHING	Yazzo
0912	FIN FISH	Messer
0913	SHELLFISH	Yazzo
0919	MISC MARINE PRODUCTS	Yazzo
0920-21	FISH HATCHERIES & PRESERVES	Messer
0970-71	HUNT, TRAP, GAME PROPAGATION	Yazzo
1000-1490 – Mining, Metals and Minerals		
1000	METAL MINING	Maggi
1010-11	IRON ORES	Maggi
1020-21	COPPER ORES	Maggi
1030-31	LEAD AND ZINC ORES	Maggi
1040	GOLD AND SILVER ORES	Maggi
1041	GOLD ORES	Maggi
1044	SILVER ORES	Maggi
1060-61	FERROALLOY ORES, EX VANADIUM	Maggi
1080-81	METAL MINING SERVICES	Maggi
1090	MISCELLANEOUS METAL ORES	Maggi
1094	URANIUM-RADIUM-VANADIUM ORES	Maggi
1099	MISCELLANEOUS METAL ORES, NEC	Maggi
1200	COAL MINING	Maggi
1220	BITUMINOUS COAL, LIGNITE MNG	Maggi
1221	BITUMINOUS COAL, LIGNITE SURF MNG	Maggi
1222	BITUMINOUS COAL UNDERGRND MINING	Maggi
1230-31	ANTHRACITE MINING	Maggi
1240-41	COAL MINING SERVICES	Maggi
1300	OIL AND GAS EXTRACTION	Serrano
1310-11	CRUDE PETROLEUM & NATURAL GAS	Serrano
1320-21	NATURAL GAS LIQUIDS	Serrano
1380-81	OIL AND GAS FIELD SERVICES	VanBuskirk
1382	OIL AND GAS FIELD SERVICES	VanBuskirk

SIC CODE	Industry	Analyst
1389	OIL AND GAS FIELD SERVICES, NEC	VanBuskirk
1400	MNG, QUARRY NONMTL MINERALS	Maggi
1410-11	DIMENSION STONE	Maggi
1420	CRSHD, BRKN STONE, INCL RIPRAP	Maggi
1422	CRUSHED AND BROKEN LIMESTONE	Maggi
1423	CRUSHED AND BROKEN GRANITE	Maggi
1429	CRUSHED & BROKEN STONE, NEC	Maggi
1440	SAND AND GRAVEL	Maggi
1442	CONSTRUCTION SAND AND GRAVEL	Maggi
1446	INDUSTRIAL SAND	Maggi
1449	SAND MISCELLANEOUS	Maggi
1450	CLAY, CERAMIC, REFRACT MINERAL	Maggi
1455	KAOLIN AND BALL CLAY	Maggi
1459	CLAY, CERAMC, REFCTR MINRL, NEC	Maggi
1470	CHEM, FERTILIZER MINERAL MNG	Maggi
1474	POTASH, SODA, BORATE MINERALS	Maggi
1475	PHOSPHATE ROCK	Maggi
1479	CHEM, FERTILZER MINRL MNG, NEC	Maggi
1480-81	NONMTL MINRL SVCS, EX FUELS	Maggi
1490	MISC NONMTL MINERAL, EX FUELS	Maggi
1499	MISC NONMTL MINRLS, EX FUELS	Maggi
1500-1799 – Building and Heavy Construction/Contractors		
1500	BLDG CNSTR-GEN CONTR, OP BLDR	Yazzo
1520	GEN BLDG CONTRACTOR-RESIDENTIAL	Yazzo
1521	GEN CONTR-SINGLE-FAMILY HOME	Yazzo
1522	GEN CONTRACTOR-OTH RESIDENTIAL	Yazzo
1530-31	OPERATIVE BUILDERS	Yazzo
1540	GEN BLDG CONTRACTORS-NONRES	Yazzo
1541	GEN CONTR-INDL BLDGS & WHSE	Yazzo
1542	GEN CONTRACTOR-NONRES BLDGS	Yazzo
1600	HEAVY CNSTR-NOT BLDG CNSTR	Zhu
1610-11	HIGHWAY STREET CNSTR, EX ELVTD	Zhu
1620	HVY CNSTR, EX HIGHWAY STREET	Zhu
1622	BRIDGE, TUNL, ELVTD HIGHWAY CNSTR	Zhu
1623	WATER, SEWER, PIPELINE CNSTR	Zhu
1629	HEAVY CONSTRUCTION, NEC	Zhu
1700	CONSTRUCTION-SPECIAL TRADE	Kennedy
1710-1	PLUMB, HEAT & AIR-CONDITION	Kennedy
1720-1	PAINTING AND PAPER HANGING	Kennedy
1730-1	ELECTRICAL WORK	Kennedy
1740	MASONRY, STONEWRK, TILE, PLASTR	Kennedy
1741	MASONRY, STONE SET, OTHER	Kennedy
1742	PLSTRNG, DRYWALL, INSULTN WORK	Kennedy
1743	TERRAZZO, TILE, MARBLE, MOSAIC	Kennedy
1750	CARPENTRY AND FLOOR WORK	Kennedy
1751	CARPENTRY WORK	Kennedy
1752	FLOOR LAYNG, OTH FLOORWK, NEC	Kennedy
1760-61	ROOF, SIDING, SHEET METAL WORK	Kennedy
1770-71	CONCRETE WORK	Kennedy
1790	MISC SPECIAL TRADE CONTRACTR	Kennedy
1791	STRUCTURAL STEEL ERECTION	Kennedy
1793	GLASS AND GLAZING WORK	Kennedy
1794	EXCAVATION WORK	Kennedy
1795	WRECKING AND DEMOLITION WORK	Kennedy
1796	INSTALL OR ERECT BLDG EQ, NEC	Kennedy
1799	SPECIAL TRADE CONTRACTOR, NEC	Kennedy
2000-2141 – Food Miscellaneous		
2000	FOOD AND KINDRED PRODUCTS	Yazzo
2010	MEAT PRODUCTS	Yazzo
2011	MEAT PACKING PLANTS	Yazzo
2013	SAUSAGE, OTH PREPARED MEAT, D	Yazzo
2015	POULTRY SLAUGHTER & PROCESS	Yazzo

SIC CODE	Industry	Analyst
2000	FOOD AND KINDRED PRODUCTS	Yazzo
2010	MEAT PRODUCTS	Yazzo
2011	MEAT PACKING PLANTS	Yazzo
2013	SAUSAGE, OTH PREPARED MEAT PD	Yazzo
2015	POULTRY SLAUGHTER & PROCESS	Yazzo
2020	DAIRY PRODUCTS	Yazzo
2021	CREAMERY BUTTER	Yazzo
2022	NAT. PROCESS, IMITATN CHEESE	Yazzo
2023	DRY, CONDENSED, EVAP DAIRY PDS	Yazzo
2024	ICE CREAM & FROZEN DESSERTS	Yazzo
2026	FLUID MILK	Yazzo
2030	CAN, FROZN, PRESRV FRUIT & VEG	Yazzo
2032	CANNED SPECIALTIES	Yazzo
2033	CAN FRUIT, VEG, PRESRV, JAM, JEL	Yazzo
2034	DRY, DEHYDR FRUIT, VEG, SOUP	Yazzo
2035	PICKLD FRUIT, VEG, SAUCE, SEAS	Friedman
2037	FROZEN FRUIT, JUICE, VEGETABLE	Friedman
2038	FROZEN SPECIALTIES, NEC	Friedman
2040	GRAIN MILL PRODUCTS	Friedman
2041	FLOUR & OTHER GRAIN MILL PDS	Friedman
2043	CEREAL BREAKFAST FOODS	Friedman
2044	RICE MILLING	Friedman
2045	PREPARED FLOUR MIXES, DOUGHS	Friedman
2046	WET CORN MILLING	Friedman
2047	DOG AND CAT FOOD	Friedman
2048	PREP FEED ANMLS-EX DOGS, CATS	Friedman
2050	BAKERY PRODUCTS	Friedman
2051	BREAD, BAKERY PDS, EX COOKIE	Friedman
2052	COOKIES AND CRACKERS	Friedman
2053	FROZEN BAKERY PDS, EX BREAD	Friedman
2060	SUGAR & CONFECTIONERY PRODUCTS	Yazzo
2061	CANE SUGAR, EXCEPT MILLING	Yazzo
2062	CANE SUGAR REFINING	Yazzo
2063	BET SUGAR	Yazzo
2064	CANDY & OTH CONFECTION PRODS	Yazzo
2066	CHOCOLATE AND COCOA PRODUCTS	Yazzo
2067	CHEWING GUM	Yazzo
2068	SALTED, UNROASTED NUTS, SEEDS	Yazzo
2070	FATS AND OILS	Yazzo
2074	COTTONSEED, MILL S	Yazzo
2075	SOYBEAN OIL MILL	Yazzo
2076	VEG OIL MILLS, EX CORN & OTH	Yazzo
2077	ANIMAL VEGAN FATS & OILS	Yazzo
2079	SHORTENING, OILS, MARGARINE, NEC	Yazzo
2080	BEVERAGES	Yazzo
2083	MALT	Yazzo
2084	WINE, BRANDY & BRANDY SPIRITS	Yazzo
2085	STILLED AND BLENDED LIQUOR	Yazzo
2086	BOLD & CAN SOFT DRINKS, WATER	Yazzo
2087	FLAVORING EXTRACT, SYRUP, NEC	Yazzo
2091	MISC FOOD PREPS, KINDRED PDS	Yazzo
2092	CANNED, CURED FISH, SEAFOODS	Yazzo
2093	PREP FRESH, FROZN FISH, SEAFD	Yazzo
2095	ROASTED COFFEE	Yazzo
2096	POTATO CHIPS, CORN CHIPS, SNACKS	Yazzo
2097	MANUFACTURED ICE	Yazzo
2098	MACARONI, SPAGHETTI & NOODLES	Yazzo
2099	FOOD PREPARATIONS, NEC	Yazzo
2100	TOBACCO PRODUCTS	Yazzo
2110-11	CIGARETTES	Yazzo
2120-21	CIGARS	Yazzo
2130-31	CHEW & SMOKE TOBACCO, SNUFF	Yazzo
2140-41	TOBACCO STEMMING & REDRYING	Yazzo
2200-2299 – Textiles		
2200	TEXTILE MILL PRODUCTS	Zhu
2210-11	BRDWOVEN FABRIC MILL, COTTON	Zhu
2220-21	BRDWOVN FABRIC MAN MADE, SILK	Zhu
2230-31	BRDWOVN FABRIC, WOOL, INCL DYE	Zhu
2240-41	NARROW FABRIC, OTH SMLWRS MILL	Zhu
2250	KNITTING MILLS	Zhu

SIC CODE	Industry	Analyst
2251	WOMENS HOSIERY, EXCEPT SOCKS	Zhu
2252	HOSIERY, NEC	Zhu
2253	KNIT OUTERWEAR MILLS	Zhu
2254	KNIT UNDERWR, NIGHTWR MILLS	Zhu
2257	WEFT KNIT FABRIC MILLS	Zhu
2258	LACE & WARP KNIT FABRIC MILLS	Zhu
2259	KNITTING MILLS, NEC	Zhu
2260	DYE, FINISH TXTLS, EX WOOL KNT	Zhu
2261	FINISH BRDWOVN FABRIC-COTTON	Zhu
2262	FINISH BRDWOVN MAN MADE&SILK	Zhu
2269	FINISHERS OF TEXTILES, NEC	Zhu
2270, 73	CARPETS AND RUGS	Zhu
2280	YARN AND THREAD MILLS	Zhu
2281	YARN SPINNING MILLS	Zhu
2282	YARN TEXTURIZE, THROW, TWIST	Zhu
2284	THREAD MILLS	Zhu
2290	MISCELLANEOUS TEXTILE GOODS	Zhu
2295	COATED FABRICS, NOT RUBBERIZED	Zhu
2296	TIRE CORD AND FABRIC	Zhu
2297	NONWOVEN FABRICS	Zhu
2298	CORDAGE AND TWINE	Zhu
2299	TEXTILE GOODS, NEC	Zhu
2300-2399 – Apparel		
2300	APPAREL & OTHER FINISHED PDS	Ding
2310-11	MENS & BOYS SUITS, COATS	Ding
2320	MENS, BOYS FRNSH, WORK CLTHNG	Ding
2321	MENS, BOYS SHIRTS, EX WK SHIRT	Ding
2322	MENS, BOYS UNDERWR, NIGHTWEAR	Ding
2323	MEN'S AND BOYS' NECKWEAR	Ding
2325	MENS, BOYS TROUSERS & SLACKS	Ding
2326	MENS & BOYS WORK CLOTHING	Ding
2329	MENS AND BOYS CLOTHING, NEC	Ding
2330	WOMENS, MISSES, JRS OUTERWEAR	Ding
2331	WMNS, MISS, JRS BLOUSES, SHIRTS	Ding
2335	WOMENS, MISSES, JRS DRESSES	Ding
2337	WMNS, MISS, JRS SUITS, SKIRTS	Ding
2339	WMNS, MISS, JRS OUTERWEAR, NEC	Ding
2340	WMNS, MISS, CHLD, INFNT UNDERGRMT	Ding
2341	WMNS, MISS, CHLD, INFNT UNDERWR	Ding
2342	BRAS, GIRDLES, ALLIED GARMENTS	Ding
2350, 53	HATS, CAPS, AND MILLINERY	Ding
2360	GIRLS, CHILD, INFANT OUTERWEAR	Ding
2361	GIRL, CHILD, INFNT DRESS, SHIRT	Ding
2369	GIRLS, CHILD, INFNT OUTWR, NEC	Ding
2370-71	FUR GOODS	Ding
2380	MISC APPAREL & ACCESSORIES	Ding
2381	DRESS & WORK GLOVES, EX KNIT	Ding
2384	ROBES AND DRESSING GOWNS	Ding
2385	WATERPROOF OUTERWEAR	Ding
2386	LEATHER, SHEEP-LINED CLOTHING	Ding
2387	APPAREL BELTS	Ding
2389	APPAREL & ACCESSORIES, NEC	Ding
2390	MISC FABRICATED TEXTILE PDS	Ding
2391	CURTAINS AND DRAPERIES	Ding
2392	HOMEFRNSHNGS, EX CRTNS, DRAPES	Ding
2393	TEXTILE BAGS	Ding
2394	CANVAS AND RELATED PRODUCTS	Ding
2395	PLEAT, DECOR, NOVELTY STITCHNG	Ding
2396	AUTO TRIM, APPAREL FINDINGS	Ding
2397	SCHIFFEL MACH EMBROIDERIES	Ding
2399	FABRICATED TEXTILE PDS, NEC	Ding
2400-2499 – Wood/Lumber		
2400	LUMBER AND WOOD PDS, EX WORN	Yazzo
2410	LOGGING	Yazzo
2411	LOGGING	Yazzo
2420	SAWMILLS AND PLANING MILLS	Yazzo
2421	SAWMILLS, PLANING MILLS, EX	Yazzo
2426	HARDWD DIMENSIO, FLOOR MILLS	Yazzo
2429	SPECIAL PRODUCT SAWMILLS, NEC	Yazzo
2430	MILLWORK, VENEER, PLYWOOD	Yazzo

SIC CODE	Industry	Analyst
2431	MILLWORK	Yazzo
2434	WOOD KITCHEN CABINETS	Yazzo
2435	HARDWOOD VENEER AND PLYWOOD	Yazzo
2436	SOFTWOOD VENEER AND PLYWOOD	Yazzo
2439	STRUCTURAL WOOD MEMBERS, NEC	Yazzo
2440	WOOD CONTAINERS	Yazzo
2441	NAILED, LOCK CORNER WOOD BOX	Yazzo
2448	WOOD PALLETS AND SKIDS	Yazzo
2449	WOOD CONTAINERS, NEC	Yazzo
2450	WOOD BUILDINGS, MOBILE HOMES	Yazzo
2451	MOBILE HOMES	Yazzo
2452	PREFAB WOOD BLDGS, COMPONENTS	Yazzo
2490	MISCELLANEOUS WOOD PRODUCTS	Yazzo
2491	WOOD PRESERVING	Yazzo
2493	RECONSTITUTED WOOD PRODUCTS	Yazzo
2499	WOOD PRODUCTS, NEC	Yazzo
2500-2599 – Furniture/Fixtures		
2500	FURNITURE AND FIXTURES	Messer
2510	HOUSEHOLD FURNITURE	Messer
2511	WOOD HSHLD FURN, EX UPOLSTRD	Messer
2512	WOOD HSHLD FURN, EX UNSTRD	Messer
2514	METAL HOUSEHOLD FURNITURE	Messer
2515	MATTRESS, FOUNDATIONS, COVERED	Messer
2517	WOOD TV, RADIO, PHONE CABINETS	Messer
2519	HOUSEHOLD FURNITURE, NEC	Messer
2520	OFFICE FURNITURE	Messer
2521	WOOD OFFICE FURNITURE	Messer
2522	OFFICE FURNITURE, EX WOOD	Messer
2530-31	PUBLIC BLDG, REL FURNITURE	Messer
2540	PARTITIONS, SHELVES, LOCKERS	Messer
2541	WOOD PARTITION, SHELF, LOCKERS	Messer
2547	PARTITION, SHELF, LOCKER, EX WOOD	Messer
2590	MISC FURNITURE AND FIXTURES	Messer
2591	PAPER UNDERWR, WINDOW BLINDS	Messer
	FURNITURE AND FIXTURES, NEC	Messer
2600-2699 – Paper and Allied Products		
2600	PAPER AND ALLIED PRODUCTS	Mehta
2610-11	PULP MILLS	Mehta
2620-21	PAPER MILLS	Mehta
2630-31	PAPERBOARD MILLS	Mehta
2650	PAPERBOARD CONTAINERS, BOXES	Mehta
2652	SETUP PAPERBOARD BOXES	Mehta
2653	CORRUGATED & SOLID FIBER BOX	Mehta
2655	FIBER CANS, TUBES, DRUMS	Mehta
2656	SAN FOOD CONTAIN, EX FOLDING	Mehta
2657	FOLDNG PAPERBOARD BOX, INCL SAN	Mehta
2670	CONVRT PAPER, PAPERBOARD, EX BOXES	Mehta
2671	PKG PAPER, PLASTICS FILM	Mehta
2672	COATED, LAMINATED PAPER, NEC	Mehta
2673	PLASTIC FOIL, COATD PAPER BAGS	Mehta
2674	UNCOATD PAPER, MULTIWALL BAGS	Mehta
2675	DIE-CUT PAPER, PAPERBOARD, CARDBO	Mehta
2676	SANITARY PAPER PRODUCTS	Mehta
2677	ENVELOPES	Mehta
2678	STATIONERY, TABLETS, REL PRODS	Mehta
2679	CONVRT PAPER, PAPERBOARD, PDS, NEC	Mehta
2700-2796 – Printing, Publishing & Allied Products		
2700	PRINTING, PUBLISHING & ALLIED	Messer
2710	NEWSPAPER, PUBLISH, PUBLISH & PRINT	Messer

SIC CODE	Industry	Analyst
2711	NEWSPAPER: PUBG. PUBG & PRINT	Messer
2720-21	PERIODICAL: PUBG. PUBG & PRINT	Messer
2730	BOOKS	Messer
2731	BOOKS: PUBG. PUBG & PRINTING	Messer
2732	BOOK PRINTING	Messer
2740-41	MISCELLANEOUS PUBLISHING	Messer
2750	COMMERCIAL PRINTING	Messer
2752	COMM. PRINTING. LITHOGRAPHIC	Messer
2754	COMMERCIAL PRINTING. GRAVURE	Messer
2759	COMMERCIAL PRINTING. NEC	Messer
2760-61	MANIFOLD BUSINESS FORMS	Messer
2770-71	GREETING CARDS	Messer
2780	BLANKBOOKS. BINDERS. BOOKBIND	Messer
2782	BLANKBOOKS. BINDERS & DEVICES	Messer
2789	BOOKBINDING AND RELATED WORK	Messer
2790	SERVICE INDS FOR PRINT TRADE	Messer
2791	TYPESETTING	Messer
2796	PLATEMAKNG. RELATED SERVICES	Messer
2800-2899 – Chemicals and Allied Products		
2800	CHEMICALS & ALLIED PRODUCTS	Anno
2810	INDL. INORGANIC CHEMICALS	Anno
2812	ALKALIES AND CHLORINE	Anno
2813	INDUSTRIAL GASES	Anno
2816	INORGANIC PIGMENTS	Anno
2819	INDL. INORGANIC CHEMICALS. NEC	Anno
2820	PLASTC. SYNTH. MATLS. EX GLASS	Anno
2821	PLASTICS. RESINS. ELASTOMERS	Anno
2822	SYNTHETIC RUBBER	Anno
2823	CELLULOSIC. MAN-MADE FIBERS	Anno
2824	MMMD ORG FIBER. EX CELLULOSIC	Anno
2830	DRUGS	Kennedy
2833	MEDICINAL CHEMS. BOTANICAL PDS	Kennedy
2834	PHARMACEUTICAL PREPARATIONS	Kennedy
2835	IN VITRO. IN VIVO DIAGNOSTICS	Lee
2836	BIOLOGICAL PDS. EX DIAGNOSTICS	Lee
2840	SOAP. DETERGENT. TOILET PREPS	Lee
2841	SOAP AND OTHER DETERGENTS	Lee
2842	SPECIAL CLEAN. POLISH PREPS	Lee
2843	SURFACE ACTIVE AGENTS	Lee
2844	PERFUME. COSMETIC. TOILET PREP	Lee
2850-51	PAINTS. VARNISHES. LACQUERS	Lee
2860	INDUSTRIAL ORGANIC CHEMICALS	Lee
2861	GUM AND WOOD CHEMICALS	Lee
2865	CYCLIC ORGNC CRUDES. PIGMENTS	Lee
2869	INDL. ORGANIC CHEMICALS. NEC	Lee
2870	AGRICULTURAL CHEMICALS	Lee
2873	NITROGENOUS FERTILIZERS	Lee
2874	PHOSPHATIC FERTILIZERS	Lee
2875	FERTILIZERS. MIXING ONLY	Lee
2879	PESTICIDES. AGRIC. CHEMS. NEC	Lee
2890	MISC. CHEMICAL PRODUCTS	Lee
2891	ADHESIVES AND SEALANTS	Lee
2892	EXPLOSIVES	Lee
2893	PRINTING INK	Lee
2895	CARBON BLACK	Lee
2899	CHEMICALS & CHEM PREPS. NEC	Lee
2900-2999 – Petroleum Refining and Related Industries		
2900	PETRO. REFINING & RELATED INDS	Driscoll
2910-11	PETROLEUM REFINING	Driscoll
2950	ASPHALT PAVING. ROOFING MATLS	Driscoll
2951	ASPHALT PAVING. BLOCKS	Driscoll
2952	ASPHALT FELTS AND COATINGS	Driscoll
2990	MISC. PDS OF PETROLEUM & COAL	Driscoll
2992	LUBRICATING OILS & GREASES	Driscoll
2999	PDS OF PETROLEUM & COAL. NEC	Driscoll
3000-3089 – Rubber and Miscellaneous Plastics		
3000	RUBBER & MISC PLASTICS PROD	Yazzo
3010-11	TIRES AND INNER TUBES	Yazzo
3020	RUBBER AND PLASTICS FOOTWEAR	Yazzo

SIC CODE	Industry	Analyst
3039	RUBBER AND GASKETS	Yazzo
3050	GASKETS. HOSE. BLTNG. RUBR. PLSTC	Yazzo
3052	RUBBER. PLASTICS HOSE & BELTS	Yazzo
3053	GASKETS. PACKNG. SEALNG DEVICE	Yazzo
3060	FABRICATED RUBBER. PDS. NEC	Yazzo
3061	MOLDED. EXTR. MECH. RUBBER. GDS	Yazzo
3069	FABRICATED RUBBER. PDS. NEC	Yazzo
3080	MISC. PLASTICS PRODUCTS	Mehta
3081	UNSUPP. PLASTICS FILM & SHEET	Mehta
3082	UNSUPP. PLASTIC PROFILE SHAPE	Mehta
3083	LAMIN. PLAS. PLATE. SHEET. SHAPE	Mehta
3084	PLASTICS PIPE	Mehta
3085	PLASTICS BOTTLES	Mehta
3086	PLASTICS FOAM PRODUCTS	Mehta
3087	COMPOUNDING PLASTICS RESINS	Mehta
3088	PLASTICS PLUMBING FIXTURES	Mehta
3089	PLASTICS PRODUCTS. NEC	Mehta
3100-3199 – Leather, Leather Products and Footwear		
3100	LEATHER AND LEATHER PRODUCTS	Dine
3110-11	LEATHER TANNING & FINISHING	Dine
3130-31	BOOT. SHOE CUT STOCK. FINDINGS	Dine
3140	FOOTWEAR. EXCEPT RUBBER	Dine
3142	HOUSE SLIPPERS	Dine
3143	MEN'S FOOTWEAR. EX ATHLETIC	Dine
3144	WOMEN'S FOOTWEAR. EX ATHLETIC	Dine
3149	FOOTWEAR. EXCEPT RUBBER. NEC	Dine
3150-51	LEATHER GLOVES AND MITTENS	Dine
3170	HANDBAGS. OTHER LEATHER GOODS	Dine
3171	WOMEN'S HANDBAGS AND PURSES	Dine
3172	PERS. LEATHER GDS. EX HANDBAGS	Dine
3190.99	LEATHER GOODS. NEC	Dine
3200-3299 – Stone/Clay/Glass		
3200	STONE. CLAY. GLASS. CONCRETE P	Mehta
3210-11	FLAT GLASS	Mehta
3220	GLASS. GLASSWARE. PRESSED. BLOWN	Mehta
3221	GLASS. CONTAINERS	Mehta
3229	PRESSED. BLOWN GLASS. NEC	Mehta
3230	GLASS. PDS. MFG. OF PURCH. GLASS	Mehta
3231	GLASS. PDS. MADE. OF PURCH. GLASS	Mehta
3240	CEMENT. HYDRAULIC	Mehta
3241	CEMENT. PORTLAND	Mehta
3250	STRUCTURAL CLAY PRODUCTS	Mehta
3251	BRICK & STRUCTURAL CLAY TILE	Mehta
3255	CERAMIC WALL AND FLOOR TILE	Mehta
3259	CLAY REFRACTORIES	Mehta
3260	STRUCTURAL CLAY PRODUCTS. NEC	Mehta
3261	STRENGTHENED CHINA PLUMB FIXTURE	Mehta
3262	STRENGTHENED CHINA TABLE ARTICLES	Mehta
3263	FINE EARTHENWARE TABLE ARTICLES	Mehta
3264	PORCELAIN ELECTRICAL SUPPLY	Mehta
3269	POTTERY PRODUCTS. NEC	Mehta
3270	CONCRETE. GYPSUM. PLASTER PDS	Mehta
3271	CONCRETE BLOCK AND BRICK	Mehta
3272	CONCRETE PDS. EX BLOCK. BRICK	Mehta
3273	READY-MIXED CONCRETE	Mehta
3274	LIME	Mehta
3275	GYPSUM PRODUCTS	Mehta
3280-81	CUT STONE AND STONE PRODUCTS	Mehta
3290	ABRASIVE. ASBESTOS. MISC. MINRL	Mehta
3291	ABRASIVE PRODUCTS	Mehta
3292	ASBESTOS PRODUCTS	Mehta
3295	MINRLS. EARTHS-GROUND. TREATED	Mehta
3296	MINERAL WOOL	Mehta
3297	NONCLAY REFRACTORIES	Mehta
3299	NONMETALLIC MINERAL PDS. NEC	Mehta
3300-3479 – Primary Metal Industries		
3300	PRIMARY METAL INDUSTRIES	Maggi
3310	STEEL WRK. ROLL & FINISH MILL	Maggi

SIC CODE	Industry	Analyst
3312	STEEL WORKS & BLAST FURNACES	Maggi
3313	ELECTROMETAL PDS. EX STEEL	Maggi
3315	STEEL WIREDRAW, NAILS, SPIKE	Maggi
3316	COLD-ROLL STEEL SHEET, STRIP	Maggi
3317	STEEL PIPE AND TUBES	Maggi
3320	IRON AND STEEL FOUNDRIES	Maggi
3321	GRAY, DUCTILE IRON FOUNDRIES	Maggi
3322	MALLEABLE IRON FOUNDRIES	Maggi
3324	STEEL INVESTMENT FOUNDRIES	Maggi
3325	STEEL FOUNDRIES, NEC	Maggi
3330	PRIM SMELT, REFIN NONFER METL	Maggi
3331	PRIM SMELT & REFIN OF COPPER	Maggi
3334	PRIM PRODUCTION OF ALUMINUM	Maggi
3339	PRIM SMELT-NONFER, EX CU, AL	VanBuskirk
3340-41	SEC SMELT, REFIN NONFER METAL	VanBuskirk
3350	ROLLING & DRAW NONFER METAL	VanBuskirk
3351	ROLLNG, DRAWNG, EXTRUDE COPPER	VanBuskirk
3353	ALUMINUM SHEET, PLATE & FOIL	VanBuskirk
3354	ALUMINUM EXTRUDED PRODUCTS	VanBuskirk
3355	ALUMINUM ROLLING, DRAWING, NEC	VanBuskirk
3356	ROLLNG, DRAWNG, EXTRUDE NONFER	VanBuskirk
3357	DRAWNG, INSULATNG NONFER WIRE	VanBuskirk
3360	NONFER FOUNDRIES (CASTINGS)	VanBuskirk
3363	ALUMINUM DIE-CASTINGS	VanBuskirk
3364	NONFER DIE-CASTINGS, EX ALUM	VanBuskirk
3365	ALUMINUM FOUNDRIES	VanBuskirk
3366	COPPER FOUNDRIES	VanBuskirk
3369	NONFER FOUNDRS, EX ALUM, COPPR	VanBuskirk
3390	MISC PRIMARY METAL PRODUCTS	VanBuskirk
3398	METAL HEAT TREATING	VanBuskirk
3399	PRIMARY METAL PRODUCTS, NEC	VanBuskirk
3400	FABR METAL, EX MACHY, TRANS EQ	VanBuskirk
3410	METAL CANS, SHIPPING CONTAIN	VanBuskirk
3411	METAL CANS	VanBuskirk
3412	METAL SHIPPING BARRELS, DRUMS	VanBuskirk
3420	CUTLERY, HANDTOOLS, GEN HRDWR	VanBuskirk
3421	CUTLERY	VanBuskirk
3423	HAND, EDGE TOOL, EX MACH TOOL	Messer
3425	SAW BLADES AND HANDSAWS	Messer
3429	HARDWARE, NEC	Messer
3430	HEATING EQ, PLUMBING FIXTURE	Messer
3431	ENAMEL IRON & MTL SANITRY PD	Messer
3432	PLUMB FIXTURE, FITTINGS, TRIM	Messer
3433	HEATING EQ, EX ELEC, AIR FURN	Messer
3440-41	FABRICATED STRUCTURAL METAL	Messer
3442	METAL DOORS, FRAMES, MOLD	Messer
3443	FABRICATED PLATE WORK	Messer
3444	SHEET METAL WORK	Messer
3446	ARCHITECT, ORNAMENTL METAL WK	Messer
3448	PREFAB METAL BLDGS AND COMP	Messer
3449	MISC STRUCTURAL METAL WORK	Messer
3450	SCREW MACH PDS, BOLTS, NUTS	Messer
3451	SCREW MACHINE PRODUCTS	Messer
3452	BOLT, NUT, SCREW, RIVETS, WASHRS	Messer
3460	METAL FORGINGS AND STAMPINGS	VanBuskirk
3462	IRON AND STEEL FORGINGS	VanBuskirk
3463	NONFERROUS FORGINGS	VanBuskirk
3465	AUTOMOTIVE STAMPINGS	VanBuskirk
3466	CROWNS AND CLOSURES	VanBuskirk
3469	METAL STAMPINGS, NEC	VanBuskirk
3470	COATING, ENGRAVING, ALLIED SVC	VanBuskirk
3471	ELECTROPLATE, PLATING, POLISH	VanBuskirk
3479	COAT, ENGRAVE, ALLIED SVC, NEC	VanBuskirk
3480-3489 – Ordnance/Small Arms Ammunition		
3480	ORDNANCE AND ACCESSORIES	Messer
3482	SMALL ARMS AMMUNITION	Messer
3483	AMMUNITION, EX SMALL ARMS	Messer
3484	SMALL ARMS	Messer
3489	ORDNANCE & ACCESSORIES, NEC	Messer
3490-3499 – Fabricated Metal and Products		

SIC CODE	Industry	Analyst
3490	MISC FABRICATED METAL PRODS	Messer
3491	INDUSTRIAL VALVES	Messer
3492	FLUID POWR VALVE, HOSE FITNG	Messer
3493	STEEL SPRINGS, EXCEPT WIRE	Messer
3494	VALVES & PIPE FITTINGS, NEC	Messer
3495	WIRE SPRINGS	Messer
3496	MISC FABRICATED WIRE PRODS	Messer
3497	METAL FOIL AND LEAF	Messer
3498	FABRICATED PIPE AND FITTINGS	Messer
3499	FABRICATED METAL PDS, NEC	Messer
3500-3569 – Machinery		
3500	INDL COMM MACHY, COMPUTER EQ	Serrano
3510	ENGINES AND TURBINES	Messer
3511	STEAM, GAS, HYDRAULIC TURBINES	Messer
3519	INTERNAL COMBUSTN ENGINE, NEC	Serrano
3520	FARM & GARDEN MACHINERY & EQ	Serrano
3523	FARM MACHINERY AND EQUIPMENT	Messer
3524	LAWN, GARDEN TRACTORS, EQUIP	Serrano
3530	CONSTR, MINING, MATL, HANDLE EQ	Serrano
3531	CONSTRUCTION MACHINERY & EQ	Serrano
3532	MNG MACHY, EQ, EX OIL FIELD	Serrano
3533	OIL & GAS FIELD MACHY, EQUIP	Serrano
3534	ELEVATORS & MOVING STAIRWAYS	Serrano
3535	CONVEYORS & CONVEYING EQUIP	Serrano
3536	CRANES, HOISTS, MONORAIL SYS	Serrano
3537	INDL TRUCKS, TRACTORS, TRAILRS	Serrano
3540	METALWORKING MACHINERY & EQ	Serrano
3541	MACHINE TOOLS, METAL CUTTING	Serrano
3542	MACHINE TOOLS, METAL FORMING	Serrano
3543	INDUSTRIAL PATTERN	Serrano
3544	SPECIAL DIES, TOOLS, DIES, ETC	Serrano
3545	CUTTING TOOLS, ACCESS, MACHS DEV	Serrano
3546	POWER-DRIVEN HAND TOOLS	Serrano
3547	ROLLING MILL MACHINERY & EQ	Serrano
3548	ELEC, GAS WELDING, SOLDERING EQ	Serrano
3549	METALWORKING MACHINERY, NEC	Serrano
3550	SPECIAL INDUSTRY MACHINERY	Serrano
3552	TEXTILE MACHINERY	Serrano
3553	WOODWORKING MACHINERY	Serrano
3554	PAPER INDUSTRIES MACHINERY	Serrano
3555	PRINTING TRADES MACHY, EQUIP	Serrano
3556	FOOD PRODUCTS MACHINERY	Serrano
3557	MACHINERY – MISC	Serrano
3559	SPECIAL INDUSTRY MACHY, NEC	Serrano
3561	GENERAL INDUSTRIAL MACH & EQ	Serrano
3562	PUMPS AND PUMPING EQUIPMENT	Serrano
3563	BALL AND ROLLER BEARINGS	Serrano
3563	AIR AND GAS COMPRESSORS	Serrano
3564	INDL COML FANS, BLOWRS, OTH EQ	Serrano
3565	PACKAGING MACHINERY	Messer
3566	SPEED CHANGERS, DRIVES, GEARS	Serrano
3567	INDL PROCESS FURNACES, OVENS	Messer
3568	MECH POWER TRANSMISSN EQ, NEC	Messer
3569	GERNERAL INDL MACH & EQ, NEC	Serrano
3570-3579 – Computer & Office Machines		
3570	COMPUTER & OFFICE EQUIPMENT	Nolan
3571	ELECTRONIC COMPUTERS	Nolan
3572	COMPUTER STORAGE DEVICES	Nolan
3575	COMPUTER TERMINALS	Nolan
3576	COMPUTER COMMUNICATION EQUIP	Nolan
3577	COMPUTER PERIPHERAL EQ, NEC	Nolan
3578	CALCULATE, ACCT MACH, EX COMP	Nolan
3579	OFFICE MACHINES, NEC	Nolan
3580-3599 – Miscellaneous Machinery		
3580	REFRIG & SERVICE IND MACHINE	Messer
3581	AUTOMATIC VENDING MACHINES	Messer
3582	COMMML LAUNDRY, DRYCLEAN MACH	Messer
3585	AIR-COND, HEATING, REFRIG EQ	Messer
3586	MEASURING & DISPENSING PUMPS	Messer

SIC CODE	Industry	Analyst
3589	SVC INDUSTRY MACHINERY, NEC	Messer
3590	MISC. INDL. COMML. MACHY & EQ	Messer
3592	CARBS, PISTONS, RINGS, VALVES	Messer
3593	FLUID POWR CYLINDRS, ACTUATRS	Messer
3594	FLUID POWER PUMPS AND MOTORS	Messer
3596	SCALES & BALANCES, EX LAB	Messer
3599	INDL. COMML MACHY, EQUIP, NEC	Messer
3600-3699 – Electrical Equipment		
3600	ELECTR. OTH ELEC EQ, EX CMP	Serrano
3610	ELEC TRANSMISSION & DISTR EQ	Serrano
3612	PWR, DISTR, SPECI TRANSFORMERS	Serrano
3613	SWITCHGEAR & SWITCHBOARD APP	Serrano
3620	ELECTRICAL INDL APPARATUS	Serrano
3621	MOTORS AND GENERATORS	Serrano
3624	CARBON AND GRAPHITE PRODUCTS	Serrano
3625	RELAYS & INDUSTRIAL CONTROLS	Serrano
3629	ELEC INDL APPARATUS, NEC	Serrano
3630	HOUSEHOLD APPLIANCES	Serrano
3631	HOUSEHOLD COOKING EQUIPMENT	Serrano
3632	HOUSEHLD REFRIGERATR, FREEZER	Serrano
3633	HOUSEHOLD LAUNDRY EQUIPMENT	Serrano
3634	ELECTRIC HOUSEWARES AND FANS	Serrano
3635	HOUSEHOLD VACUUM CLEANERS	Serrano
3639	HOUSEHOLD APPLIANCES, NEC	Serrano
3640	ELECTRIC LIGHTING, WIRING EQ	Mehta
3641	ELECTRIC LAMP BULBS & TUBES	Mehta
3643	CURRENT-CARRY WIRING DEVICE	Mehta
3644	NONCURRENT-CARRY WIRING DEV	Mehta
3645	RESIDENT ELEC LIGHTING FIXTR	Mehta
3646	COMML. INDL. ELEC LIGHT FIXTR	Mehta
3647	VEHICULAR LIGHTING EQUIPMENT	Mehta
3648	LIGHTING EQUIPMENT, NEC	Mehta
3650	HSOLD AUDIO, VID EQ, AUDIO REC	Mehta
3651	HOUSEHOLD AUDIO & VIDEO EQ	Mehta
3652	PHONO RECRDS, AUDIO TAPE, DISK	Mehta
3660	COMMUNICATION EQUIPMENT	Mehta
3661	TELE & TELEGRAPH APPARATUS	Mehta
3663	RADIO, TV BROADCAST, COMM EQ	Mehta
3669	COMMUNICATIONS EQUIP, NEC	Mehta
3670	ELECTRONIC COMP. ACCESSORIES	Maggi
3671	ELECTRON TUBES	Mehta
3672	PRINTED CIRCUIT BOARDS	Mehta
3674	SEMICONDUCTOR, RELATED DEVICE	Mehta
3675	ELECTRONIC CAPACITORS	Mehta
3676	ELECTRONIC RESISTORS	Mehta
3677	ELECTR COIL, TRANSFORM, INDUCTR	Mehta
3678	ELECTRONIC CONNECTORS	Mehta
3679	ELECTRONIC COMPONENTS, NEC	Maggi
3690	MISC. ELEC MACHY, EQ, SUPPLIES	Mehta
3691	STORAGE BATTERIES	Mehta
3692	PRIMARY BATTERIES, DRY & WET	Mehta
3694	ELEC EQ-INTERNAL COMBUST ENGN	Mehta
3695	MAGNETIC OPTIC RECORDNG MEDIA	Mehta
3699	ELECTRICAL MACHY, EQUIP, NEC	Mehta
3700-3799 – Transportation Equipment		
3700	TRANSPORTATION EQUIPMENT	Cosentino
3710	MOTOR VEHICLES, MOTOR VEH EQ	Cosentino
3711	MOTOR VEHICLES & CAR BODIES	Cosentino
3712	MOTOR VEHICLES – MISC	Cosentino
3713	TRUCK AND BUS BODIES	Cosentino
3714	MOTOR VEHICLE PART, ACCESSORY	Cosentino
3715	TRUCK TRAILERS	Cosentino
3716	MOTOR HOMES	Cosentino
3720	AIRCRAFT AND PARTS	Nelson
3721	AIRCRAFT	Nelson
3724	AIRCRAFT ENGINE, ENGINE PARTS	Hsin
3728	AIRCRAFT PARTS, AU, EQ, NEC	Hsin
3730	SHIP & BOAT BLDG, REPAIRING	Hsin
3731	SHIP BUILDING AND REPAIRING	Hsin
3732	BOAT BUILDING AND REPAIRING	Hsin

SIC CODE	Industry	Analyst
3740, 43	RAILROAD EQUIPMENT	Nelson
3750	MOTORCYCLES, BICYCLES & PARTS	Hsin
3751	MOTORCYCLES, BICYCLES & PARTS	Hsin
3760	GUIDED MISSILES & SPACE VEH	Hsin
3761	GUIDED MISSILES & SPACE VEH	Hsin
3764	GUID MISS, SPACE VEH PROPULSN	Hsin
3769	GUID MISS, SPACE VEH PART, NEC	Hsin
3790	MISC TRANSPORTATION EQUIP	Hsin
3792	TRAVEL TRAILERS AND CAMPERS	Hsin
3795	TANKS AND TANK COMPONENTS	Hsin
3799	TRANSPORTATION EQUIPMENT, NEC	Hsin
3800-3873 – Technical Instruments		
3800	MEAS INSTR, PHOTO GDS, WATCHES	Schindler
3810	SRCH, DET, NAV, GUID, AERO SYS	Schindler
3812	SRCH, DET, NAV, GUID, AERO SYS	Schindler
3820	LAB APP, OPTIC, MEAS, CTL INSTR	Schindler
3821	LAB APPARATUS AND FURNITURE	Schindler
3822	AUTOMATIC REGULATING CONTROLS	Schindler
3823	INDUSTRIAL MEASUREMENT INSTR	Schindler
3824	TOTALIZING FLUID METERS	Schindler
3825	ELEC MEAS & TEST INSTRUMENTS	Schindler
3826	LAB ANALYTICAL INSTRUMENTS	Schindler
3827	OPTICAL INSTRUMENTS & LENSES	Schindler
3829	MEAS & CONTROLLING DEV, NEC	Schindler
3840	SURGICAL, MED, DENTAL INSTR	Schindler
3841	SURGICAL, MED INSTR, APPARATUS	Schindler
3842	ORTHO, PROSTH, SURG APPL, SUPPLY	Schindler
3843	DENTAL EQUIPMENT & SUPPLIES	Schindler
3844	X-RAY & RELATED APPARATUS	Schindler
3845	ELECTROMEDICAL APPARATUS	Schindler
3850	OPHTHALMIC GOODS	Schindler
3851	OPHTHALMIC GOODS	Schindler
3860	PHOTOGRAPHIC EQUIP & SUPPLY	Schindler
3861	PHOTOGRAPHIC EQUIP, SUPPLY	Schindler
3870	WATCHES, CLOCKS AND PARTS	Schindler
3873	WATCHES, CLOCKS AND PARTS	Schindler
3900-3999 – Miscellaneous Manufacturing		
3900	MISC MANUFACTURING INDUSTRIES	Mehta
3910	JEWELRY, SILVER, PLATED WARE	Mehta
3911	JEWELRY, PRECIOUS METAL	Mehta
3914	SILVERWARE, PLATED WARE	Mehta
3915	JEWELRY, FININGS, MATERIALS	Mehta
3930	MUSICAL INSTRUMENTS	Mehta
3940	MUSICAL INSTRUMENTS	Mehta
3942	DOLLS, TOYS, GAMES, SPORTING GDS	Mehta
3944	DOLLS AND STUFFED TOYS	Mehta
3949	SPORTING & ATHLETIC GDS, NEC	Mehta
3950	PENS, PENCILS, OTH ARTIST MATL	Mehta
3951	PENS, MECH PENCILS & PARTS	Mehta
3952	LEAD PENCIL, CRAYON, ART MATL	Mehta
3953	MARKING DEVICES	Mehta
3955	CARBON PAPER & INKED RIBBONS	Mehta
3960	COSTUME JEWELRY, BUTTON, NOTION	Mehta
3961	COSTUME JEWELRY & NOVELTIES	Mehta
3965	FASTENERS, BUTTONS, NEEDLE, PIN	Mehta
3990	MISC MANUFACTURING INDUSTRIES	Mehta
3991	BROOMS AND BRUSHES	Mehta
3993	SIGNS, ADVERTISING SPECIALTY	Mehta
3995	BURIAL CASKETS	Mehta
3996	HARD SURFACE FLOOR COVER, NEC	Mehta
3999	MANUFACTURING INDUSTRIES, NEC	Mehta
4000-4789 – Transportation and Freight Services		
4000	RAILROAD TRANSPORTATION	Nelson
4010	RAILROADS	Nelson
4011	RAILROADS, LINE-HAUL OPERATING	Nelson
4013	RR SWITCHING, TERMINAL ESTAB	Nelson
4100	TRANSIT & PASSENGER TRANS	Nelson
4110	LOCAL, SUBURB PASSENGER TRANS	Nelson

SIC CODE	Industry	Analyst
4111	LOCAL AND SUBURBAN TRANSIT	Nelson
4119	LOCAL PASSENGER TRANS. NEC	Nelson
4120-21	TAXICABS	Hsin
4130-31	INTERCITY RURAL BUS TRANSPRT	Hsin
4140	BUS CHARTER SERVICE	Hsin
4141	LOCAL BUS CHARTER SERVICE	Hsin
4142	BUS CHARTER SVC. EX LOCAL	Hsin
4150-51	SCHOOL BUSES	Hsin
4170-73	MOTOR VEH TERML SVC FACILITY	Hsin
4200	MOTOR FREIGHT TRANS, WAREHOUS	Van Buskirk
4210	TRUCKING, COURIER SVC, EX AIR	Van Buskirk
4212	LOCAL TRUCKING - W/O STORAGE	Van Buskirk
4213	TRUCKING, EXCEPT LOCAL	Van Buskirk
4214	LOCAL TRUCKING WITH STORAGE	Van Buskirk
4215	COURIER SERVICES, EX BY AIR	Van Buskirk
4220	PUBLIC WAREHOUSING & STORAGE	Van Buskirk
4221	FARM PD WAREHOUSE & STORAGE	Van Buskirk
4222	REFRIGERATED WHSE & STORAGE	Van Buskirk
4225	GENERAL WAREHOUSING, STORAGE	Van Buskirk
4226	SPECIAL WHSE & STORAGE, NEC	Van Buskirk
4230-31	TERMINL FACILITY-MTR FREIGHT	Van Buskirk
4300	UNITED STATES POSTAL SERVICE	Hsin
4310-11	UNITED STATES POSTAL SERVICE	Hsin
4400	WATER TRANSPORTATION	Nelson
4410, 12	DEEP SEA FRN TRANS-FREIGHT	Nelson
4420, 24	DEEP SEA DOM TRANS-FREIGHT	Nelson
4430, 32	GRT LAKES, ST LAWRENCE TRANS	Nelson
4440, 49	WATER TRANS OF FREIGHT, NEC	Nelson
4480	WATER TRANSPORT OF PASSENGER	Nelson
4481	DEEP SEA PASS TRANS, EX FERRY	Nelson
4482	FERRIES	Nelson
4489	WATER TRANS OF PASSENGER, NEC	Nelson
4490	SVC INCIDENTAL TO WATER TRANS	Nelson
4491	MARINE CARGO HANDLING	Nelson
4492	TOWING AND TUGBOAT SERVICES	Nelson
4493	MARINAS	Nelson
4499	WATER TRANSPORT SVCS, NEC	Nelson
4500	TRANSPORTATION BY AIR	Hsin
4510	SCHED AIR TRANS, AIR COURIER	Hsin
4512	AIR TRANSPORT, SCHEDULED	Hsin
4513	AIR COURIER SERVICES	Hsin
4520-22	AIR TRANSPORT, NONSCHEDULED	Hsin
4580-81	AIRPORTS & TERMINAL SERVICES	Nelson
4600, 10	PIPE LINES, EX NATURAL GAS	Van Buskirk
4612	CRUDE PETROLEUM PIPELINES	Van Buskirk
4613	REFINED PETROLEUM PIPELINES	Van Buskirk
4619	PIPELINES, NEC	Van Buskirk
4700	TRANSPORTATION SERVICES	Hsin
4720	ARRANGEMENT, PASSENGER TRANS	Hsin
4724	TRAVEL AGENCIES	Hsin
4725	TOUR OPERATORS	Hsin
4729	ARRANGEMENT-PASS TRANS, NEC	Hsin
4730-31	ARRANGE TRANS-FREIGHT, CARGO	Hsin
4740-41	RENTAL OF RAILROAD CARS	Hsin
4780	MISC SVC INCIDENTAL TO TRANS	Hsin
4783	PACKING AND CRATING	Hsin
4785	MOTOR VEHICLE INSPECTION SVC	Hsin
4789	TRANSPORTATION SERVICES, NEC	Hsin
4800-4899 - Communications		
4800	COMMUNICATIONS	Cosentino
4810	TELEPHONE COMMUNICATIONS	Cosentino
4812	RADIOTELEPHONE COMMUNICATION	Cosentino
4813	PHONE COMM EX RADIOTELEPHONE	Cosentino
4820, 22	TELEGRAPH & OTH MESSAGE COMM	Cosentino
4830	RADIO, TV BROADCAST STATIONS	Cosentino
4832	RADIO BROADCASTING STATIONS	Cosentino
4833	TELEVISION BROADCAST STATIONS	Cosentino
4840-41	CABLE AND OTHER PAY TV SVCS	Cosentino
4890, 99	COMMUNICATIONS SERVICES, NEC	Cosentino

SIC CODE	Industry	Analyst
4900-4991 - Electric/Gas/Utility Services		
4900	ELECTRIC, GAS, SANITARY SERV	Kalinowski
4910	ELECTRIC SERVICES	Nikas
4911	ELECTRIC SERVICES	Kalinowski
4920	GAS PRODUCTION & DISTR	Kalinowski
4922	NATURAL GAS TRANSMISSION	Kalinowski
4923	NATURAL GAS TRANSMIS & DISTR	Van Buskirk
4924	NATURAL GAS DISTRIBUTION	Nikas
4925	MIXED, MFG OR LPG PROD/DISTR	Van Buskirk
4930	ELECTRIC, GAS, OTHER SERV COMB	Nikas
4931	ELECTRIC & OTHER SERV COMB	Nikas
4932	GAS & OTHER SERV COMBINED	Nikas
4939	COMBINATION UTILITIES, NEC	Nikas
4940-41	WATER SUPPLY	Johnston
4950	SANITARY SERVICES	Nikas
4952	SEWERAGE SYSTEMS	Nikas
4953	REFUSE SYSTEMS	Zhu
4955	HAZARDOUS WASTE MANAGEMENT	Zhu
4959	SANITARY SERVICES, NEC	Kalinowski
4960-61	STEAM, AIR-CONDITIONING SUPP	Kalinowski
4970-71	IRRIGATION SYSTEMS	Kalinowski
4991	COGENERATN-SM POWER PRODUCER	Zhu
5000-5139 - Wholesale Miscellaneous		
5000	DURABLE GOODS-WHOLESALE	Friedman
5010	MOTOR VEH PARTS, SUPPLY-WHSL	Friedman
5012	AUTOS & OTHER VEHICLES-WHSL	Friedman
5013	MOTOR VEH SUPPLY, NEW PTS-WHSL	Friedman
5014	TIRES AND TUBES-WHOLESALE	Friedman
5015	MOTOR VEH PARTS, USED-WHSL	Friedman
5020	FURNITURE & HOME FURNISH-WHSL	Friedman
5021	FURNITURE-WHOLESALE	Friedman
5023	HOME FURNISHINGS-WHOLESALE	Friedman
5030	LUMBER AND CONSTRUCTION MATL-WHSL	Friedman
5031	LUMBER, PLYWD, MILL WORK-WHSL	Friedman
5032	BRICK, REL CONSTR MATL-WHSL	Friedman
5033	ROOFING & SIDING-WHOLESALE	Friedman
5039	CONSTRUCTION MATL-WHSL, NEC	Friedman
5040	PROF & C. EQ & SUPPLY-WHSL	Friedman
5043	PHOTOGRAPHIC EQ, SUPPLY-WHSL	Friedman
5044	OFFICE EQUIPMENT-WHOLESALE	Friedman
5045	COMPUTERS & SOFTWARE-WHSL	Friedman
5046	COMMERCIAL EQUIP-WHSL, NEC	Friedman
5047	MEDICAL EQUIP EQ-WHSL	Friedman
5048	PHARMACEUTICALS-WHOLESALE	Friedman
5050	PRECIOUS METALS & SUPPLY-WHSL, NEC	Friedman
5051	METALS, MINERALS, EX PETE-WHSL	Friedman
5052	METALS SERVICE CENTERS-WHSL	Friedman
5053	NONFERROUS METALS, ORES-WHSL	Friedman
5060	ELECTRICAL GOODS-WHOLESALE	Friedman
5063	ELEC APPARATUS & EQUIP-WHSL	Friedman
5065	ELEC APPLIANCE, TV, RADIO-WHSL	Friedman
5069	ELECTRONIC PARTS, EQ-WHSL, NEC	Friedman
5070	HARDWR, PLUMB, HEAT EQ-WHSL	Friedman
5072	HARDWARE-WHOLESALE	Friedman
5074	PLUMB, HEAT EQ-HYDRONICS-WHSL	Friedman
5075	AIR HEAT & CONDITION EQ-WHSL	Friedman
5078	REFRIGERATION EQ & SUPP-WHSL	Friedman
5080	MACHINERY AND EQUIPMENT-WHSL	Schindler
5082	CONSTR, MNG (EX PETE) EQ-WHSL	Schindler
5083	FARM & GARDEN MACH & EQ-WHSL	Schindler
5084	INDUSTRIAL MACH & EQ-WHSL	Schindler
5085	INDUSTRIAL SUPPLIES-WHSL	Schindler
5087	SERVICE EST EQ, SUPPLIES-WHSL	Schindler
5088	TRANS, EQ, EX MOTOR VEH-WHSL	Schindler
5090	MISC DURABLE GOODS-WHSL	Schindler
5091	SPORTING & REC GOODS-WHSL	Mehta
5092	TOYS, HOBBY GDS & SUPPLY-WHSL	Schindler
5093	SCRAP & WASTE MATERIALS-WHSL	Schindler
5094	JEWELRY & WATCHES-WHSL	Mehta
5099	DURABLE GOODS-WHOLESALE, NEC	Schindler
5100	NONDURABLE GOODS-WHOLESALE	Schindler

SIC CODE	Industry	Analyst
5110	PAPER & PAPER PRODUCTS-WHSL	Mehta
5111	PRINTING, WRITING PAPER-WHSL	Schindler
5112	STATIONERY OFFICE SUPPLY-WHSL	Mehta
5113	INDL & PERS SERV PAPER-WHSL	Mehta
5120, 22	DRUGS AND PROPRIETARY-WHSL	Schindler
5130	APPAREL, PIECE GDS, NOTNS-WHSL	Schindler
5131	PIECE GDS & NOTIONS-WHSL	Schindler
5136	MEN'S & BOYS' CLOTHING-WHSL	Schindler
5137	WOMEN, CHILD, INFANT CLOTH-WHSL	Schindler
5139	FOOTWEAR-WHOLESALE	Schindler
5140-5159 – Wholesale Foods		
5140	GROCERIES & RELATED PDS-WHSL	Ding
5141	GROCERIES, GENERAL LINE-WHSL	Ding
5142	PACKAGED FROZEN FOODS-WHSL	Ding
5143	DAIRY PDS, EX DRY, CAN-WHSL	Ding
5144	POULTRY & POULTRY PRODS-WHSL	Ding
5145	CONFECTIONERY-WHOLESALE	Ding
5146	FISH AND SEAFOODS-WHOLESALE	Ding
5147	MEATS AND MEAT PRODUCTS-WHSL	Ding
5148	FRESH FRUIT & VEGETABLE-WHSL	Ding
5149	GROCERIES & RELATED-WHSL, NEC	Ding
5150	FARM-PRODUCT RAW MATL-WHSL	Ding
5153	GRAIN AND FIELD BEANS-WHSL	Ding
5154	LIVESTOCK-WHOLESALE	Ding
5159	FARM-PROD RAW MATL-WHSL, NEC	Ding
5160-5172 – Chemicals & Allied Products, Wholesale		
5160	CHEMICALS & ALLIED PDS-WHSL	Anno
5162	PLASTICS MATERIALS-WHOLESALE	Anno
5169	CHEMS, ALLIED PDS-WHSL, NEC	Anno
5170	PETROLEUM AND PETE PDS-WHSL	Anno
5171	PETROLEUM BULK STATIONS-WHSL	Anno
5172	PETROLEUM, EX BULK STATN-WHSL	Anno
5180-5632 – Miscellaneous Retail		
5180	BEER, WINE, ALCOHOLIC BEV-WHSL	Ding
5181	BEER AND ALE-WHOLESALE	Ding
5182	WINE & ALCOHOLIC BEV-WHSL	Ding
5190	MISC NONDURABLE GOODS-WHSL	Ding
5191	FARM SUPPLIES-WHOLESALE	Ding
5192	BOOKS & NEWSPAPERS-WHOLESALE	Ding
5193	FLOWERS, FLORIST SUPPLY-WHSL	Ding
5194	TOBACCO AND TOBACCO PDS-WHSL	Ding
5198	PAINT, VARNISH, SUPPLIES-WHSL	Ding
5199	NONDURABLE GOODS-WHSL, NEC	Ding
5200	BLDG MATL, HARDWR, GARDEN-RETL	Ding
5210-11	LUMBER & OTH BLDG MATL-RETL	Ding
5230-31	PAINT, GLASS, WALLPAPER STORES	Ding
5250-51	HARDWARE STORES	Ding
5260-61	NURSERIES, LAWN, GARDEN STORES	Ding
5270-71	MOBILE HOME DEALERS	Ding
5300	GENERAL MERCHANDISE STORES	Ding
5310-11	DEPARTMENT STORES	Ding
5330-31	VARIETY STORES	Ding
5390, 99	MISC GENERAL MDSE STORES	Ding
5400	FOOD STORES	Ding
5410-11	GROCERY STORES	Driscoll
5412	CONVENIENCE STORES	Driscoll
5420-21	MEAT, FISH, MEAT INCL, POVISIONS	Driscoll

SIC CODE	Industry	Analyst
5430-31	FRUIT AND VEGETABLE MARKETS	Driscoll
5440-41	CANDY, NUT, CONFECTIONRY STORES	Driscoll
5450-51	DAIRY PRODUCTS STORES	Driscoll
5460-61	BAKERIES-RETAIL	Driscoll
5490, 99	MISCELLANEOUS FOOD STORES	Driscoll
5500	AUTO DEALERS, GAS STATIONS	Johnson
5510-11	MOTOR VEH DEALERS (NEW, USED)	Johnson
5520-21	MOTOR VEH DEALER (USED ONLY)	Johnson
5530-31	AUTO AND HOME SUPPLY STORES	Johnson
5540-41	GASOLINE SERVICE STATIONS	Johnson
5550-51	BOAT DEALERS	Johnson
5560-61	RECREATIONAL VEHICLE DEALERS	Johnson
5570-71	MOTORCYCLE DEALERS	Johnson
5590-98	AUTOMOTIVE DEALERS, NEC	Johnson
5599-	APPAREL AND ACCESSORY STORES	Ding
5600		
5610-11	MEN'S, BOYS' CLOTHING STORES	Ding
5620-21	WOMEN'S CLOTHING STORES	Ding
5630, 32	WOMEN'S ACCESSORY, SPECIAL STORES	Ding
5650-51	FAMILY CLOTHING STORES	Driscoll
5660-61	SHOE STORES	Johnson
5690, 99	MISC APPAREL, ACCESSORY STORES	Johnson
5700, 10	HOME FURNITURE & EQUIP STORES	Johnson
5712	FURNITURE STORES	Johnson
5713	FLOOR COVERING STORES	Johnson
5714	DRAPERY, CURTAIN, UPHOLSTERY STORES	Johnson
5719	MISC HOME FURNISHINGS STORES	Johnson
5720, 22	HOUSEHOLD APPLIANCE STORES	Johnson
5730	RADIO, TV, AND MUSIC STORES	Johnson
5731	RADIO, TV, CONSUMER ELECTRONICS STORES	Johnson
5734	COMPUTER AND COMPUTER SOFTWARE STORES	Johnson
5735	RECORD AND TAPE STORES	Johnson
5736	MUSICAL INSTRUMENT STORES	Johnson
5800, 10	EATING AND DRINKING PLACES	Driscoll
5812	EATING PLACES	Driscoll
5813	DRINKING PLACES (ALCOHOLIC)	Driscoll
5900	MISCELLANEOUS RETAIL	Ding
5910, 11	DRUGS & PROPRIETARY STORES	Ding
5920, 21	LIQUOR STORES	Ding
5930, 32	USED MERCHANDISE STORES	Ding
5940	MISC SHOPPING GOODS STORES	Ding
5941	SPORT GOODS STORES, BIKE SHOPS	Ding
5942	BOOK STORES	Ding
5943	STATIONERY STORES	Ding
5944	JEWELRY STORES	Ding
5945	HOBBY, TOY, AND GAME SHOPS	Ding
5946	CAMERA & PHOTO SUPPLY STORES	Ding
5947	GIFT, NOVELTY, SOUVENIR SHOPS	Ding
5948	LUGGAGE, LEATHER GOODS STORES	Ding
5949	SEWING, NEEDLEWORK STORES	Ding
5960	NONSTORE RETAILERS	Ding
5961	CATALOG, MAIL-ORDER HOUSES	Ding
5962	AUTO MDSSE MACH OPERATORS	Ding
5963	DIRECT SELLING ESTABLISHMENT	Ding
5980	FUEL DEALERS	Ding
5983	FUEL OIL DEALERS	Ding
5984	LIQUEFIED PETE GAS DEALERS	Ding
5989	FUEL DEALERS, NEC	Ding

SIC CODE	Industry	Analyst
5990	RETAIL STORES, NEC	Ding
5992	FLORISTS	Ding
5993	TOBACCO STORES AND STANDS	Ding
5994	NEWS DEALERS AND NEWSSTANDS	Ding
5995	OPTICAL GOODS STORES	Ding
5999	MISC RETAIL STORES, NEC	Ding
6000-6199 – Banks/Credit Institutions		
6000	DEPOSITORY INSTITUTIONS	Kennedy
6010	CENTRAL RESERVE DEPOSIT INST	Kennedy
6011	FEDERAL RESERVE BANKS	Kennedy
6019	CENT RESV DEPOSTRY INSTN,NEC	Kennedy
6020	COMMERCIAL BANKS	Kennedy
6021	NATIONAL COMMERCIAL BANKS	Kennedy
6022	STATE COMMERCIAL BANKS	Kennedy
6029	COMMERCIAL BANKS, NEC	Kennedy
6030	SAVINGS INSTITUTIONS	Kennedy
6035	SAVINGS INSTN,FED CHARTERED	Kennedy
6036	SAVINGS INSTN, NOT FED CHART	Kennedy
6060	CREDIT UNIONS	Kennedy
6061	CREDIT UNIONS, FED CHARTERED	Kennedy
6062	CREDIT UNIONS,NOT FED CHART	Kennedy
6080	FRN BANKS,BRANCHES,AGENCIES	Kennedy
6081	BRANCHES,AGENCIES-FRN BANKS	Kennedy
6082	FRN TRADE & INTL BANKING	Kennedy
6090	FUNCTIONS REL TO DEP BANKING	Kennedy
6091	NONDEPOSIT TRUST FACILITIES	Kennedy
6099	FUNCTIONS REL TO DEP BKG,NEC	Kennedy
6100	NONDEPOSITORY CREDIT INSTN	Cosentino
6110-11	FEDERAL CREDIT AGENCIES	Cosentino
6140, 41	PERSONAL CREDIT INSTITUTIONS	Cosentino
6150	BUSINESS CREDIT INSTITUTIONS	Cosentino
6153	SHORT-TERM BUS CREDIT, EX AG	Cosentino
6159	MISC BUSINESS CREDIT INSTN	Cosentino
6160	MORTGAGE BANKERS AND BROKERS	Cosentino
6162	MORTGAGE BANKERS & LOAN CORR	Cosentino
6163	LOAN BROKERS	Cosentino
6172	FINANCE LESSORS	Cosentino
6199	FINANCE SERVICES	Meyers
6200-6289 – Security & Commodity Brokers/Dealers		
6200	SECURITY & COMMODITY BROKERS	Cosentino
6210-11	SECURITY BROKERS & DEALERS	Cosentino
6220-21	COMMODITY BROKERS & DEALERS	Cosentino
6230-31	SECURITY,COMMODITY EXCHANGES	Cosentino
6280	SVCS ALLIED WITH EXCHANGES	Cosentino
6282	INVESTMENT ADVICE	Cosentino
6289	SVCS ALLIED W/EXCHANGES, NEC	Cosentino
6300-6411 – Insurance Carriers		
6300	INSURANCE CARRIERS	Meyers
6310-11	LIFE INSURANCE	Meyers
6320	ACCIDENT,HEALTH INS,MEBERSH	Meyers
6321	ACCIDENT & HEALTH INSURANCE	Meyers
6324	HOSPITAL & MEDICAL SVCS	Meyers
6330-31	FIRE, MARINE, CASUALTY INS	Meyers
6350-51	SURETY INSURANCE	Meyers

SIC CODE	Industry	Analyst
6360-61	TITLE INSURANCE	Meyers
6370-71	PENSION,HEALTH,WELFARE FUNDS	Meyers
6390, 98	INSURANCE CARRIERS, NEC	VanBuskirk
6399	INSURANCE CARRIERS, NEC	VanBuskirk
6400-10	INS AGENTS,BROKERS & SERVICE	VanBuskirk
6411	INS AGENTS,BROKERS & SERVICE	VanBuskirk
6500-6553 – Real Estate		
6500	REAL ESTATE	Meyers
6510	REAL ESTATE OPERATORS,LESSOR	Meyers
6512	OPERATORS-NONRES BLDGS	Meyers
6513	OPERATORS-APARTMENT BLDGS	Meyers
6514	OPERATORS-OTHER THAN APARTMT	Zhu
6515-17	OPERATORS-RES MOBILE HOME	Meyers
6517	LESSORS OF RAILROAD PROPERTY	Meyers
6519	CREDIT TENANT LOAN	Driscoll
6530-31	REAL ESTATE AGENTS & MGRS	Meyers
6532	REAL ESTATE DEALERS	Meyers
6540-41	TITLE ABSTRACT OFFICES	Meyers
6550	LAND SUBDIVIDERS, DEVELOPERS	Meyers
6552	SUBDIVIDE, DEV, EX CEMETERY	Meyers
6553	CEMETERY SUBDIVID,DEVELOPERS	Meyers
6700-6799 – Holdings & Investments Offices		
6700	HOLDING,OTHER INVEST OFFICES	Evans
6710	HOLDING OFFICES	Evans
6712	OFFICES-BANK HOLDING COMPANY	Evans
6719	OFFICES-HOLDNG COMPANIES,NEC	Evans
6720	INVESTMENT OFFICES	Evans
6722	MGMT INVT OFFICES, OPEN-END	Evans
6726	UNIT INV, CLOSED-END MGMT	Cosentino
6730	TRUSTS	Cosentino
6732	EDL,BANK HOUSE,COMMON TRUSTS	Cosentino
6733	TRUST,EX FOR RELIGIOUS,CHARTY	Cosentino
6790	MISC INVESTMENT OFFICES	Meyers
6792	OIL ROYALTY TRADERS	Cosentino
6795	PATENT OWNERS AND LESSORS	Cosentino
6795	MINERAL ROYALTY TRADERS	Cosentino
6798	FEIT	Meyers
6799	INVESTORS, NEC	Meyers
6800-6830 – ABS		
6800	ABS	Driscoll
6810	ABS	Driscoll
6820	ABS	Driscoll
6830	ABS	Driscoll
7000-7033 – Hotels and Motels		
7000	HOTELS, OTHER LODGING PLACES	Nelson
7010-11	HOTELS AND MOTELS	Nelson
7020-21	ROOMING AND BOARDING HOUSES	Nelson
7030	CAMPS AND REC VEHICLE PARKS	Nelson
7032	SPORTING & RECREATION CAMPS	Nelson
7033	REC VEHICLE PARKS, CAMPSITES	Nelson
7040-41	MEMBERSHIP HOTELS & LODGING	Nelson
7200-7299 – Personal Services		

SIC CODE	Industry	Analyst
7200	PERSONAL SERVICES	Ding
7210	LAUNDRY, CLEANING, GARMENT SVC	Ding
7211	POWER LAUNDRY, FAMILY & COMM	Ding
7212	GARMENT PRESSING & AGENTS	Ding
7213	LINEN SUPPLY	Ding
7215	COIN-OP LAUNDRY, DRYCLEANING	Ding
7216	DRYCLEANING PLANTS, EX RUGS	Ding
7217	CARPET, UPHOLSTERY CLEANING	Ding
7218	INDUSTRIAL LAUNDERERS	Ding
7219	LAUNDRY & GARMENT SVCS, NEC	Ding
7220-21	PHOTO STUDIOS, PORTRAIT	Ding
7230-31	BEAUTY SHOPS	Ding
7240-41	BARBER SHOPS	Ding
7250-51	SHOE REPAIR, SHOESHINE SHOPS	Ding
7260-61	FUNERAL SERVICE, CREMATORIES	Ding
7290	MISC PERSONAL SERVICES	Ding
7291	TAX RETURN PREPARATION SVCS	Ding
7299	MISC PERSONAL SERVICES, NEC	Ding
7300-7389 – Business Services & Advertising		
7300	BUSINESS SERVICES	Cosentino
7310	ADVERTISING	Cosentino
7311	ADVERTISING AGENCIES	Cosentino
7312	OUTDOOR ADVERTISING SERVICES	Cosentino
7313	RADIO, TV ADVERTISING REPS	Cosentino
7319	ADVERTISING, NEC	Cosentino
7320	CREDIT REPORTING AGENCIES	Lee
7322	ADJUSTMENT & COLLECTION SVCS	Messer
7323	CREDIT REPORTING SERVICES	Messer
7330	MAILING, REPRO, COMM ART SVCS	Messer
7331	DIRECT MAIL ADVERTISING SVCS	Lee
7334	PHOTOCOPYING, DUPLICATING SVC	Lee
7335	COMMERCIAL PHOTOGRAPHY	Lee
7336	COMM ART & GRAPHIC DESIGN	Lee
7338	SECRETARIAL, COURT REPORT SVC	Lee
7340	SVCS TO DWELLINGS, OTH BLDGS	Lee
7342	DISINFECTING, PEST CONTROL SV	Lee
7349	BLDG CLEAN & MAINT SVC, NEC	Lee
7350	MISC EQUIP RENTAL & LEASING	Messer
7352	MEDICAL EQ RENTAL & LEASING	Messer
7353	HEAVY CONSTR EQ RENTAL, LEASE	Lee
7359	EQUIP RENTAL & LEASING, NEC	Van Buskirk
7360	PERSONNEL SUPPLY SERVICES	Lee
7361	EMPLOYMENT AGENCIES	Lee
7363	HELP SUPPLY SERVICES	Lee
7370	CMP PROGRAMMING, DATA PROCESS	Nolan
7371	COMPUTER PROGRAMMING SERVICE	Nolan
7372	PREPACKAGED SOFTWARE	Nolan
7373	CMP INTEGRATED SYS DESIGN	Nolan
7374	CMP PROCESSING, DATA PREP SVC	Zhu
7375	INFORMATION RETRIEVAL SVCS	Nolan
7376	CMP FACILITIES MGMT SERVICE	Nolan
7377	COMPUTER RENTAL AND LEASING	Nolan
7378	CMP MAINTENANCE AND REPAIR	Nolan
7379	COMPUTER RELATED SVCS, NEC	Nolan
7380	MISC BUSINESS SERVICES	Lee
7381	DETECT, GUARD, ARMOR, CAR SVCS	Lee

SIC CODE	Industry	Analyst
7382	SECURITY SYSTEMS SERVICE	Lee
7383	NEWS SYNDICATES	Lee
7384	PHOTOFINISHING LABORATORIES	Lee
7385	TELEPHONE INTERCONNECT SYS	Lee
7389	BUSINESS SERVICES, NEC	Lee
7500-7549 – Auto Repair Services		
7500	AUTO REPAIR, SERVICES, PARKING	Schindler
7510	AUTO RENT & LEASE, NO DRIVERS	Schindler
7513	TRUCK RENT & LEASE, NO DRIVER	Schindler
7514-15	PASSENGER CAR RENTAL	Schindler
7515	PASSENGER CAR LEASING	Schindler
7519	UTIL TRAILER, REC VEH RENTAL	Schindler
7520-21	AUTOMOBILE PARKING	Schindler
7530	AUTOMOTIVE REPAIR SHOPS	Schindler
7532	BODY REPAIR AND PAINT SHOPS	Schindler
7533	AUTO EXHAUST SYS REPAIR SHOP	Schindler
7534	TIRE RETREAD & REPAIR SHOPS	Schindler
7536	AUTO GLASS REPLACEMENT SHOPS	Schindler
7537	AUTO TRANSMISSION REPAIR SHOPS	Schindler
7538	GEN AUTOMOTIVE REPAIR SHOPS	Schindler
7539	AUTOMOTIVE REPAIR SHOPS, NEC	Schindler
7540	AUTOMOTIVE SVCS, EX REPAIR	Schindler
7542	CARWASHES	Schindler
7549	AUTO SVCS, EX REPAIR, CARWASH	Schindler
7600-7699 – Miscellaneous Repair Services		
7600	MISC REPAIR SERVICE	Anno
7620	ELECTRICAL REPAIR SHOPS	Anno
7622	RADIO & TV REPAIR SHOPS	Anno
7623	REFRIG, AIR COND SVCS & REPAIR	Anno
7629	ELEC, ELECT REPAIR SHOPS, NEC	Anno
7630-31	WATCH, CLOCK & JEWELRY REPAIR	Anno
7640-41	REUPHOLSTER, FURNITURE REPAIR	Anno
7690	MISC REPAIR SHOPS & REL SVCS	Anno
7692	WELDING REPAIR	Anno
7694	AMMATURE REWINDING SHOPS	Anno
7699	REPAIR SHOP, RELATED SVCS, NEC	Anno
7800-7833 – Motion Pictures		
7800	MOTION PICTURES	Cosentino
7810	MOTION PICTURE PRODTN, SVCS	Cosentino
7812	MOTION PIC, VIDEOTAPE PRODTN	Cosentino
7819	SVC TO MOTION PICTURE PRODTN	Cosentino
7820	MOTION PICTURE DISTR & SVCS	Cosentino
7822	MOTION PICT, VIDEOTAPE DISTR	Cosentino
7829	SVCS TO MOTION PICTURE DISTR	Cosentino
7830	MOTION PICTURE THEATERS	Cosentino
7832	THEATERS, EX DRIVE-IN	Cosentino
7833	DRIVE-IN THEATERS	Cosentino
7841	VIDEO TAPE RENTALS	Cosentino
7900-7999 – Amusement/Recreation Services		
7900	AMUSEMENT & RECREATION SVCS	Nolan
7910-11	DANCE STUDIOS, SCHOOLS, HALLS	Nolan
7920	THEATRICAL, BANDS, ENTERTAINRS	Nolan
7922	THEATRICAL PRODUCERS & SVCS	Nolan
7929	BANDS, ORCHESTRAS, ACTORS	Nolan

SIC CODE	Industry	Analyst
7930, 33	BOWLING CENTERS	Nolan
7940	COMMERCIAL SPORTS	Nolan
7941	PROF SPORTS CLUBS, PROMOTERS	Nolan
7948	RACING,INCL TRACK OPERATIONS	Nolan
7990	MISC AMUSEMENT & REC SERVICE	Nolan
7991	PHYSICAL FITNESS FACILITIES	Nolan
7992	PUBLIC GOLF COURSES	Nolan
7993	COIN-OP AMUSEMENT DEVICES	Nolan
7996	AMUSEMENT PARKS	Nolan
7997	MEMBERSHIP SPORT & REC CLUBS	Nolan
7999	AMUSEMENT & REC SVCS, NEC	Nolan
8000-8422 – Health Services		
8000	HEALTH SERVICES	Kalinowski
8010-11	OFFICES OF MEDICAL DOCTORS	Kalinowski
8020-21	OFFICES AND CLINICS-DENTISTS	Kalinowski
8030-31	OFFICES-OSTEOPATHIC DOCTORS	Cosentino
8040	OTHER HEALTH CARE PRACTITIONERS	Cosentino
8041	OFFICES OF CHIROPRACTORS	Cosentino
8042	OFFICES OF OPTOMETRISTS	Kalinowski
8043	OFFICES OF PODIATRISTS	Cosentino
8049	HEALTH PRACTITIONERS, NEC	Kalinowski
8050	NURSING & PERSONAL CARE FAC	Kalinowski
8051	SKILLED NURSING CARE FAC	Kalinowski
8052	INTERMEDIATE CARE FACILITIES	Kalinowski
8059	NURSNG,PERSONAL CARE FAC,NEC	Kalinowski
8060	HOSPITALS	Zhu
8062	GEN MED & SURGICAL HOSPITALS	Zhu
8063	PSYCHIATRIC HOSPITALS	Cosentino
8069	SPECIALTY HOSP,EX PSYCHIATRC	Zhu
8070	MEDICAL AND DENTAL LABS	Cosentino
8071	MEDICAL LABORATORIES	Cosentino
8072	DENTAL LABORATORIES	Cosentino
8080, 82	HOME HEALTH CARE SERVICES	Cosentino
8090	MISC HEALTH & ALLIED SVC,NEC	Cosentino
8092	KIDNEY DIALYSIS CENTERS	Cosentino
8093	SPEC OUTPATIENT FACILITY,NEC	Cosentino
8099	HEALTH & ALLIED SERVICES,NEC	Zhu
8100, 10-11	LEGAL SERVICES	Schindler
8200	EDUCATIONAL SERVICES	Rosefort
8210-11	ELEMENTARY,SECONDARY SCHOOLS	Rosefort
8220	COLLEGES,UNIV & JR COLLEGES	Schindler
8221	COLLEGES,UNIV & PROF SCHOOLS	Schindler
8222	JR COLLEGES, TECH INSTITUTES	Schindler
8230-31	LIBRARIES	Rosefort
8240	VOCATIONAL SCHOOLS	Rosefort
8243	DATA PROCESSING SCHOOLS	Rosefort
8244	BUSINESS,SECRETARIAL SCHOOLS	Rosefort
8249	VOCATIONAL SCHOOLS, NEC	Rosefort
8290, 99	SCHOOLS & EDUCATION SVCS,NEC	Rosefort
8300	SOCIAL SERVICES	Johnson
8320, 22	INDIVIDUAL,FAMILY SOCIAL SVC	Johnson
8330-31	JOB TRAINING, VOC REHAB SVCS	Johnson
8350-51	CHILD DAY CARE SERVICES	Johnson
8360-61	RESIDENTIAL CARE	Johnson

SIC CODE	Industry	Analyst
8390, 99	SOCIAL SERVICES, NEC	Johnson
8400	MUSEUM,GALLERY,BOTANIC GARDN	Johnson
8410, 12	MUSEUMS AND ART GALLERIES	Johnson
8420, 22	ARBORETA,BOTANIC,ZOO GARDENS	Johnson
8600-8699 – Membership Organizations		
8600	MEMBERSHIP ORGANIZATIONS	Johnson
8610-11	BUSINESS ASSOCIATIONS	Johnson
8620-21	PROF MEMBERSHIP ORGANIZATION	Johnson
8630-31	LABOR UNIONS & SIMILAR ORGS	Johnson
8640-41	CIVIC,SOCIAL,FRATERNAL ASSOC	Johnson
8650-51	POLITICAL ORGANIZATIONS	Johnson
8660-61	RELIGIOUS ORGANIZATIONS	Johnson
8690, 99	MEMBERSHIP ORGANIZATIONS,NEC	Johnson
8700-8748 – Miscellaneous Consulting Services		
8700	ENGR,ACC,RESH,MGMT,REL SVCS	Messer
8710	ENGR, ARCHITECT, SURVEY SVCS	Messer
8711	ENGINEERING SERVICES	Messer
8712	ARCHITECTURAL SERVICES	Messer
8713	SURVEYING SERVICES	Messer
8720-21	ACCOUNT,AUDIT,BOOKKEEP SVCS	Messer
8730	RESH,DEVELOPMENT,TESTING SVC	Anno
8731	COML PHYSICAL, BIOLOGCL RESH	Anno
8732	COML ECON, SOCIOLOG, ED RESH	Anno
8733	NONCOMML RESH ORGANIZATIONS	Anno
8734	TESTING LABORATORIES	Anno
8740	MGMT & PUBLIC RELATIONS SVCS	Anno
8741	MANAGEMENT SERVICES	Anno
8742	MANAGEMENT CONSULTING SVCS	Anno
8743	PUBLIC RELATIONS SERVICES	Anno
8744	FACILITIES SUPPORT MGMT SVCS	Anno
8748	BUSINESS CONSULTING SVCS,NEC	Anno
8800-8999 – Private Households & NEC Services		
8800	PRIVATE HOUSEHOLDS	Anno
8810	PRIVATE HOUSEHOLDS	Anno
8811	PRIVATE HOUSEHOLDS	Anno
8900	SERVICES, NEC	Friedman
8990	SERVICES, NEC	Friedman
8999	SERVICES, NEC	Friedman
9100-9700 – US Government & Municipals		
9100	DIRECT US OBLIGATIONS	Rosefort
9300	MUNICIPAL	Rosefort
9320	MUNICIPAL	Rosefort
9330	MUNICIPAL	Rosefort
9340	MUNICIPAL	Rosefort
9350	MUNICIPAL	Rosefort
9700	INDIRECT US OBLIGATIONS	Rosefort
9730-9800 – Foreign Government & Supranational Entities		
9730	FOREIGN GOVERNMENTS	Rosefort
9800	SUPER NATIONAL ORGANIZATIONS	Rosefort
9900-9999 – Non-Classifiable Establishments		
9900	NONCLASSIFIABLE ESTABLISHMNT	Friedman

SIC CODE	Industry	Analyst
9990	NONCLASSIFIABLE ESTABLISHMNT	Friedman
9995	NON-OPERATING ESTABLISHMENTS	Friedman
9997	CONGLOMERATES (GV ONLY)	Friedman

SIC CODE	Industry	Analyst
9998	MISCELLANEOUS (GV ONLY)	Friedman
9999	NONCLASSIFIABLE ESTABLISHMNT	Friedman

Not for Distribution

PART THREE

CREDIT ASSESSMENT

SECTION 1. CORPORATE BONDS

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 context of the analysis requires a different approach.

(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.

(ii) Financial Analysis

(A) *Audited Financial Statement Required*

As a first step in the independent assessment, the analyst shall conduct an independent financial analysis of the issuer based on the financial information presented in the Audited Financial Statement, as defined in this Manual.

The SVO shall base its financial analysis on at least three years of historical audited financial information, and a minimum of one year of projected financial information (if available) when the issuer has an operating history of three years or more.

However, the SVO may assign an NAIC Designation based on less than three years of financial information in circumstances where the issuer's operating history is less than three years or because the issuer's legal identity has been subsumed as a result of a merger into a new entity or due to other documentable business circumstances.

Where three years of financial information is not available, the analyst shall review such information as is available, and shall determine if the time period for which information is available is sufficient to produce a professionally sound opinion.

(B) *Calculation of Ratios*

Financial analysis shall culminate in the calculation of such financial ratios as the analyst feels highlight appropriate aspects of the financial performance of the issuer that bear on its ability to meet the obligation owed to the insurance company.

(C) *Foreign Securities, Foreign Sovereign Government and Supranational Entities*

A reporting insurance company that owns a security issued by a foreign sovereign government, an agency or political subdivision of a foreign sovereign government or a supranational entity (entities with more than one sovereign government as a member), or that is guaranteed directly or indirectly by such an entity, must file such security with the SVO accompanied by a prospectus, investment committee memorandum and proof of rating from an NAIC CRP unless it is filing exempt as defined below.

Insurance companies shall not file issues with the SVO if the issuer does not have a sovereign rating from an NAIC CRP. If the issuer is not rated by an NAIC CRP, proof of a guarantee from an NAIC CRP-rated foreign sovereign government may be submitted.

Where a reporting insurance company has filed a foreign security accompanied by an Audited Financial Statement, in English, the SVO will assess the security in accordance with the applicable corporate methodology, but the NAIC Designation it may assign shall be limited by the sovereign rating of the issuer's country of origin. This section should not be read as prohibiting the presentation of transactions structured to eliminate foreign sovereign risk.

(1) The insurance company must file all foreign securities for which the information required by this Manual is available. For those foreign securities held by a "Sub-paragraph D Company" as defined below, where the required information is not available for the SVO to value the security, the NAIC Designation may be determined by the reporting insurance company. The determination shall carry an **F** suffix. In no case shall the NAIC Designation exceed the sovereign rating of the issuer's country of origin. The company shall provide its domestic regulator with a description of the procedure it used to evaluate and assign ratings to these foreign securities. In addition, the company shall retain the documentation supporting each designation assigned by it until the next domestic insurance department examination.

(2) "Sub-paragraph D Company" is defined as a domestic insurer which is holding foreign securities in support of its foreign liabilities and where the U.S. gross premiums of the company are no more than 20% of its gross worldwide premiums or the amount of the company's gross reserves and other liabilities under contracts of insurance (for life insurers gross reserves and other liabilities shall be actuarial reserves and policyholder liabilities currently reported on

page 3, lines 1 – 11 of the NAIC Financial Statement Blank, grossed up for reinsurance ceded; for property and casualty insurers gross reserves and other liabilities shall be loss reserves, loss adjustment expense reserves and unearned premium reserves reported on page 3, lines 1, 2 and 9 of the NAIC Financial Statement Blank, grossed up for reinsurance ceded) on lives or risks resident or located in the U.S. are no more than 20% of its total gross reserves and other liabilities under contracts of insurance as reported on the company's last NAIC Financial Statement Blank.

The insurer must also maintain a trust fund in a qualified U.S. financial institution for the payment of the valid claims of its U.S. policyholders, their assigns and successors in interest. The trust shall consist of a trustee account representing 103% of the company's gross reserves and other liabilities under contracts of insurance on lives or risks resident or located in the U.S. The assets of the trust shall maintain an NAIC Designation as assigned by the SVO and be valued at admitted values carried in the insurer's NAIC Financial Statement Blank. Such trust shall be established in a form approved by the insurer's domestic commissioner of insurance. The trust instrument shall provide that contested claims shall be valid and enforceable upon the final order of any court of competent jurisdiction in the U.S. and shall allow the right of substitution without diminution. The trust shall be subject to examination as determined by the insurer's domestic commissioner and the assets of the trust shall be reported in the insurer's NAIC Financial Statement Blank special deposit schedule. The trust shall remain in effect for as long as the insurer shall qualify as a "Sub-paragraph D Company" and have outstanding obligations under contracts of insurance on lives or risks resident or located in the U.S.

If a Company which previously qualified as a "Sub-paragraph D Company" no longer qualifies, any foreign securities held by such company which are not assigned an NAIC Designation by the SVO shall be assigned an NAIC Designation in accordance with the procedure set forth in subparagraph (B) above. These securities shall be reported by the company with a "Z" suffix for the reporting year and shall comply with the provisions of subparagraph (B) for subsequent reporting years.

(D) *Parent-Subsidiary Situations*

In the case of transactions involving a parent holding company with an Audited Financial Statement and an issuing subsidiary without a separate Audited Financial Statement, the SVO may use the financial statements of the parent holding company as if they were prepared for the issuing subsidiary when the consolidating work papers relating to the issuing subsidiary are provided or when the operations of the parent: (i) are limited solely to owning the issuing subsidiary; and (ii) the issuing subsidiary constitutes at least 97% of the parent's pre-tax income and assets on a consolidated basis.

(iii) Qualitative Analysis: Senior Unsecured Credit

Interpretation of the financial ratios obtained in the preceding section will be conducted in the context of the particular facts of the issuer and its industry. Issuer and industry analysis shall reflect issuer and industry response to competitive and general economic developments, including industry and issuer growth trends, issuer market position, competitive environment, pricing flexibility, issuer's labor and supply sources, regulatory considerations, quality of management, relevance of special accounting practices applicable to the industry and any other factor that may bear on an assessment of the level of risk associated with the issuer's ability to meet its obligation to the reporting insurance company. This review shall culminate in a preliminary determination of the issuer's senior unsecured credit quality.

(iv) Terms of the Security; Final Designation

Before determining a final NAIC Designation, the analyst shall consider: (i) the position of the security in the issuer's capital structure (the NAIC Designation may be scaled up or down based on the security's relationship to the issuer's senior unsecured debt in the capital structure); (ii) the sufficiency of the legal documentation; and (iii) the terms of the security such as:

- (A) Covenants;
- (B) Structure;
- (C) Collateral;
- (D) Third-party financial support or other credit enhancements; and
- (E) Any other credit-related factor specific to the security under review.

b) 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 k\) of this Manual](#) for a discussion of the compilation process. SVO staff then applies the procedures discussed in subsection (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+. The AVS+ contains the official NAIC Designations for any given security. Issuers use the information in AVS+ 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+ 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, 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 cannot provide a copy of the rating letter to the SVO due to confidentiality concerns and 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 in scope of *SC 4D No. 43R—Loan-Backed and Structured Securities* for which a Modified Filing Exempt matrix is prescribed for purposes of determining capital requirements.

(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 5GI** 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 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 k) of this Manual for a discussion of the compilation process.

(H) *Producing NAIC Designations for PL Securities*

The 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 (i). 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) (i) 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 subparagraphs (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;

The 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 2(a) of this Part or assign an **NAIC 5GI** Regulatory Designation to the security in the related Interrogatory.

An **NAIC 5PLGI** designation may also be used in connection with the designation of PL securities rated by an NAIC CRP (i.e., for PL 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.

(I) *Policy Consideration*

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 letter 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 letters 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 Three, Section 17 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 Three, Section 16 of this Manual](#).

(vi) List of NAIC CRPs

The CRPs that provide Credit Rating Services to the NAIC, either pursuant to the terms of [Part One, Section 4 of this Manual](#) or otherwise, are:

- [Moody's Investor Service](#) for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- [Standard and Poor's](#) for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

- Fitch Ratings for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Dominion Bond Rating Service (DBRS) for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- A.M. Best Company (A.M. Best) for credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- Morningstar Credit Ratings, LLC for credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of asset-backed securities.
- Kroll Bond Rating Agency for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Egan Jones Rating Company for credit ratings issued to financial institutions, brokers, or dealers; insurance companies and corporate issuers.
- HR Ratings de Mexico, S.A. de C.V. for credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of government securities, municipal securities, or securities issued by a foreign government.

Note 1: The information shown above for each NRSRO was obtained from the SEC's website www.sec.gov/ocr, on October 14, 2016, and confirmed against each NRSRO's annual FORM NRSRO certification; with the exception of the information for HR Ratings de Mexico, S.A. de C.V., which was revised February 15, 2018, on the basis of the Order Granting Registration ... for Two Additional Classes of Credit Ratings issued November 23, 2016.

Note 2: The credit rating providers identified above include those of its affiliates that the credit rating provider identified to the U.S. Securities and Exchange Commission (the “SEC”) as part of its Form NRSRO Application 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 Exchange Act and the SEC’s rules thereunder.

(vii) CRP Credit Rating Equivalent to NAIC Designations and to NAIC Designation Categories

Please note that the existence of a rating does not eliminate the requirement to file on SAR on any insurer-owned security not currently listed in the VOS manual unless exempted from filing as detailed in [Part Three, Section 1 b\) of this Manual](#).

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	1A	Aaa	AAA	AAApr, AAA	AAA, Pfd-1 (high), AA (high), Pfd-1	aaa	AAA	AAA	AAA	HR AAA (G)
1	B	1B	Aa1	AA+	AA+	AA	aa+	AA+	AA+	AA+	HR AA+ (G)
1	C	1C	Aa2	AA	AA	AA	aa	AA	AA	AA	HR AA (G)
1	D	1D	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	AA-	HR AA- (G)
1	E	1E	A1	A+	A+	A (high), Pfd-1	a+	A+	A+	A+	HR A+ (G)
1	F	1F	A2	A	A	A	a	A	A	A	HR A (G)
1	G	1G	A3	A-	A-	A (low), Pfd-2	a-	A-	A-	A-	HR A- (G)
2	A	2A	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high), BBB, Pfd-2	bbb+	BBB+	BBB+	BBB+	HR BBB+ (G)
2	B	2B	Baa2	BBB	BBB	BBB, Pfd-2	bbb	BBB	BBB	BBB	HR BBB (G)
2	C	2C	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	BBB-	HR BBB- (G)
3	A	3A	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	BB+	HR BB+ (G)
3	B	3B	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	BB	HR BB (G)
3	C	3C	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	BB-	HR BB- (G)
4	A	4A	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	B+	HR B+ (G)
4	B	4B	B2	B	B	B, Pfd-4	b	B	B	B	HR B (G)
4	C	4C	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	B-	HR B- (G)
5	A	5A	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	CCC+	HR C+ (G)
5	B	5B	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	CCC	HR C (G)
5	C	5C	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	CCC-	HR C- (G)
6	A	6A	Ca	CC	CC	CC (high)	c	CC	CC	CC	HR D (G)
6	B	6B	C	C	C	C	c	C	C	C	
6	C	6C	D	D	D	D (low)	d	D	D	D	
6	D	6D	E	E	E	E (high)	e	E	E	E	
6	E	6E	F	F	F	F (low)	f	F	F	F	
6	F	6F	G	G	G	G (high)	g	G	G	G	

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	NAIC Designation	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	HR Ratings de Mexico, S.A. de C.V.
1	2	3	4	5	6	Commercial Paper and Short Term Counterparty Ratings	Commercial Paper	Commercial Paper	Commercial Paper	Commercial Paper

- (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 Three, Section 18 of this Manual](#).

(B) *Split Ratings*

For filing exempt securities, the NAIC Designation assigned will be the NAIC Designation equivalent that results from the application of the filing exemption process described in Part Three of this Manual. This rule will also apply to replication transactions defined in [Part Four, Section 1 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.

SECTION 2. PREFERRED STOCK

a) Directive

The SVO is required to classify preferred stock as either perpetual or redeemable. Valuation Indicators show the classification decision of the SVO and are to be used by insurers to determine a SAP valuation method for preferred stock.

P means **perpetual** and is a valuation indicator used to classify a preferred stock as perpetual. The valuation indicator **P** means that the issuer of the preferred stock is not obligated to redeem the issue, the holder of the preferred stock does not have a right to put the preferred stock to the issuer or that there is no other equivalent right. The P valuation indicator is assigned for the purposes outlined in SSAP No. 32—Preferred Stock.

RP means **redeemable preferred** and is a valuation indicator that classifies a preferred stock as a redeemable preferred stock. This means that the issuer of the preferred stock is obligated to redeem the issue, the holder of the preferred stock has a right to put the preferred stock to the issuer or that there is some other equivalent right. The **RP** valuation indicator is assigned for the purposes outlined in SSAP No. 32—Preferred Stock.

(NOTE: The instruction in the paragraphs above will be deleted effective December 31, 2019.)

b) General Procedure for Credit Assessment and Classification of Preferred Stock

The following provisions apply to all preferred stock subject to notching to reflect its position in the issuer's capital structure pursuant to [Part One, Section 3 of this Manual](#).

(i) Preferred Stock Not Rated by NAIC CRP

(A) Determining an NAIC Designation

The analyst shall first ascertain the senior unsecured debt rating of the issuer by applying the credit assessment procedure for bonds specified in [Section 1 a\) of this Part](#). Once the issuer's senior unsecured NAIC Designation has been established, the analyst will adjust the associated NAIC Designation to reflect:

- (1) The position of the preferred stock in the capital structure of the issuer;

(2) A determination that the debt level in the issuer's capital structure would, or would not impede the ability of the issuer to pay interest or dividends to the preferred stock holder, and whether earnings are likely to be sufficient to pay such interest or dividends (whether or not the issuer is contractually obligated to make such payments); and

(3) Whether all preferred dividends have been paid or sinking fund requirements have been met for the last three years. If not, the analyst shall not assign an **NAIC 1**, **NAIC 2** or **NAIC 3** Designation to the preferred stock.

Once these adjustments have been considered, the analyst shall then determine and assign the most appropriate NAIC Designation to the preferred stock.

(B) Classification of Preferred Stock

The analyst shall review the terms and underlying characteristics of the security. If the issuer is required to redeem the security or the holder has an irrevocable put or the terms of the security contain another provision to the same effect, the security shall be eligible for an **RP** valuation indicator. If the security does not contain a mandatory redemption, an irrevocable put or another provision to the same effect, the security shall be eligible for a **P** valuation indicator. The final classification decision made by the SVO shall be influenced by the degree of synergy between different provisions or characteristics of a security, the regulatory objectives of the NAIC and the SVO's exercise of analytical discretion. The **RP** and **P** valuation indicators are assigned for the purposes outlined in *SSAP No. 32—Preferred Stocks*.

(NOTE: The instruction in this paragraph will be deleted effective December 31, 2019.)

(ii) Preferred Stock Rated by an NAIC CRP

(A) Determining an NAIC Designation

(1) Rated Preferred Issue

If the preferred stock is rated by an NAIC CRP, the SVO shall note the equivalent NAIC Designation for the issue and then apply the instructions outlined above. If necessary, the analyst shall adjust the NAIC Designation equivalent to the NAIC CRP rating as is appropriate. If no adjustment is deemed necessary to the NAIC Designation equivalent to the NAIC CRP rating, the analyst

shall assign the NAIC Designation equivalent to the NAIC CRP rating to the preferred stock as provided for in this Part Three.

(2) Issuer Rated, Preferred Issue Not Rated

The analyst may determine the issuer's senior unsecured designation by converting the rating assigned by the NAIC CRP to the issuer's outstanding debt into an equivalent NAIC Designation. Once the senior unsecured designation level has been established, the analyst may adjust the NAIC Designation associated with the issuer's senior unsecured designation level by applying the notching instructions outlined above to the unrated preferred stock. The analyst shall then determine the most appropriate NAIC Designation and apply the NAIC Designation to the preferred stock.

(3) Issuer Rated, With Other Preferred Stock Rated

The analyst may determine an NAIC Designation for an unrated preferred by comparing the unrated preferred stock with the outstanding rated preferred stock. The analyst will make such adjustments as are necessary to account for dissimilar features in the two securities and shall also apply the instructions discussed above to the unrated preferred stock. The analyst shall then determine the most appropriate NAIC Designation and apply the NAIC Designation to the preferred stock.

(B) *Classification of Preferred Stock*

The analyst shall apply the procedure discussed in above to classify the preferred stock with either an CRP or valuation indicator.

(NOTE: The instruction in this paragraph will be deleted effective December 31, 2018.)

SECTION 3. SPECIAL ASSESSMENT SITUATIONS

Bonds and preferred stock that fit the description set out below shall be subject to the general procedures specified above as well as the specific or special procedures identified below.

a) Eleemosynary Organization Bonds

The bonds of any eleemosynary organization shall be subject to the general corporate methodology for assigning an NAIC Designation to bonds.

b) Debtor-in-Possession (DIP)

DIP financings are post-petition loans made to a company that has filed for protection under Chapter 11 of the U.S. Bankruptcy Code (Code). A copy of the court order approving such financing must accompany loans made pursuant to Sections 364(b), (c) or (d) of the Code that are submitted to the SVO. The submission should also include a complete set of documentation pertaining to the loan and, if so, requested by the SVO staff, a legal opinion or analysis of the DIP lender's status with regard to the debtor's pre-petition creditors.

SECTION 4. CREDIT SUBSTITUTION**a) Filing Requirements**

- 1) Executed copy of the third party Credit Substitution Instrument (defined below) covering all monies owed under the underlying obligation and having a tenor at least equal to that of the underlying obligation.
- 2) If the provider of the Credit Substitution Instrument and the Issuer/Obligor has been assigned a credit Rating by an NAIC CRP, the filer provides their most recent annual financial statements. If the provider of the Credit Substitution Instrument and the Issuer/Obligor has not been assigned a credit rating by an NAIC CRP, then the filer follows the documentation requirements for an Initial Filing.
- 3) A legal opinion of counsel in the jurisdiction where the obligation would be enforced is always desirable and may be required, depending on the complexity of the transaction, discussing legal enforceability as described in the definition of Credit Substitution Instrument below.

b) Definitions

The following terms have meaning shown below:

Credit Substitution Methodology means and refers to an analytical technique in which an NAIC Designation is assigned to a security on the basis of the credit strength of a third party with a high credit worth who has made an irrevocable, unambiguous, unconditional and legally enforceable promise to pay the insurance company lender on a full and timely basis the money due to the lender from a named borrower (whether related or unrelated to such third party) of lower credit worth or to purchase and perform the obligation itself; in either case in accordance with underlying written agreement.

Credit Substitution Instruments means and refers to any one of a number of instruments, known to be governed by ascertainable legal frameworks that define the contractual, legal and other elements necessary to make a promise to pay the debt of another enforceable in a given jurisdiction. Credit substitution instruments include documentary letters of credit, guarantees, financial guaranty agreements, financial guaranty insurance (as these terms are defined below) and may include other instruments provided the legal framework that governs such instruments is identified and legal enforceability of the promise to pay the debt of another can be analyzed and incorporated into the credit assessment. Credit substitution instruments do not include suretyships or comfort letters, as defined below.

Documentary Letter of Credit means an undertaking given by a third-party issuer (typically a bank) to a beneficiary (i.e., the insurance company lender) at the request or for the account of the applicant (the borrower) that requires the issuer

to pay the amount of the credit solely on presentation of a specified document that complies strictly with the terms and conditions of the letter of credit (the document) and that prohibits non-documentary terms and conditions to payment such as the examination of questions of fact or of law pertaining to the underlying contracts or the assertion of defenses to payment derived from such underlying contracts. Legal regimes that exclude non-documentary conditions to payment include the Uniform Commercial Code (UCC), the Uniform Customs and Practices for Documentary Credits (UCP) and may include other legal regimes for letters of credit.

Guarantee means a contractual arrangement negotiated between a third party (the guarantor) and the borrower and lender (an insurance company) in which the third party agrees to pay promptly and in full, money due from the borrower to the insurance company; unconditionally, or on the sole condition that the borrower has failed to make a payment; and in which the third party promises not to pursue repayment from the borrower until the third party's obligation to the insurance company is fully performed. The term unconditional in the preceding sentence means that the third party expressly waives in writing all common law and statutory defenses to payment pursuant to a stated intent to create a direct obligation to pay the insurance company the amount of money owed by the borrower and which provides a procedure or mechanism for demand for payment with the sole condition to payment being the borrower's default as triggering the insurance company's right to demand payment and the third party's obligation to pay. The term guarantee encompasses joint and several guarantee arrangements in which multiple persons agree to pay the insurance company the debt owed to it by the borrower provided each person so promising agrees to be bound for the entire amount due. The term guaranty excludes suretyships governed by suretyship law in which the third party retains the right to assert defenses to payment under common law, statute or transaction specific events or occurrences. The term guarantee excludes comfort letters as defined below. Guarantees are governed by the general contract law of the jurisdiction.

Financial Guaranty Insurance means an absolute, unconditional, and irrevocable obligation to pay the named (insurance company investor) insured for the non-payment of principal and interest when due by the named borrower, the underlying obligation. The third party either waives all common law and statutory defenses to payment or structures the obligation so that such defenses to payment are not implicated. Financial Guaranty Insurance are subject to state insurance laws, suretyship law and general contract law.

Agreement to Purchase mean a written contract in which the third party agrees with the insurance company that in the event the borrower defaults on its payment obligation, the third party will purchase the insurance company's claim for the amount of the monetary obligation consisting of outstanding principal and accrued interest and thereby assume and perform it. Agreements to pay are governed by general contract law.

Comfort Letters means and refers to a number of documents that promise support of a limited kind to a subsidiary or affiliated entity. Comfort letters may be called letters of assurance, keep-well letters, keep-well agreements, letters of awareness, letters of responsibility and letters of support typically issued by a parent corporate entity. Some comfort letters provide quantifiable support such as minimum net worth agreements, operating agreements and debt service reserve make-up provisions and some comfort letters provide enforceable remedies. The SVO may reflect quantifiable support and the benefit of legal enforceability of remedies in the NAIC Designation by notching upward from the subsidiary's stand-alone NAIC Designation but comfort letters are not Credit Substitution Instruments. In connection with a comfort letter to be evaluated for the value of quantifiable support or legal enforceability of remedies for purposes of notching, an insurance company may provide the SVO the insurance company's internal assessment of the economic value and enforceability of the comfort letter, an explanation of the procedures used by the insurance company to grade the comfort letter and a written legal opinion of reputable local counsel on legal enforceability in the jurisdiction where the agreement would be enforced, translated into English, if written in another language. The insurance company may also submit its assessment of the likely behavior of the supporting entity in the event that the supported entity requires support.

c) Outline of Credit Substitution Methodology

Transactions that are candidates for credit substitution analysis are structured to rely on the credit quality of the third party. Documentation for such transactions would include the Credit Substitution Instrument and the agreements between the third party, borrower and lender pertaining to the third party's promise to pay for the debt of the borrower. The analyst:

- 1) Considers the stand-alone credit quality of the borrower and that of the third party to determine if the difference in credit quality of the third party and obligor warrant and justify the application of credit substitution methodology.

- 2) Reviews the documentation to confirm that credit substitution methodology provides the most accurate approach to identify, measure, and quantify the business and operational risk of the obligor, business or transaction. The review also confirms that the purpose of a credit substitution instrument in the transaction is not as collateral or as a structural element to address structural subordination or for a purpose other than credit substitution. The review permits the analyst to summarize the transaction in appropriate so that the obligation owed by the obligor to the insurance company can be compared to that undertaken by the third party to the insurance company. The summary includes terms and conditions, maturity, amount of the debt obligation, mandatory payment schedule, security, identification of borrower/issuer and guarantors, descriptions of how demand is made to the third party for payment under the Credit Substitution Instrument and how the third party makes the payment, events of default, key definitions and unique terms.
- 3) Identify the relationship of the third party to the borrower and that of other key parties in the transaction as well as the wider business enterprise (including affiliates and subsidiaries) of which the third party and borrower are a part.
- 4) Quantifies the borrower's payment obligation to the insurance company lender under all circumstances and conditions, reviews the conditions under which the Credit Substitution Instrument can be amended or terminated and the maturity of the Credit Support Instrument in relation to the tenor of the borrower's obligation, evaluates the procedure governing requesting and receiving payment under the Credit Substitution Instrument and whether it results in full and timely payment and determines whether the third party is obligated to pay the entire amount due to the insurance company from the borrower.
- 5) Determines whether the use of credit substitution as an analytical technique is appropriate.
- 6) Evaluates legal enforceability of the Credit Substitution Instrument. The analyst uses the information from the preceding steps of the methodology and evaluates against the principles expressed in the definition of the specific Credit Substitution Instrument and opinions of legal counsel in the jurisdiction where the promise would be enforced, if provided, to evaluate legal enforceability. The specific issues that are considered in the assessment of legal enforceability vary in accordance with the facts of the transaction and the legal regime and legal principles applicable to the Credit Substitution Instrument. However, the following are a general

description of the type of issues the analyst confirms in enforceability analysis:

- a) The third party promises to pay the entire obligation and not only any deficiency remaining after the insurance company exhausts all remedies against the collateral and the primary obligor(s).
- b) The third party agrees to pay the obligations on the date due and waives demand, notice, marshaling of assets, and any other defenses to payment.
- c) The third party may not terminate or amend the support unless and until the obligation owed to the insurance company has been fully performed.
- d) The Credit Substitution Instrument:
 - Does not condition the promise to pay in relation to the value, genuineness, validity, or enforceability of the guaranteed obligations;
 - Repudiates circumstances or conditions that would release it from the stated payment obligation;
 - Waives rights of set-off, counterclaim, and related rights;
 - Provides that the obligation to make a particular payment reinstates if a payment made by the primary obligor is recaptured as a result of the obligor's bankruptcy or insolvency;
 - Provides that the holders of the obligations are beneficiaries of the Credit Substitution Instrument; and
 - Identifies that the Credit Substitution Instrument ranks not less than as a senior unsecured obligation pari-passu with those of the third party's existing creditors.
- 7) Evaluates the third party's motivation and likely willingness to perform its promise under the Credit Substitution Instrument and related documents and in context of the relationship of the borrower and the third party.

SECTION 5. REPORTING CERTAIN SCHEDULE BA ASSETS

a) Application of Reporting Instruction

This Section 5 applies to any life insurance company, fraternal benefit society or other entity, domiciled in any state of the United States, its territories or possessions and required by applicable law to use an NAIC Designation to calculate an asset valuation reserve (AVR) and a risk-based capital (RBC) charge for a Schedule BA asset (hereafter a “reporting entity.”)

b) Fixed Income and Preferred Stock-Like Schedule BA Assets Defined

The NAIC Financial Statement Blank provides that long-term invested assets that are not clearly or normally includable in any other invested asset schedule are to be reported on Schedule BA of the NAIC Financial Statement Blank. Pursuant to applicable NAIC Annual Statement Instructions, a reporting entity determines if a Schedule BA fixed or variable interest rate asset has the underlying characteristic of a bond or other fixed income instrument or that a joint venture, partnership or limited liability company interest has the underlying characteristic of a fixed income instrument. A Schedule BA fixed or variable rate asset has the underlying characteristics of a bond or other fixed income instrument if it has a stated maturity and a fixed or floating coupon rate. A joint venture, partnership or limited liability company has the underlying characteristics of a fixed income instrument if it predominantly holds debt (or loans) and receives a public rating with annual surveillance from a CRP, or is designated by the NAIC through the application of a Weighted Average Rating Factor (WARF) methodology that takes into account the NAIC designation and/or the CRP assigned to the underlying investments. Such assets are defined as having the underlying characteristics of a fixed income instrument. The NAIC Annual Statement Instructions provide that a Schedule BA asset with the underlying characteristics of a bond or other fixed income instrument not filed with the SVO must be designated as class six for purposes of calculating an AVR and RBC. In furtherance of the regulatory objectives embodied in the NAIC Annual Statement Instructions, this Part provides a procedure through which a reporting entity shall file a Schedule BA asset with the SVO to obtain an NAIC Designation other than **NAIC 6** in order to obtain a more favorable AVR. The SVO is hereby charged with responsibility for assigning an NAIC Designation in the circumstances described above, in accordance with paragraph (c) of this Section.

c) Schedule BA Assets to Be Filed with the SVO**(i) Assets with Underlying Fixed Income Characteristics**

Whenever a reporting entity shall determine that a long-term investment properly reported in Schedule BA has the underlying characteristic of a bond or other fixed income instrument and wishes to obtain a more favorable NAIC Designation for the investment for AVR purposes, it shall, file relevant documents describing the investment with the SVO for the purpose of obtaining an NAIC Designation. For purposes of this subsection, relevant documents shall mean the reporting entity's investment committee memorandum, the obligor's Audited Financial Statement, the loan agreement, a description of the investment, its structure, the economic activity that will generate the cash flow to repay the obligation, and such other documents as are necessary for the SVO to conduct a credit analysis. In the cover letter transmitting the documents, the reporting entity shall state its opinion and explain and delineate the rationale that supports the reporting entity's opinion that the asset has the underlying characteristic of a bond or of another fixed income instrument.

(ii) Special Instruction – Capital and Surplus Debentures

Capital and surplus debentures, whether or not rated by an NAIC CRP, are subject to valuation as specified in paragraphs 10 and 11 of *SSAP No. 41R—Surplus Notes*.

Capital and surplus debentures that are rated by an NAIC CRP are filing exempt pursuant to Part Three of this Manual and reported in the same way as other filing exempt securities.

All capital and surplus debentures are reported on the surplus notes line of Schedule BA, not on Schedule

d) Reporting Exemptions for Certain Separate Accounts

Reporting entities need not report Schedule BA assets to the SVO otherwise reportable under this section if such assets are held in a separate account that is not subject to either the AVI or risk-based capital (RBC) charges.

e) Directive to the SVO

Upon receipt of the reporting entity's submission of a Schedule BA asset with underlying characteristic of a bond or other fixed income instrument, the SVO is hereby directed to conduct a credit assessment and assess the reporting entity's asset classification decision. Upon conclusion of its analysis, the SVO shall provide the reporting entity with a written letter, in a form to be developed by the SVO, setting forth its determination as to the NAIC Designation and asset classification assigned to the asset. Upon receipt of the aforementioned letter, the

reporting entity shall report the aforementioned analytical values obtained from the SVO for the asset, on the NAIC Financial Statement Blank.

f) Reporting on Schedule BA Assets

Notwithstanding the ability for life insurance companies to obtain NAIC Designations from the SVO for asset classification decisions and valuations for Schedule BA assets with the underlying characteristic of a bond or other fixed income instrument, the reporting entity shall report the investment on Schedule BA and not on Schedule D of the NAIC Financial Statement Blank.

g) Maintenance and Monitoring of SVO Determinations for Schedule BA Assets

(i) Maintaining and Publishing SVO Determinations

SVO determinations relative to Schedule BA assets that have the underlying characteristic of a bond or other fixed income instrument shall be compiled in a separate database within the NAIC's VOS process. Subsequently, the SVO determinations for Schedule BA assets shall be published as a part of the compilation of securities and investments in the AVS+ Products under a separate heading to facilitate the work of the members of the NAIC and their regulatory staff.

(ii) Monitoring of Credit Quality

The SVO shall monitor improvement or deterioration of credit quality for Schedule BA assets entered into the VOS process. Whenever newly disclosed information suggests that the likelihood of payment associated with a Schedule BA asset has changed, the SVO shall analyze whether the NAIC Designation then assigned to the investment should be adjusted. The reporting entity is responsible for providing the SVO with information relative to a change in the financial capability of the obligor. By way of illustration of the type of events that should be reported, and not by way of limitation, the reporting entity should report any of the following or similar events: a reorganization of the issuer or the obligation; any amendment of the payment terms in the contract; any request for an extension of time for payment beyond contractual grace periods, or any other event which indicates that the financial performance of the issuer or the investment has materially changed.

(iii) Annual Review Requirement

On at least an annual basis, reporting entities that have made an Initial Filing of a Schedule BA asset shall file a Subsequent Report with the SVO (Initial Filing and Subsequent Filing is defined in in this Manual).

On at least an annual basis, the SVO shall conduct a review of the credit quality and value of the Schedule BA assets in the VOS Process to determine whether the NAIC Designation assigned to the Schedule BA asset should be adjusted to reflect the most recent information about the issuer's performance. Upon the conclusion of its annual review, the SVO shall make any necessary adjustment to the NAIC Designation then assigned to Schedule BA assets.

(iv) Deletion of Schedule BA Assets from the VOS Process

(A) *Maintenance of Database*

The SVO will delete any Schedule BA asset from the VOS Process on evidence that the investment has matured or that it is no longer owned by an insurance company.

(B) *Failure to File Annual Review Information*

The SVO will delete a Schedule BA asset from the VOS Process if a reporting entity has failed to provide sufficient or timely information that would permit the SVO to conduct the annual review assessment required by Section 5 g) (iii) of this Part. Schedule BA assets that have the underlying characteristic of a bond or other fixed income instrument assigned the administrative symbol IN shall be deleted from the VOS Process if any information deficiency is not rectified by the end of the first quarter following the previous year-end. However, the SVO will not delete a Schedule BA asset that has the underlying characteristic of a bond or other fixed income instrument that has been assigned the administrative symbol NR if an ATF annual update filing has been filed and the SVO has received the information required to assign an NAIC Designation to the Schedule BA asset.

(NOTE: The symbol NR will be change to ND, meaning "Not Designated," effective December 31, 2019.)

h) Filing Exempt Securities Process

A filing exempt (FE) security is an Investment Security, as defined in Part Two, Section 2 a) of this Manual, that is exempt from filing with the SVO pursuant to the filing exemption in Part Three, Section 1 b) of this Manual.

Insurance companies determine NAIC Designations for FE securities by applying the conversion instructions and the equivalency relationships disclosed in Part Three, Section 1 of this Manual.

NAIC Designations assigned to FE securities are reported by the insurance company to the NAIC and subsequently added by NAIC staff to the Filing Exempt Securities Process.

Insurance companies shall not report a Regulatory Transaction, defined in [Part Three, Section 6 of this Manual](#), as FE securities, and the NAIC staff shall not add a Regulatory Transaction to the Filing Exempt Securities Process.

i) NAIC Designation Categories, Valuation Indicators and Administrative Symbols

(i) NAIC Designations

NAIC Designations assigned to Schedule BA assets that have the underlying characteristics of a bond are assigned without a prefix. NAIC Designations assigned to fixed income instruments deemed to most resemble a preferred stock are assigned with the Valuation Indicator **P** or **RP** as a prefix, as further discussed in [Section h\) \(ii\) below](#).

(NOTE: The Valuation Indicator P and RP will be deleted effective December 31, 2019.)

(ii) Valuation Indicators

Valuation Indicators are fully applicable to those fixed income instruments that most resemble a preferred stock. If the Valuation Indicator **P** is placed in front of the NAIC Designation, the SVO has concluded that the Schedule BA fixed income instrument is like a perpetual preferred stock for the purposes of valuation under SAP. If the valuation indicator **RP** is placed in front of the NAIC Designation, the SVO has concluded that the Schedule BA fixed income instrument is like a redeemable preferred stock for the purposes of valuation under SAP.

(NOTE: The Valuation Indicators P and RP will be deleted effective December 31, 2019.)

(iii) Administrative Symbols

Administrative symbols applicable to bonds and preferred stock are also applicable to Schedule BA assets with the underlying characteristic of a bond or other fixed income instrument, respectively.

j) Administrative Procedures, Reporting Conventions; Pricing; Credit Assessment

(i) Administrative Procedure and Reporting Conventions

The general administrative and reporting instructions applicable to bonds and preferred stock contained in this Manual apply, respectively, to Schedule BA assets that have the underlying characteristic of a bond or other fixed income instrument. However, because Schedule BA assets with the underlying characteristic of a bond or other fixed income instrument may be unique transactions, and because their structure may differ from that of bonds or preferred stock, it is not possible for the SVO to provide lists of required documentation that would be useful to the reporting entity in all instances. To avoid a delay in assessing the credit quality, asset

classification or valuation of the Schedule BA asset submission, the reporting entity should take care to provide financial and other information for the investment that would enable the SVO to assess the financial strength of the obligor or the reliability of the process by which cash flow for repayment of the obligation is to be generated.

(ii) Credit Assessment Procedures Applicable to Schedule BA Assets

Subject to the directive contained in [Part One, Section 2 f\) of this Manual](#), the SVO shall have discretion to apply any credit assessment methodology or any combination of credit assessment methodologies detailed in [this Part Three](#) to assess the credit quality or asset classification of a Schedule BA asset that has the underlying characteristic of a bond or other fixed income instrument.

SECTION 6. REGULATORY TRANSACTIONS

a) Defined

“Regulatory Transaction” means a security or other instrument in a transaction submitted to one or more state insurance departments for review and approval under the regulatory framework of the state or states.

b) Intent

This Section provides guidance to the SVO and the SSG on how to manage requests for assistance made by a state insurance department under Part Two, Section 2 b) of this Manual.

c) Guidelines

The SVO or SSG is authorized to conduct an analytical assessment on behalf of any state insurance department that requests such assistance.

If an insurance company files a Regulatory Transaction with the SVO in the ATF process or under the Regulatory Treatment Analysis Service (RTAS) process, the SVO shall first contact the state insurance department of the insurance company’s state of domicile to disclose that a Regulatory Transaction has been submitted and inquire whether the state insurance department wants SVO analytical assistance.

If the state insurance department of the insurer’s state of domicile requests such assistance, the SVO shall engage in the requested analytical assessments of the Regulatory Transaction. SVO determinations may include and refer to NAIC analytical benchmarks, such as NAIC Designations, valuation or classification assessments, and such determinations may be given by the SVO or SSG to the state insurance department.

SVO or SSG determinations given in connection with the assessment of a Regulatory Transaction may be given to and adopted by the state insurance department as part of that state’s internal determination of the regulatory issues presented by the Regulatory Transaction. However, SVO assessments for a Regulatory Transaction will not be entered into NAIC computer systems reserved for Investment Securities, as defined in [Part Two, Section 2 a\) of this Manual](#) or added to the SVO List of Securities as defined in [Part One, Section 3 k\) of this Manual](#).

SECTION 7. STRUCTURED SECURITIES OR TRANSACTIONS

a) Structured Transactions Backed by Credit Enhancement

- (i) Structured Securities Fully Guaranteed by an NAIC CRP-Rated Entity or U.S. Government Entity

Initial Filing Requirements – A structured security filed under this subsection must be filed with a completed SAR, evidence that the guarantor is rated by an NAIC CRP and a prospectus, private placement memoranda or other similar document describing the pool, the credit and structural components of the transaction and how the guaranty is called upon together with a copy of the final executed guaranty.

Subsequent Reporting Requirement – A structured security filed under this subsection must be filed together with evidence of the current NAIC CRP rating for the guarantor.

Analytical Procedure – The analytical procedures in this subparagraph apply to non-NAIC CRP-rated asset-backed securities and residential mortgage-backed securities fully, unconditionally and irrevocably guaranteed by a U.S. government entity or an entity with an NAIC CRP-rated senior unsecured obligation or claims paying ability.

This procedure shall only apply when the reporting insurance company intends that the NAIC designation assigned to the security will depend solely on the rating assigned by an NAIC CRP to the guarantor or implied rating of the U.S. government entity.

As used in this subparagraph, an NAIC CRP-rated guaranty means an unconditional promise to pay all amounts due to the investor on a full and timely basis, which is effective for the life of the security, ranks as the guarantor's direct, unsubordinated, general obligation and is issued by an entity rated and monitored by an NAIC CRP. The guaranty may be in the form of a guaranty, financial guaranty insurance policy, letter of credit, or other similar credit enhancement instrument.

The SVO shall assess any reported structured securities benefiting from NAIC CRP-rated financial guarantee by applying the procedure described below. The SVO shall first confirm that the guaranty meets the definition set forth above. The SVO shall then review the terms of the reported security to determine whether any aspect of the credit and structural characteristics of the security compromises the benefit of the guaranty to the investor.

If the SVO is satisfied that the guarantor is fully obligated to pay the amounts due to investors, and that the structural characteristics of the security do not compromise the benefit of the guaranty to the investor, the SVO shall assign an NAIC Designation not higher than the NAIC Designation that corresponds to the NAIC CRP rating assigned to the guarantor.

b) Structured Securities Backed by NAIC CRP-Rated Financial Assets

Initial Filing Requirements – A structured security filed under this subsection must be filed with a completed SAR, evidence of all NAIC CRP ratings assigned to the obligors in the pool and a prospectus, private placement memoranda or other similar document (which must include a detailed list of all of the obligors in the pool), describing the asset types in the pool and the credit and structural components of the transaction.

Subsequent Reporting Requirement – A structured security filed under this subsection must be filed together with evidence of the current NAIC CRP rating assigned to each pool obligor.

Analytical Procedure – This subparagraph applies to investment instruments backed by the scheduled payment stream from: (i) NAIC CRP-rated or NAIC Designated underlying obligations; or issued by NAIC CRP-rated entities; or (iii) 100% unconditionally guaranteed by NAIC CRP-rated entities, even if none of the assets themselves are rated by an NAIC CRP.

As used in this subparagraph, an underlying obligation is any obligation of an NAIC CRP-rated entity that gives the holder of the security a contractual right to receive benefits in the form of cash whether disbursed at a time certain or in scheduled payments of interest and principal. To be eligible for reporting under this subsection, the sum of the total cash obligations evidenced by the financial asset pool must be equal to or greater than the outstanding balance on the reported security.

The SVO shall assess any reported structured securities backed by NAIC CRP-rated underlying obligations by applying the procedure described below. The SVO shall confirm that the pool meets the criteria identified above. The SVO shall then assess the reported security to determine whether the credit and structural characteristics of the security compromise the expectation of predictable cash flows from the rated pool obligors. If the SVO is satisfied that the reported security meets the conditions of this subparagraph, and that the structural characteristics of the security do not compromise the expectation of predictable cash flow

from the underlying obligations, the SVO shall assign an NAIC Designation not higher than the NAIC Designation corresponding to the NAIC CRP rating for senior unsecured debt assigned to the lowest rated obligor in the pool, or, on a weighted-average basis, whichever is applicable.

c) Structured Securities Fully Backed by Financial Assets Insured by NAIC CRP-Rated Insurers

Initial Filing Requirement – A reporting insurance company may file such a structured security with the SVO and the SVO may assign an NAIC Designation in reliance on the claims paying NAIC CRP rating assigned to the pool insurer per the informational requirements described in this Section and the analytical procedure described in [Part Three, Section 3 a\) \(iii\) of this Manual](#).

A structured security filed under this subsection must be filed with a completed SAR, evidence that the pool insurer is rated by an NAIC CRP, a prospectus, private placement memoranda or other similar document describing the pool and a copy of the pool insurance policy including the proof of loss and claim form together with a description of the claims processing procedures employed by the pool insurance issuer.

Subsequent Filing Requirement – A structured security filed under this subsection must be filed together with evidence of the current NAIC CRP rating assigned to the pool insurer.

This subparagraph applies to investment instruments backed by underlying financial assets that are insured against individual obligor defaults by a pool insurance policy underwritten by an insurer with an NAIC CRP claims paying ability rating. Such a pool insurance policy must have coverage in an amount equal to or greater than the outstanding balance of the pool's assets.

This procedure shall only apply when the reporting insurance company intends that the NAIC Designation assigned to the security will depend solely on the claims paying ability rating assigned to the issuer of the pool insurance policy by an NAIC CRP.

As used in this subparagraph, NAIC CRP-rated pool insurance means an insurance policy that provides protection against individual obligor defaults, underwritten by an insurer rated and monitored by an NAIC CRP for claims paying ability. The insurance policy must: be in effect for the life of the security; provide for full and timely payment of all amounts due to the issuer; and rank as the direct, unsubordinated general obligation of the rated insurer.

The SVO will review the reported security to determine whether the reporting insurance company has provided evidence that there are no factors that might compromise the contractual or financial ability or willingness of the pool insurer to honor claims promptly. The SVO will then review the pool insurance policy to ascertain the terms of the policy and verify the information provided by the reporting insurance company.

If the SVO is satisfied that the pool insurer is fully obligated to pay amounts equal to obligor defaults and that such amounts will enable the issuer to meet its payment obligation to the investors, and that there are no factors which might compromise the contractual or financial ability or willingness of the insurer to honor claims promptly, the SVO shall assign an NAIC Designation not higher than the NAIC Designation corresponding to the NAIC CRP rating assigned to the pool insurer.

SECTION 8. OTHER TRANSACTIONS UNDER THE AUSPICES OF THE SVO

Please refer detailed questions about the analytical or other procedures applied to these securities to the SVO Structured Transactions group.

a) Replication (Synthetic Asset) Transactions

Please refer to Part Four, Section 1 of this Manual for instructions and rules applicable to Replication (Synthetic Asset) Transactions.

b) Structured Notes**(i) Definition**

A Structured Note is a direct debt issuance by a corporation, municipality, or government entity, ranking pari-passu with the issuer's other debt issuance of equal seniority where either:

- The coupon and/or principal payments are linked, in whole or in part, to prices of, payment streams from, index or indices, or assets deriving their value from other than the issuer's credit quality; or
- The coupon and/or principal payments are leveraged by a formula that is different from either a fixed coupon, or a non-leveraged floating rate coupon linked to an interest rate index, including but not limited to LIBOR or prime rate.

Analytically, a Structured Note can be divided into the issuer's debt issue and an embedded derivative.

Securities with certain embedded securities are not considered Structured Notes, including but not limited to bonds with standard call or put options.

When the issuer is a trust, the source of payments on the security is the assets in the trust, and investors' recourse is limited to the assets in that trust, the security is not a Structured Note.

(ii) Related Guidance for Mortgage Referenced Security

Please refer to Part Seven of this Manual for related guidance pertaining to a Structured Note defined as a Mortgage Referenced Security.

(iii) Applicable Analytical Instructions

Please refer to Part One and to this Part Three for general instructions and rules that are applied to Structured Notes.

c) Residual Tranches of ABS, RMBS and CLOs and CDOs

Please refer to [Part One, Section 3 b\) \(ii\)](#) and [Part One, Section 3 b\) \(iii\)](#) of this [Manual](#) for instructions used to make distinctions between debt and equity reporting applicable to residual tranches of ABS, RMBS and CLOs and CDOs.

d) **Principal Protected Notes**

e) **Exchange Traded Funds**

Please refer to [Part Six, Section 2 d\) of this Manual](#) for instructions and rules applicable to Exchange Traded Funds.

SECTION 9. POST-DEFAULT CREDIT QUALITY AND VALUATION OF DEFAULTED SECURITIES AND ANALYTICAL CONVENTIONS

a) General Instructions

Issuers of defaulted securities often emerge from reorganization or private restructuring and their pre-default liabilities may have been modified but remain viable as modified. When this is the case, and the insurance company can demonstrate that it has accounted for the loss of fair value consistently with *SSAP No. 36—Troubled Debt Restructuring*, the SVO will assign a credit quality designation to the defaulted security to reflect the issuer's post-default credit risk.

b) Procedure for Determining a Post-Default Fair Value for a Loan or a Security

Any insurance company that owns a previously defaulted security can file relevant information with the SVO to obtain a fair value for the security or loan, or in the alternative, may calculate a fair value for the loan consistent with *SSAP No. 36—Troubled Debt Restructuring* and report the fair value obtained and a copy of its work papers and other information about how the fair value was determined, to the SVO.

Where the insurance company has filed information with the SVO and requested that the SVO determine a fair value, the SVO shall calculate a fair value for the security or loan and communicate its determination to the insurance company in writing and enter the fair value in the VOS Process.

Where the insurance company has calculated or wishes to calculate the fair value, it may report its determination to the SVO with an explanation of the methodology used to arrive at the fair value. The SVO will consider the information provided and determine whether in its opinion, the fair value claimed by the insurance company is reasonable or unreasonable. The SVO determination will be entered into the VOS Process and will also be communicated to the insurance company and the domiciliary regulator in writing.

c) Procedure for Obtaining a Post-Default Credit Assessment

Contemporaneously with the filing contemplated in [Section 11 c\) \(ii\) of this Part](#) above, the insurance company shall file current financial and other relevant issuer information so that the SVO can determine the issuer's financial condition and a current NAIC Designation for the security. The SVO will not assign an NAIC Designation unless the fair value for the loan or security has been calculated consistently with *SSAP No. 36—Troubled Debt Restructuring*.

d) Issuer Amends or Refinances an Existing Issue as a Non-Troubled Restructuring

Insurance companies who determine that a restructuring or workout of a transaction is not a troubled restructuring under *SSAP No. 36—Troubled Debt Restructuring* shall file information about the transaction and its determination to enable the SVO to express an opinion on the matter. The SVO shall provide its conclusions in writing to the insurance company and the domiciliary insurance department.

e) Required Documents for Credit Assessment and Valuation Analysis

The general informational requirements applicable to credit assessments are contained in this Part Two. In addition, for purposes of the valuation the insurance company should submit the following documentation to the SVO within 120 days of closing:

If a new issue, Sources and Uses of Funds Statement, including:

- Listing of new loan participants and allocations
- Listing of previous participants and associated payment disbursements
- Breakdown of previous issue repayment (and explanation of any write-off/realized loss or waiver, by type) of:
 - Principal balance
 - Accrued interest
 - Deferred financing fees and charges
 - Unamortized premiums or discount
 - Make-whole provision

If amended, then:

- Breakdown and explanation of any write-off, realized loss or waiver of:
 - Principal balance
 - Accrued interest
 - Deferred financing fees and charges
 - Unamortized premiums or discount
 - Make-whole provision
 - Covenants
- Breakdown and description of any amendment fees received
- Copy of the original, executed Note Agreement and Schedules and all Executed Amendments (including those to Inter-Creditor and Security Agreements) to date
- Pricing rationale, including basis for current credit risk assessment and comps

- If secured, Collateral Loan Form, including:
 - Most recent Compliance Certificate and financials from the company, including calculations and comparison to covenant levels in effect at period-end.

f) Analytical Conventions

(i) Issuer Liquidation

The SVO will maintain any non-liquidated assets of an issuer in liquidation at **NAIC 6** provided that the insurance company may file a request for a reassessment of credit quality of the loan where there is new underlying credit support for the obligation. As a general rule, in an issuer liquidation of a bankruptcy-remote entity, the SVO assumes the liabilities to be permanently impaired, in the absence of evidence to the contrary.

(ii) Reorganizations Under Chapter 11 of the U.S. Bankruptcy Code

The SVO will maintain the NAIC Designation of any issuer liability subject to compromise (i.e., any liability of the issuer that has not emerged intact from the reorganization) at **NAIC 6**. Bankruptcy-remote liabilities may be other than temporarily impaired, but may be upgraded from **NAIC 6** to reflect the credit risk of the new obligor, provided the insurance company has recognized a loss as required by *SSAP No. 36—Troubled Debt Restructuring* in a prior year as discussed in subparagraph (e) above. New securities issued in lieu of the compromised liabilities on emergence from bankruptcy will be reevaluated in line with the credit of the post-bankruptcy entity.

(iii) Work-out or Restructurings Resulting in Modified Terms

The guidance in this subparagraph applies whether or not new securities are issued. Whenever an insurance company has agreed to discuss a modification of the terms of an existing obligation, *SSAP No. 36—Troubled Debt Restructuring* is implicated, and the event is a material credit event as defined in this Manual. Reporting a work-out situation to the SVO as soon as practicable after the decision to restructure the transaction is taken, will enable the SVO to work with the insurer to estimate the fair value of the loan and the credit quality of the issuer.

SECTION 10. MUNICIPAL BONDS

Municipal bonds are debt instruments of states, counties, special districts, cities, towns and school districts, whether issued as general obligations, revenue bonds, annual appropriation bonds, assessment district bonds or obligations that combine aspects of general and revenue bonds issued by U.S. and Canadian obligors. For purposes of this Manual, credit risk associated with municipal securities shall be assessed on the basis of the nature of the bond as a general obligation bond, revenue bond or a bond combining characteristics of both, and on whether the transaction has been rated by an NAIC CRP.

a) Computerized Services

The SVO shall independently obtain such computerized or other informational services on municipal securities as are necessary to obtain publicly available rating, pricing, statistical or financial information on municipal issuers and their outstanding securities.

b) Unrated Securities

If the security is not rated, or if an analyst shall have exercised his or her discretion to conduct an independent evaluation of the security despite an NAIC CRP rating, the analyst shall proceed to an independent credit assessment.

(i) General Obligation Bonds

In the case of a general obligation bond, the SVO shall determine whether the issuer has taxing authority and the precise limitations on that authority, arrive at a determination of all current indebtedness that relies on the issuer's taxing authority and assess the taxpayer's ability to support the existing and proposed levels of debt. In the conduct of this analysis, the SVO shall consider all factors relevant to general obligation bond analysis, such as issuer's debt obligation for unfunded pension liabilities and other similar obligations. In assessing the taxpayer's ability to support the level of debt, the SVO shall assess the trend of the issuer's economy, employment distribution and composition, population growth, real estate property valuation, personal income trends and other local economic traits that are relevant to its assessment.

(ii) Revenue Bonds

In the case of a new issue revenue bond, the reporting insurance company shall provide the SVO with a feasibility study of the Project in order to assess the level of demand and all probable alternatives to the services or Project. In all other cases, the SVO may request the submission of the feasibility study. The SVO shall assess sources of revenue, revenue assumptions, Project costs and expenses and other relevant factors. The analyst may consider any aspect of the Project that may be relevant to determining an appropriate NAIC Designation.

(iii) Industrial Development Revenue Bonds; Pollution Control Bonds

In the case of an industrial development revenue bond or a pollution control bond, the methodology applied by the SVO to assess credit risk may derive from any appropriate corporate methodology or from a municipal methodology, whether associated with the revenue or the general obligation approach.

(iv) Escrowed and Pre-refunded Bonds

The SVO may make its credit assessment on the basis of an executed Letter of Defeasance, an Escrow Agreement or a Pre-refunding Agreement.

(v) Credit Enhanced Municipal Transactions

A credit enhanced municipal transaction is one in which the application for an NAIC Designation is to be based on one of the following: (i) the credit rating of a nationally recognized municipal bond insurer that has issued a financial guarantee or otherwise insured the bond; (ii) on a financial guarantee issued by an insurance company; (iii) on a Letter of Credit issued by a bank; or (iv) on another acceptable form of credit enhancement. In determining an NAIC Designation for the transaction, the SVO shall ascertain the extent to which the legal documents ensure that the credit strength of the insurer or bank flows through unimpeded to the security holder. The SVO shall examine whether the payment obligation of the insurer or bank assures full and timely payment of all amounts due to the reporting insurance company. Factors relevant to this analysis include irrevocability of the insurer's or bank's obligation to pay the effect of debtor insolvency on payments made by the debtor and/or the third party to the insurance company lender and the third party's credit rating. The analyst may review corporate resolutions of the issuer the guarantee or other agreements binding the third party to pay for the debt of the debtor, the indenture or other similar document governing the remedies, opinions of counsel regarding enforceability of the obligation of the third party, the

payment stream under applicable insolvency laws or other regulatory regime, or any other documentation that may be considered necessary.

(A) *Quantitative Analysis*

The analyst shall make an independent financial analysis of the issuer. Wherever possible, the analysis shall be based on historical and projected tax or revenue data. It shall be the responsibility of the insurance company investor reporting the investment to obtain and provide this information to the SVO. The analysis shall incorporate the Audited Financial Statement, as well as additional information the analyst may deem necessary. Upon receipt of this information, an analyst shall perform financial analysis necessary or appropriate for the transaction under consideration. Interpretation of the financial information and data obtained will be conducted in the context of the particular facts of the issuer and the Project to be financed. The analysis shall reflect the issuer's political and economic circumstances and other criteria unique to municipal bond issuance.

(1) Use of Unaudited Financial Statements

For general obligation bonds not rated by an NAIC CMO, the SVO will assess the transaction one grade lower than would otherwise be justified by the issuer's credit rating, if the reporting insurance company cannot provide the SVO with a copy of the Audited Financial Statement. However, the SVO shall accept the unaudited financial statement of an issuer without grade reduction, if such unaudited financial statement has been submitted to and confirmed by the appropriate state controller's office. Revenue Bonds will be subject to the same rules applicable to corporate debt.

(2) Terms of the Security; Final Designation

Before determining a final NAIC Designation, the analyst shall consider: (i) the sufficiency of the legal documentation; and (ii) the terms of the security such as:

- (a) Collateral.
- (b) Legality of the exercise of taxing authority in general bond obligations, or legal validity and enforceability of the pledge of cash flow.
- (c) Economic feasibility, including demand for the services for which the issuance is made or Project is being built.
- (d) Project risks and risk mitigation.

- (e) Priority and legal position of the lender's right to payment of the issuer's general fund (for general obligations bonds) or reserve or trust fund accounts (for revenue bonds).

(vi) Special Situations

(A) *Contact the SVO*

The reporting insurance company shall contact the SVO on a case-by-case basis in order that the SVO may determine what information is necessary to conduct an analysis of Annual Appropriation Bonds, Special Assessment Bonds and Municipal Bonds Supported by the U.S. Government.

SECTION 11. CREDIT TENANT LOANS

a) Filing Instructions

(i) Initial Filing Requirements

For Bond Lease Based CTLs and Credit Lease Based CTLs, the reporting insurance company shall submit a completed SAR form, a completed Bond Lease Based or Credit Lease Based CTL Evaluation Form, as appropriate (in either case together with the documentation described in the Evaluation Form), and evidence of the lessee's rating or Audited Financial Statement.

In the case of Acceptable CTL Variants (ACVs), the reporting insurance company shall submit a completed SAR, an Audited Financial Statement, Credit Lease Based CTL Evaluation Form (including the documents described in the Evaluation Form) and a separate memorandum identifying and describing the ACV. Any documents that are unique to the transaction by virtue of its being an ACV should be included.

(ii) Subsequent Filing Requirements

For Bond Lease Based CTLs, Credit Lease Based CTLs, Multiple Property Transactions (MPTs) and Acceptable CTL Variants, the reporting insurance company shall submit evidence of a current NAIC CRP rating for the lessee or the lessee's guarantor. For purposes of this subsection, a current rating is defined as one issued or renewed within the past 12 calendar months. Evidence of a current rating may be submitted in the form of a Bloomberg screen or other similar screens acceptable to the NAIC from another information vendor. In the case the lessee, or lessee's guarantor, is not rated by an NAIC CRP, the reporting insurance company shall file the Audited Financial Statement of the lessee or the lessee's guarantor, as the case may require.

b) General

(i) CTL Categories

Mortgage loans that are made primarily in reliance on the credit standing of a major tenant, structured with an assignment of the rental payments to the lender with real property pledged as collateral in the form of a first lien, are referred to as a Credit Tenant Loan. Four categories of CTLs are recognized as eligible for reporting on Schedule D: Bond Lease Based CTLs, Credit Lease Based CTLs, Acceptable CTL Variants (ACVs) and Multiple Property Transactions (MPTs).

(ii) Intent

CTL categories segregate CTL transactions in accordance with two principles: (a) the degree to which the credit tenant is obligated to the lender for payments and real estate-related risks; and (b) the degree of

complexity in the legal or structural components of the transaction. The Bond Lease Based CTL category is intended to capture those transactions that reflect the criteria discussed below and contains no legal or structural variation from one transaction to another. The Credit Lease Based CTL category is intended to capture those transactions that differ from Bond Lease Based transactions primarily because the lessor is to perform specified obligations, requiring analysis of how lessor risk is mitigated. The ACV category is intended to reflect substantially all of the standards described for the Bond Lease Based or Credit Lease Based CTL categories. Transactions in the ACV category are those that do not perfectly reflect all of such required characteristics, but which contain the deviations highlighted in the ACV list; provided such deviations do not in number or otherwise alter the character of the transaction as a Bond Lease Based or Credit Lease Based CTL. The ACV category will be interpreted so as to maintain the regulatory expectation that all submitted transactions meet the criteria set out for the Bond Lease Based or Credit Lease Based CTL with only slight deviations from criteria permitted. The MPT category is intended to facilitate the SVO's analysis of Bond Lease Based or Credit Lease Based CTL Transactions where more than one site or property exists in the transaction structure. The MPT category provides an economy and efficiency of transaction cost and resources. It allows for the use of essentially uniform documentation for the transaction for one credit tenant or one credit tenant group.

(iii) Presumption of Eligibility

Transactions that meet the definition and legal and structural characteristics for one of the four CTL categories shall be submitted to the SVO for evaluation on the appropriate CTL Evaluation Form. From the perspective of an insurance company lender, a transaction that on its face meets the criteria of a particular CTL category is entitled to a presumption of Schedule D eligibility, subject to a determination by the SVO that the transaction is not appropriate for Schedule D reporting.

(iv) SVO Procedure

Upon receipt of an Evaluation Form, the SVO analyst shall first review the Evaluation Form and other documents submitted by an insurer to verify that the transaction reflects appropriate CTL criteria. If the information provided on the Evaluation Form suggests that the transaction is likely to reflect all appropriate CTL criteria, the analyst shall proceed to determine either that: (a) the transaction reflects risk consistent with the definition and other criteria for the category; or (b) that the transaction contains risks different from those normally associated with Schedule D transactions.

Where, in the opinion of the analyst and where otherwise appropriate, the risk presented by the transaction is inconsistent with the definition and other criteria for the CTL category but is consistent with Schedule D reporting, the analyst may reflect the additional risk by adjusting the Designation for the transaction downward and away from the credit rating category assigned to the lessee. If the analyst concludes that the transaction contains risks different from those normally associated with Schedule D, the transaction shall be rejected as ineligible for Schedule D reporting.

(v) General CTL Issues

The following are the types of general issues that may be relevant to SVO's CTL analysis. The list is not intended to be all-inclusive and not all statements may be relevant to each CTL category. Where appropriate, analysts shall consider:

(A) The extent to which the transaction appears well insulated from the credit risk of the lessor.

(B) If a Phase I report, or the nature and prior use of the land, indicates a substantial likelihood of preexisting environmental contamination, the extent to which the risk is mitigated may be evidenced by a Phase I or Phase II report, an assumption of that cost by the lessee or other acceptable solution.

(C) If the lessee's NAIC Designation is less than **NAIC 2**, insolvency risks associated with the lessee may be increased, and all other aspects of the transaction may play an important role in the SVO's analysis.

(D) A previously unrated lessee or guarantor is eligible for CTL consideration if it presents the information requested in the Evaluation Form.

(E) While the number of lenders is not limited, there must be equivalency in protection for all lenders.

(F) While lessor's ownership structure is not limited (i.e., special purpose entity is not required), the SVO may require additional information to assess whether the risks associated with the lessor's ownership structure are mitigated.

(G) While the transaction may involve a leasehold interest created by an agreement between the owner of the fee interest, the ground lessee, the ground lessor and the remainder man, if any (specifically whether or not the ground lease or estate for years is terminated pursuant to a foreclosure of the note(s) or whether all of the ground lease obligations materially match all of the lessee's obligations under the lease).

(H) Where casualty insurance for full replacement value is required, it shall be provided by an insurer having a claims paying rating ability at least equivalent to an **NAIC 2** Designation, or if the lessee shall be rated at least the equivalent of an **NAIC 2** Designation and lessee's GAAP net worth is at least \$100 million at the time of origination, by self-insurance. If the credit rating of a lessee self-insuring falls below an **NAIC 2** Designation equivalent, then the lessee shall obtain adequate casualty insurance from an insurer having a claims paying ability rating at least equivalent to an **NAIC 2** Designation. Within 90 days of a rating downgrade, insurer shall provide evidence to the SVO that the required insurance coverage has been obtained.

(I) If the lessee is not assigned an **NAIC 2** Designation or better, and the SVO shall consider it necessary to conclude its analysis, the insurer shall collect and send such additional information explaining the strategic importance of the premises to the lessee's business operations (whatever the nature of the leased premises, e.g., retail, office, warehouse, manufacturing plant).

(vi) Evaluation Form

The CTL Evaluation Form shall be deemed to be a part of the documentation submitted by the insurer subject to all pertinent rules of the NAIC and of state insurance departments regarding truthfulness, accuracy and completeness. However, the Evaluation Form is not intended to be a statement of criteria to assist structuring of CTLs. Acceptance of an Evaluation Form by the SVO does not imply that the transaction will be accorded Schedule D treatment. The SVO shall have discretion to vary the terms of the Evaluation Form as experience and prudent analytical judgment may suggest.

c) **Bond Lease Based CTL**

(i) Definition

A Bond Lease Based CTL is a transaction structured around the terms of a Bond Lease. A Bond Lease is a lease between a lessor and a lessee for a specified period of time with specified rent payments that are at least sufficient to repay the related note(s). The Bond Lease requires the lessee

to perform all the obligations related to the leased premises. The investment community has historically defined a Bond Lease as a “hell or high water lease,” the general concept being that regardless of what occurs as to the leased premises, the lessee is obligated to continue to pay its rent. Therefore, the focus is on the credit of the lessee (or of the guarantor of lessee’s obligations) under the Bond Lease, not the real property characteristics related to the premises.

(ii) Legal Characteristics of Bond Leases

A Bond Lease reflects the following legal characteristics:

(A) The lessee is responsible for every obligation related to the leased premises, such as payment of all taxes and utilities, the performance of maintenance, environmental and ground lease obligations (if any) and the obligation that the lessee must indemnify the lessor against losses and claims relating to the leased premises. The lessor’s only obligation may be to provide quiet enjoyment of the premises by the lessee.

(B) The lessor makes no representations or warranties regarding the condition of the leased premises and the lessee accepts the premises “as is.”

(C) The lessee has no right to offset or set-off or to terminate the Bond Lease upon the occurrence of obsolescence, condemnation, casualty or for any other reasons, except that the lessee may terminate the Bond Lease: (i) at any time, if the termination coincides with the lessee’s purchase of the leased premises, for an amount at least sufficient to pay the outstanding principal balance and accrued interest; or (ii) during a period no longer than the last three years of the lease term without such purchase in the event of a condemnation and casualty, if the insurance proceeds (or self-insurance proceeds) and condemnation awards are payable to the lender/trustee and are in amounts sufficient to pay the loan in full.

(D) The lessee is not required to occupy the leased premises if the occupant is a subsidiary or affiliate of the credit tenant. In these cases, the S/O may require additional information regarding the strategic importance of the leased premises.

(E) The lessee may assign and sublease if the lessee remains conditionally liable for the performance of all lessee obligations.

(F) The Bond Lease cannot be amended without the lender’s consent.

(G) The Bond Lease or other relevant document(s) must specifically prohibit a merger of estates.

(iii) Structural Characteristics of Bond Lease Based Transactions

A Bond Lease and related documentation reflect the following structural characteristics:

(A) Payments under the note, including a balloon payment, correspond to a lease payment due from the lessee pursuant to the Bond Lease that is equal or greater than the note payment. The term “balloon” in the definition is intended to imply only a payment larger than previous payments and does not contemplate permitting transactions with refinance risk.

(B) Neither the lease payments nor the debt payments need be level.

(C) The lessee is required to pay for all expense items.

(D) The lessee leases 100% of the real property securing the note.

(E) There is a valid first lien on the real property or the leasehold estate in favor of the lender/trustee.

(F) There must be in effect a fully executed, irrevocable and perfected assignment of lease payments in favor of the lender/trustee and the lender/trustee must be directly collecting lease payments sufficient to fully pay each and every installment of debt service.

(G) To the extent the credit to be relied upon is that of a guarantor, the guarantee of the lessee's obligations must be irrevocable and unconditional, and must guarantee performance of all obligations of the lessee under the Bond Lease. The term “guarantor” excludes third-party guarantees for purposes of credit enhancement but is intended to include support arrangements, which in the opinion of the SVO, are entered into as a regular part of the business of the lessee or the group of entities of which the lessee is a part.

(H) Loan-to-value is not relevant and therefore not limited.

d) Credit Lease Based CTL

i) Definition

A Credit Lease Based CTL transaction is one structured around a Credit Lease. A Credit Lease is a lease between a lessor and a lessee for a specified period of time with specified rent payments at least sufficient to repay the related note(s).

The Credit Lease requires the lessee to perform most of the obligations related to the leased premises. A Credit Lease transaction is a corporate bond/commercial mortgage transaction whose primary risk/return characteristics are derived from the creditworthiness of the lessee rather than from the traits of the mortgaged property. The principal difference between a Bond Lease and a Credit Lease is the small set of landlord obligations or real estate risks that must be explicitly addressed through well-recognized mitigation methods discussed in Section 11 d) (iv) of this Part.

ii) Legal Characteristics of Credit Leases

A Credit Lease reflects the following legal characteristics:

- (A) The lessee is responsible for most of the obligations related to the leased premises, such as the payment of taxes and utilities, the performance of maintenance, environmental matters caused by its occupancy and ground lease obligations (if any) and must indemnify the lessor against most losses and claims relating to the leased premises. Any exceptions or other obligations must be addressed through insurance, adjusted debt service coverage ratios or other acceptable mitigation.
- (B) The lessee accepts the leased premises, as evidenced by an estoppel certificate.
- (C) The lessee has limited rights to offset or abate rent related to casualty or condemnation or the failure to perform roof, structural or parking obligations.
- (D) The lessee is not required to occupy the leased premises if the occupant is a subsidiary or affiliate of the credit tenant. In these cases, the SVO may require additional information regarding the strategic importance of the leased premises.
- (E) The lessee may assign and sublease if the lessee remains unconditionally liable for the performance of all lessee obligations.
- (F) The Credit Lease cannot be amended without the lender's consent.
- (G) The Credit Lease or other relevant document(s) must specifically prohibit a merger of estates.

iii) Structural Characteristics of Credit Lease Based Transactions

A Credit Lease Based transaction reflects the following structural characteristics:

(A) Payments under the note, including a balloon payment, correspond to a lease payment due from the lessee pursuant to the credit lease, except that the loan term may exceed the lease term by not more than six months, and the outstanding principal balance at the end of the lease term shall not exceed 5% of the original loan balance.

(B) Neither the rent payments nor the debt payments need be level.

(C) The lessee is required to either directly pay or to reimburse the lessor for primary expense items (e.g., taxes, utilities, maintenance and other operating expenses).

(D) The lessee leases 100% of the real property securing the note.

(E) There is a valid first lien on the real property or the leasehold estate in favor of the lender/trustee.

(F) There must be in effect a fully executed, irrevocable and perfected assignment of lease payments in favor of the lender/trustee and the lender/trustee must be directly collecting lease payments sufficient to pay the debt service fully.

(G) To the extent the credit to be relied upon is that of a guarantor, the guarantee of the lessee's obligations must be irrevocable and unconditional, and must guarantee performance of all obligations of the lessee under the Credit Lease. The term guarantor excludes third-party guarantees for purposes of credit enhancement, but is intended to include support arrangements that in the opinion of the SVO are entered into as a regular part of the business of the lessee or the group of entities of which the lessee is a part.

(H) Loan balance shall not exceed initial appraised value of the property. An appraisal must be done in accordance with Member of the Appraisal Institute (MAI) standards. The value reported in the appraisal report must proceed from a comparison of each of the (i) cost, (ii) comparative and (iii) income approaches.

iv) Risks and Acceptable Mitigants in Credit Lease Based Transactions

The following are acceptable forms of mitigation against landlord-retained obligations.

Situation/Mitigant

(A) Roof, structural and parking expenses not explicitly covered by Credit Lease:

- (1) Deduct all appropriate costs in calculating an adjusted debt service coverage (DSC) ratio of at least 1.05x; and
- (2) Provide that funds shall be escrowed in amounts estimated to be accumulated, on a substantially level basis, to a level sufficient to allow for payment of the named costs at the time they are expected to occur.

(B) Loan term exceeds initial lease term:

- (1) Difference shall not exceed six months; and
- (2) Remaining principal shall not exceed 5% of original loan balance.

(C) Casualty:

- (1) Rent loss insurance (or an obligation to pay rent regardless of a casualty) is required from an insurer having a claims-paying ability rating equivalent to an **NAIC 2** Designation, or self-insurance by a tenant having a credit rating equivalent to a **NAIC 2** Designation, and whose GAAP net worth is at least \$100 million, at the time of the origination.
- (2) If the casualty does not result in termination of the Credit Lease, proceeds must be used to repair and restore premises; and
- (3) If the casualty results in the termination of the Credit Lease, awards go to the lender to the extent of the outstanding principal and interest. Termination is only allowed in the last three years of the lease term, unless the lessee is required to make a termination payment at least equal to the outstanding principal and accrued interest.

(D) Ground lease obligations not explicitly addressed in credit lease:

- (1) Credit Lease payments must be sufficient to pay ground rent, with DSC adjusted accordingly; and
- (2) Attornment (non-disturbance) or other agreement between fee owner and lender is required, obligating ground lessor to notify lender of any default by ground lessee and permitting lender an opportunity to cure the default.

(E) Condemnation:

- (1) Where condemnation results in the termination of the Credit Lease, all awards go to the lender to the extent of the outstanding principal and interest; and
- (2) Where condemnation does not result in the termination of the Credit Lease, the premises must be repaired and restored.

(F) Environmental:

- (1) Phase I environmental report showing no environmental problems; or
- (2) If the Phase I report shows a problem or the nature and prior use of the land indicates a substantial likelihood of preexisting environmental contamination, a Phase II report and an assumption of that cost by the lessee or other acceptable solution.

e) Acceptable CTL Variants

An ACV CTL is a transaction that meets substantially all of the standards for a Bond Lease Based or Credit Lease Based CTL but that contains one or more of the variants described in the Guidelines for Acceptable CTL Variants as set forth below. An insurance company may report an ACV to the SVO by submitting the Bond Lease Based or Credit Lease Based Evaluation Form, whichever is appropriate, specifically identifying the items in the Bond Lease Based or Credit Lease Based CTL standards not present in the submitted transaction, explaining the differing language, device or mitigant put in place to substitute for the missing criteria and providing documentation to substantiate the different approach employed in the transaction.

f) Guidelines for Acceptable CTL Variants

i) Acceptable CTL Variants

Transactions that exhibit the following variations from the definitions of Bond Lease or Credit Lease Based CTL contained above will nevertheless be eligible for Schedule D treatment in accordance with these guidelines and the definitions if the following standards are met:

(A) Transactions where lease payments are insufficient to cover required debt service. The shortfall would be covered fully by credit enhancement, cash escrow or excess rent set-asides.

(B) Transactions with balloon payments in excess of 5% for Credit Lease Based CTLs if lease payments or credit enhancement fund the balloon. The SVO will assess the extent to which the payment stream, whether provided by the lease or credit enhancement, covers the balloon payment.

(C) Transactions where loan term exceeds lease by more than six months. The lessee is obligated either to renew the lease, purchase the property or terminate the lease and pay an amount equal to the outstanding debt. If the tenant renews the lease, the renewal term would have to be for the balance of the loan term. If the tenant purchased the property, the sale and settlement of the landlord's loan obligation must occur not later than the date prior to which lease payments would cease and there must be a simultaneous payment to the lender.

(D) Transactions that have been purchased by the reporting insurance company from another insurance company via an assignment. If Bond Lease or Credit Lease criteria are met, the fact that the transaction was acquired through an assignment does not jeopardize CTL treatment.

(E) Transactions in which the tenant occupies less than 100% of the premises. The reporting insurance company shall identify the credit tenant and the credit tenant's lease payments shall be sufficient to cover the necessary escrow, common area maintenance and other relevant costs.

(F) Transactions where the user of the property is not affiliated with credit tenant or guarantor. If (i) the credit tenant or a guarantor is liable for and agrees to make the required lease payments and (ii) despite lack of affiliation between the parties, there is a substantial community of interests between the parties; for example, the relationship that might exist between an auto manufacturer and an auto supplier.

(G) Transactions where the tenant may terminate the lease despite the fact that the amount due under the lease is greater than 5% of the original loan amount. The tenant shall not terminate the lease without first paying off the loan or extending the term of the lease to a term sufficient to amortize the remaining balance of debt.

(H) Transactions in which the landlord has obligations other than those specified in the definition for Credit Lease Based CTLs. The SVO shall have sole discretion to determine whether the level of risk associated with the retained landlord obligation is consistent with the mitigant used. The SVO anticipates that the reporting insurance company will provide a structure that protects the cash flow. Devices like cash escrow or excess rent set asides may be appropriate mitigants.

(I) Transactions in which the landlord retains obligations but where the lease requires the tenant to continue to make payments regardless of landlord's breach of these obligations, with tenant's only remedy to pursue legal remedies for damages against the landlord. These transactions would be treated as Credit Lease Based CTLs, irrespective of the fact that the stated variation may be the only difference between the submitted transaction and a Bond Lease Based CTL.

(J) Transactions that permit lease termination for casualty to all or substantially all of the property prior to the final three years of the lease term. The reporting insurance company must demonstrate that insurance by a third party acceptable to the SVO is in place and fully covers principal and interest in the event of lease termination. A key consideration in this variation is that it be clear that the insurance company lender would always "walk away whole."

(K) Transactions that permit the lease to be canceled if the property is not restored within a specified time period after a casualty. The transaction shall incorporate a mechanism to assure that the casualty could be repaired within the term of the insurance policy then in force and the mortgagee would have to permit application of insurance proceeds to pay off the debt.

(L) Transactions in which the tenant has a right to abate rent during a casualty, condemnation, repair or restoration event. The reporting insurance company shall provide: (i) evidence of rent insurance of a duration of at least one year from a company rated the equivalent of an **NAIC 1**; and (ii) evidence that the tenant is obligated to resume paying rent after the end of the insurance policy payments, regardless of the status of the casualty, condemnation, repair or restoration event.

(M) Transactions that provide a right to terminate the lease and substitute property on substantial casualty or condemnation. The tenant shall substitute equivalent leased property.

(N) Transactions where tenant has a right to condemnation award for value of leasehold estate or tenant improvements. If the tenant has a leasehold interest in the premises because it has advanced funds for improvements, CTL eligibility is not affected because the agreement would permit the tenant to receive proceeds of the condemnation award, provided the tenant continues to be obligated to make the payments called for under the lease and those payments are sufficient to pay the loan in full, or the loan is repaid.

(O) Transactions with an unsatisfactory Phase I or Phase II report. Section 1 a) of this Part is intended to provide the industry with a device through which it can communicate environmental issues to the SVO. Generally, the SVO anticipates that all CTL transactions will have a Phase I report. If the Phase I report sets forth an unfavorable matter, a Phase II report shall provide more detailed study of the issue. If the reporting insurance company wants to pursue the transaction it may present the Phase II and other material information to the SVO, detailing the manner in which it would mitigate the risk. The SVO would then determine whether the proposed solution serves as an adequate mitigant for the risk.

(P) Transactions with a stale environmental audit. These transactions may be permitted if the tenant has been in the property since the date of the initial audit, the initial audit is available and acceptable to the SVO and the tenant's use of property is not environmentally sensitive. The documents shall include reliance on a strong net lease paragraph to establish that all environmental obligations are tenant obligations and not landlord obligations.

(Q) Transactions with appraisals submitting only one appraisal method. A transaction may be submitted with an appraisal that lacks all three-valuation methods (cost, comparative and income approaches) if the appraisal is in accordance with MAI standards and makes clear that the other two methods were not applicable and this is stated in the MAI opinion.

(R) Transactions with second mortgages. Rent must exceed aggregate debt service on all debt up to required Credit Lease Based coverage standards and the second mortgagee could not put lender into default.

(S) Transactions where the lender is the second mortgagee. Rent must exceed aggregate debt service on all debt up to required Credit Lease Based coverage standards and the lender shall have a right to cure first mortgage defaults.

(T) Transactions with minor lessor representations, warranties and covenants. Staff shall have sole discretion to assess the nature of the landlord obligation and the extent to which the mitigant is appropriate. However, these transactions may be permitted if the tenant is estopped from asserting these lessor obligations to abate or cease payment of rent, or if there is credit enhancement or other collateral available to protect against tenant non-payment.

(U) Use of collateral trustee and issuance of trust certificates. The use of a collateral trustee, or trust certificates, has no impact on eligibility for CTL treatment. Staff will, of course, review appropriate documentation associated with the arrangement.

(V) Transactions involving a "Dark Store." The SVO will raise no objection to CTL eligibility for a transaction in which the original lessee "darkens" the leased premises if the lessee remains unconditionally liable for the performance of all lessor obligations.

g) Multiple Property Transactions (MPTs)

i) Definition

An MPT transaction is a series of single property Bond Lease Based CTLs or Credit Lease Based CTLs (but not both) combined in one transaction. The MPT category does not alter the fundamental structure or principles of either the Bond Lease Based or the Credit Lease Based CTL. To qualify as an MPT CTL, each site or property must satisfy the existing Bond Lease Based or Credit Lease Based CTL definition, on a stand-alone basis.

ii) General Legal Characteristics of MPTs

An MPT transaction reflects the following legal characteristics:

(A) Each property or site qualifies as (i) a Bond Lease Based CTL or (ii) a Credit Lease Based MPT CTL, as defined below.

(B) Either (i) a single credit tenant or (ii) "affiliated" credit tenants with a guarantee by the parent.

(C) Differences in the documents are identified and limited to dollar amount of rent or debt and state/local law differences.

(D) Local counsel opinion(s) and a special counsel opinion regarding enforceability of documents, perfection of security interests in the collateral and consequently, the recordation of security documents, are provided to the SVO.

(E) For Credit Lease Based MPT CTLs, each property has a satisfactory Phase I environmental report and an Appraisal indicating the appraised value of the property and containing the appraiser's name and certifications done in accordance with MAI standards.

(F) Existing cross default and/or cross collateralization provisions are identified.

(G) Any variance must be consistent among all the properties or sites in the transaction.

iii) Legal and Structural Characteristics of Credit Lease Based MPT CTLs

The legal and structural characteristics of a Credit Lease Based MPT CTL shall be the same as the existing Credit Lease Based CTL definition, with the following modifications:

(A) There must be a single lessor.

(B) Either a single credit tenant or affiliated credit tenants with a guarantee by the parent; however, in all cases the lessee must occupy the leased premises.

- (C) Any guarantee of a lessee's obligation must be with respect to all properties in the transaction.
- (D) All risks and acceptable mitigants, as currently described in the existing Credit Lease Based CTL definition, must be uniform for each property.
- iv) Acceptable CTL Variants Eligible for MPT Treatment
The following Acceptable CTL Variants will be acceptable for Credit Lease Based MPT CTLs:
- (A) Transactions that have been purchased by the reporting insurance company from another institution via an assignment. If Bond Lease or Credit Lease criteria are met, the fact that the transaction was acquired through an assignment does not jeopardize CTL treatment.
- (B) Transactions where the tenant may terminate the lease, despite the fact that the amount due under the lease is greater than 5% of the original loan amount. The tenant may not terminate the lease without first paying off the loan or extending the term of the lease to a term sufficient to amortize the remaining balance of debt.
- (C) Transactions that permit lease termination for casualty to all or substantially all of the property prior to the final three years of the lease term. The reporting insurance company must demonstrate that insurance by a third party acceptable to the SVO is in place and fully covers principal and interest in the event of lease termination. A key consideration in this variation is that it be clear that the insurance company lender would always "walk away whole."
- (D) Transactions that provide a right to terminate the lease and substitute property on substantial casualty, economic obsolescence or condemnation. The tenant would have to substitute equivalent leased property.
- (E) Transactions with appraisals utilizing only one appraisal method (provided that the appraisal method is uniform for all properties). A transaction may be submitted with an appraisal that lacks all three valuation methods (cost, comparative and income approaches), provided the appraisal is in accordance with MAI standards and makes clear that the other two methods were not applicable and this is stated in the MAI opinion.

h) Variants Requiring an NAIC CRP Rating

An NAIC CRP rating is required for CTL transactions:

- (i) With two credit tenants in the transaction.
- (ii) If lease payments do not commence until completion of construction, but cash escrow or credit enhancement is available during construction sufficient to negate risks.
- (iii) If additional credit enhancement would upgrade the rating of the transaction above the credit rating of the tenant.
- (iv) Where self-insured tenants with a Designation below **NAIC 2** are required to maintain a specified minimum net worth or to immediately obtain insurance.
- (v) Where environmental issues are not addressed, but there is a strong net lease paragraph, indemnification, compliance with laws or maintenance covenants.
- (vi) With unaddressed and preexisting environmental issues if there is credit enhancement or other collateral to support the risk.
- (vii) Where there is no appraisal or MAI equivalent.

Where landlord makes construction warranties or credit tenant has limited rights to offset rent for construction, if estopped agreements are in place or there is agreement from credit tenant that set-offs are nonbinding against lender because the risk is fully mitigated.

SECTION 12. WORKING CAPITAL FINANCE INVESTMENTS**a) Filing Requirements****(i) Initial Filing Requirements**

An insurance company requesting an analysis of a proposed Working Capital Finance Program shall provide the SVO with the documentation described in this subparagraph.

- An RTAS Application;
- The Obligor's Audited Financial Statements, if the Obligor is not rated for credit risk by a NAIC CRP;
- The insurance company's Investment Committee Memorandum for the proposed Working Capital Finance Program;
- The audited consolidated financial statements of the group of which the Finance Agent for the Working Capital Finance Program is a part, and one of the following:

(A) An annual independent report according to Statement on Standards for Attestation Engagements (SSAE) No. 16 reporting on controls at a service organization related to the administration of the investment; or

(B) An annual audit of the internal controls of the consolidated group of which the Finance Agent is a part, which does not note any material weakness related to servicing.

- A Certification from the insurance company's Chief Investment Office that the insurance company, in its capacity as an Investor, is not affiliated with the Obligor or with any Supplier in the Working Capital Finance Program, and that the Working Capital Finance Program does not include any insurance or insurance related assets.
- A Certification from the insurance company's Legal Counsel:

In the case of a participation, that it has a commercially reasonable belief that its participation interest meets the Uniform Commercial Code's standards for creating and preserving first priority security interests in the payments due and in the Confirmed Supplier Receivables.

In the case of a certificate, note or other manifestation, representing a right to payment from a trust, other special purpose entity, or special purpose pool holding confirmed supplier receivables, that it has a commercially reasonable belief that the documents establishing and governing the Working Capital Finance

Program create and preserve interests in the Confirmed Supplier Receivables capable of being enforced by the trustee or other entity holding Confirmed Supplier Receivables as first priority perfected security interests under the Uniform Commercial Code.

Please refer to *SSAP No. 105—Working Capital Finance Investments* for the definition of a commercially reasonable belief.

A copy of:

- The document(s) that create the Working Capital Finance Investments (i.e., the short-term receivables) that is the subject of the RTAS – Emerging Investment Vehicle Service Application, and establishes the obligations of the Obligor to, and the protection afforded owners of, Working Capital Finance Investments (including the Investors). This agreement is sometimes referred to as the Invoice Payment Terms Acknowledgement, the Payable Services Agreement or the Paying Services Agreement.
- Please refer to [Part Four, Section 2 of this Manual](#) for guidance related to filing an RTAS Application with the SVO.
- The agreement(s) between the Obligor and the Finance Agent governing the administration of the Working Capital Finance Program and the Working Capital Finance Investments issued thereunder. These agreements may be included in the documents mentioned above or may be a stand-alone agreement which are sometimes referred to as the Settlement Services Agreement or the Invoice-Related Electronic Services Agreement.
- The agreement governing the sale of the Working Capital Finance Investments from the Supplier to the Finance Agent. This agreement is sometimes referred to as the Receivables Purchase Agreement or the Supplier Agreement.
- The agreement governing the ongoing purchase of Working Capital Finance Investments or an interest in Working Capital Finance Investments by the Investor from the Finance Agent. This agreement is sometimes referred to as the Agency Agreement, the Participation Agreement or the Program Trust Agreement.

(ii) Subsequent Filing Requirements

- Copies of any of the documents originally submitted with the RTAS Application subsequently amended.
- The audited consolidated financial statements of the group of which the Finance Agent for the Working Capital Finance Program is a part, and one of the following:
 - An annual independent report according to Statement on Standards for Attestation Engagements (SSAE) No. 16, reporting on controls at a service organization related to the administration of the investment; or
 - An annual audit of the internal controls of the consolidated group of which the Finance Agent is part, which does not note any material weakness related to servicing.

b) Definitions in SSAP No. 105—Working Capital Finance Investments

Please refer to *SSAP No. 105—Working Capital Finance Investments*, for the definitions and associated definitional guidance insurance companies must understand and comply with before applying for an NJO Designation for Working Capital Finance Programs that would permit them to purchase Working Capital Finance Investments.

With the exception of the definitions for Dilution Risk and Operational Risk below, the definitions shown below are summaries of those contained in *SSAP No. 105—Working Capital Finance Investments* intended only to facilitate a discussion and in all cases subordinate to the definition in *SSAP No. 105*.

c) Summary of Key Definitions(i) Confirmed Supplier Receivable

A receivable sold by a Supplier to a Finance Agent or Investor (or by a Finance Agent to an Investor) under a Working Capital Finance Program designated by the SVC that requires the Obligor to confirm to the Finance Agent or Investor, prior to the sale of the receivable from the Supplier to the Finance Agent or Investor, that it has no defenses to payment of the monetary obligation represented by the receivable against the Supplier and, therefore, no defenses to payment of the same monetary obligation to the Finance Agent and/or Investor after such sale. The confirmation by the Obligor that it has no defenses to payment includes confirmation that the Obligor does not have a right to refuse payment that it may have acquired with respect to underlying commercial trade transaction and that, if it has such a right, it will not assert such defenses against the Finance Agent or Investor.

(ii) Dilution Risk

With respect to any Working Capital Finance Program, dilution risk refers to disputes or contractual provisions that may reduce the amount of the obligation owed by the Obligor to the Supplier under the original receivable or the obligation owed by the Obligor to the Finance Agent and/or Investor under the Confirmed Supplier Receivable. Examples of dilution risk are credit for returns of defective goods or an allegation of fraud, such as that the invoice is not legitimate or is a duplicate invoice.

(iii) Finance Agent

A bank, financial institution, financial intermediary or service provider that facilitates the Working Capital Finance Program that arranges the sale, assignment or transfer of the Confirmed Supplier Receivable to the Investor and administers payment.

(iv) Investor

The insurance company that files the RTAS Application with the SVO in order to obtain an NAIC Designation for a proposed Working Capital Finance Program.

(v) Obligor

An entity that purchases the goods or services from the Supplier and thereby generates the original supplier receivable — and which Obligor has, or can be designated, **NAIC 1** or **NAIC 2** by the SVO or has been assigned an equivalent credit rating by a NAIC CRF.

(vi) Operational Risk

With respect to any Working Capital Finance Program, operational risk refer to the combined effect of the procedures and parties employed to implement the program and their responsibility under the documents and to the determination by the SVO of whether these procedures and parties will ensure full and timely performance by the Obligor of the payment obligation to the Investor. An example of an operational risk is the confirmation process employed to verify that the Obligor has no defenses to payment.

(vii) Supplier

The entity that sells the goods or services to the Obligor, obtains a receivable from the Obligor in exchange and subsequently chooses to sell the right to receive the payment associated with the receivable to the Finance Agent or Investor under the terms of a Working Capital Finance Program designated **NAIC 1** or **NAIC 2** by the SVO.

(viii) Working Capital Finance Program

The program created for the Obligor and its Suppliers by a Finance Agent the terms of which permits Suppliers to the Obligor to negotiate the sale of a right to receive payment from the Obligor (which is associated with and evidenced by a receivable) to the Finance Agent or an Investor.

(ix) Working Capital Finance Investment

The right to receive the payment associated with a Confirmed Supplier Receivable purchased by an Investor under a Working Capital Finance Program designated **NAIC 1** or **NAIC 2** by the SVO and is the subject of *SSAP No. 105—Working Capital Finance Investments*.

NOTE: *SSAP No. 105—Working Capital Finance Investments* imposes reporting and statutory accounting requirements on insurance company investments in Working Capital Finance Investments and specifies analytical procedures to be applied or analytical controls to be verified by the SVO that are not detailed above. Insurance companies are strongly advised to become familiar with *SSAP No. 105* before filing an RTAS Application with the SVO.

d) Direction and Program Parameters(i) Direction

The SVO may assign an NAIC Designation to a Working Capital Finance Program that would generate Working Capital Finance Investment that meet the criterion and standards identified in this Section 12.

(ii) Program Parameters(A) *RTAS Submission Required*

A request that the SVO assign an NAIC Designation to a Working Capital Finance Program is made by filing an RTAS Application. Please refer to [Part Four, Section 2 of this Manual](#) for relevant instructions about the *RTAS—Emerging Investment Vehicle Service* process. The RTAS Application is available at: www.naic.org/documents/svo_rtas_app.pdf.

Upon completion of its risk assessment, the SVO will issue an RTAS Letter indicating a preliminary NAIC Designation; i.e., the NAIC Designation that would be assigned if the Investor enters into a Working Capital Finance Program with a Finance Agent and sought to report it to the SVO. **NOTE:** A preliminary NAIC Designation cannot be used for statutory reporting purposes. The SVO shall issue a final NAIC Designation to the Investor for the Working Capital Finance Program and the Working Capital Finance Investments generated thereunder upon receipt of fully executed final copies of

the required documentation. Please refer to [Part Two, Section 6](#) of this Manual for instructions on how to file an ATF with the SVO.

(B) *Variations in Structure*

Working Capital Finance Programs may differ in structure and in the protection afforded the Investor. Structural strength and weaknesses of various structures in such programs will be reflected in the NAIC Designation assigned by the SVO.

(C) *Program Quality*

The SVO shall only assign an NAIC Designation to Working Capital Finance Programs that can be designated **NAIC 1** or **NAIC 2**. Credit quality is measured by reference to a NAIC CRP credit rating or an NAIC Designation assigned by the SVO.

The SVO shall withdraw the NAIC Designation assigned to Working Capital Finance Program on the date the Obligor's NAIC CRP credit rating or NAIC Designation is downgraded to **NAIC 3** or its NAIC CRP equivalent.

NOTE: *SSAP No. 105—Working Capital Finance Investments* provides that Working Capital Finance Investments generated under a Working Capital Finance Program of an Obligor that falls below the equivalent of **NAIC 1** or **NAIC 2** becomes non-admitted.

(D) *Process and Methodology*

An NAIC Designation shall be assigned to a Working Capital Finance Program on the basis of a thorough assessment of credit, dilution, operational and other risks, an assessment of protections provided by operative documents to the Investor and the quality of transaction participants.

e) **Risk-Assessment Process**

(i) Credit Risk

The NAIC Designation for a Working Capital Finance Program shall be linked to the credit quality of the Obligor, which may be determined by reference to a credit rating assigned by a NAIC CRP or by an NAIC Designation assigned by the SVO. Credit risk is assessed by the SVO and in accordance with any permitted methodology set forth in this Manual for corporate obligors.

(ii) Dilution Risk

To achieve an **NAIC 1** or **NAIC 2** Designation, the Working Capital Finance Program must eliminate dilution risk in the Working Capital Finance Investment proposed to be eligible for purchase by the Investor. The terms governing the Investor's Working Capital Finance Investment must eliminate Obligor recourse to its Supplier as a condition to payment of the obligation to the Investor so as to result in an unconditional right to receive payment on a full and timely basis.

(iii) Operational Risk

To achieve an **NAIC 1** or **NAIC 2** Designation, all operational risks shall be identified and assessed. Key participants shall have a NAIC CRP credit rating or an NAIC Designation assigned by the SVO at a level at least that of the Obligor.

(iv) Legal, Structural and Regulatory Considerations

Events of default remedies should provide the Investor at least those rights and privileges, unimpaired, of a trade creditor upon default with no Obligor defenses that could cause dilution of principal.

The Finance Agent must be an entity regulated or supervised by a financial regulator in one of the countries in 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](#) in [Part Six of this Manual](#) and that the regulator is the functional equivalent of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (OCC) or the Federal Deposit Insurance Corporation (FDIC). In the alternative, the SVO shall verify that payments due the Investor are made directly by the Obligor with no commingling of funds or assets with those of the Obligor, Supplier, Servicer or Trust Administrator or other Investors.

The SVO will verify that the Certification from the insurance company's Chief Investment Office confirms that the Investor is not affiliated with Obligor and that Working Capital Finance Investment excludes insurance or insurance-related assets.

The SVO will verify that the Certification from the insurance company's Legal Counsel confirms the existence of a commercially reasonable belief that the documents establishing and governing the Working Capital Finance Program establishes the rights and UCC code standard for preserving first priority perfected interest in Confirmed Supplier receivables.

The remedies available to the participants in the Working Capital Finance Program should be expressly identified in the documentation for the Working Capital Finance Investment.

Characteristics that shall be present in a proposed Working Capital Finance Investment include, but are not limited to, the following, or a substantial equivalent:

- The Obligor makes payments directly to (i) the Investor; (ii) Finance Agent; or (iii) the servicer for the Working Capital Finance Program.
- The Investor must have the option, and not an obligation, to purchase subsequent Working Capital Finance Investment so as to ensure the Investor can exit the Working Capital Finance Investment by permitting existing investments to mature.
- SSAP No. 105—Working Capital Finance Investments provides that the documentation governing Working Capital Finance Program must provide that disputes arising under the agreements shall be submitted to a court of competent jurisdiction in the U.S. or be subject to an alternative dispute resolution process sanctioned by state law. Given the nature of Working Capital Finance Program, the SVO anticipates that documentation governing Working Capital Finance Investments will be subject to the laws and jurisdiction of the courts of California, Delaware or New York, or a similar legal jurisdiction with significant exposure to sophisticated institutional financial transactions.
- Events of default must be clearly defined, and provide a mechanism that gives the Investor the ability to pursue collection unfettered by actions taken or not taken by participants such as the Servicer or Trustee, or other named persons performing similar functions.

SECTION 13. INVESTMENTS IN CERTIFIED CAPITAL COMPANIES**a) Definition**

A certified capital company (CAPCO) is a state legislated venture capital firm that can be a partnership, corporation, trust or limited liability company, profit or not-for-profit and which may capitalize itself in a variety of ways. Investors who acquire an equity interest or qualified debt instrument from a CAPCO receive state premium or income tax credit.

b) Statutory Accounting Guidance

Guidance on the accounting for investments in a CAPCO is in *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* (INT 06-02) located in Appendix B of the NAIC Accounting Practices and Procedures Manual.

Before a CAPCO security can be filed with the SVO, the reporting insurance company must apply INT 06-02 to the facts of the specific security. It is the insurance company's responsibility to apply Statutory Accounting Guidance for CAPCO Transactions.

INT 06-02 requires reporting entities to account and report for investments in CAPCOs consistent with the security or other interest they acquire except for specific guidance on the tax credits. For example, an investor who acquired a bond issued by a CAPCO would follow the accounting guidance for bonds found in *SSAP No. 26R—Bonds* and report the details about the transaction on Schedule D in accordance with the NAIC Quarterly and Annual Statement Instructions. Such securities are assessed using the procedures referenced in Part Three of this Manual. Related guidance is contained in Part below.

For an investor who acquired a limited liability partnership interest, the interest would be valued in accordance with the guidance for limited liability partnerships contained in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and reported on Schedule RA in accordance with the NAIC Quarterly and Annual Statement Instructions within the appropriate Joint Venture, Partnership or Limited Liability Company subcategory.

Both of the examples cited immediately above would also follow the specific reporting on tax credits found in INT 06-02.

NOTE: Nothing in this Manual is intended to modify or interpret INT 06-02, SSAP No. 26R or SSAP No. 48.

c) Procedure for Reporting and Filing with the SVO

The insurance company should first determine the reporting for CAPCOs indicated by the statutory accounting guidance. This is done by establishing the character of the investment and then applying the appropriate accounting and

reporting guidance and to the extent necessary the related procedures in this Manual for Schedule D or Schedule BA assets. If the CAPCO investment is subject to the SVO filing process and does not meet the filing exempt requirements, it should be filed with the SVO. If the SVO disagrees with the insurance company characterization of the investment, it will so inform the insurance company and provide rationale why the SVO believes the company has misapplied or misinterpreted the guidance of INT' 06-02 and request a re-filing if necessary.

d) Required Documentation

(i) Unrated

In the case of a CAPCO issue that is not rated by an NAIC CRP:

(A) *Initial Filings*

The reporting insurance company completes an SAR and attaches the issuer's public offering statement or private placement memorandum, as the case may be, the insurance company's internal Credit Committee memorandum and the Audited Financial Statement of the issuer for the last three consecutive years. If none of these documents are available, the reporting insurance company must obtain and complete the SVO's VIM form and submit it with the required documents and attachments.

(B) *Subsequent Filings*

For CAPCO issues that are not filing exempt follow the procedures below (Corporate Issues Not Filing Exempt) to file a subsequent report with the SVO.

The reporting insurance company shall annually file an updated Audited Financial Statement.

e) Applicable Methodology

Subject to the directive contained in [Part One, Section 2 f\) of this Manual](#), the SVO shall have discretion to apply any credit assessment methodology or any combination of credit assessment methodologies detailed in Part Three of this Manual to assess the credit quality or to assess asset classification of a CAPCO security.

The SVO shall have discretion to apply any credit assessment methodology or combination of methodologies as provided for in [Part One, Section 2 f\) of this Manual](#) and shall consider whether the procedure in [Part One, Section 3 b\) of this Manual](#) applicable to securities that contain other non-payment risk should be applied.

SECTION 14. LOTTERY SECURITIES**a) Definition**

Lottery Securities are financial arrangements in which an insurer purchases the right to receive lottery prize money owed by a state lottery authority to the winner of a lottery or a subsequent assignee. The transfer may be expressed as the purchase of a receivable, the execution of an assignment of rights or in some other legally effective manner. A significant component of the SVO's analysis of lottery securities focuses on the enforceability of the rights obtained by the reporting insurance company. The issue raised is whether state law requires the observation of a special procedure before a transfer of lottery prize money may be affected.

b) Documentation Requirements

An insurer filing a lottery security must file the following documents:

(i) Direct Transfer

- Documentation of the transfer such as assignment agreement or receivable purchase agreement,
- A certified copy of a court order if one is required,
- A written statement of the lottery authority that it has received the court order and will make payment to the insurer as directed in the court order,
- Evidence, in the form of a letter from the lottery authority, that the withholding of federal and state income tax attributable to the lottery prize money will be credited to the insurer.

(ii) Indirect Transfer

In addition to the documents required above, the insurer shall submit:

- A trust agreement,
- Legal opinions.

c) No Court Order Required

If the state lottery law governing the transfer does not require a court order, the reporting insurance company shall submit an opinion of counsel acceptable to the SVO, certifying that no approval, consent or authorization of a governmental or administrative authority is required in connection with the transfer.

d) Court Order Required

(i) Direct Transfer

A direct transfer structure is a lottery security arrangement in which the reporting insurance company purchases or otherwise acquires the right to the lottery prize money directly from the winner of a lottery or from a subsequent assignee. The reporting insurance company shall submit the following documents:

(A) A certified copy of the court order that authorizes the transfer of the lottery prize money to the insurer, and

(B) A written acknowledgement by the state lottery authority that it has received a copy of the court order and that it will cause the lottery prize money to be paid (and, if applicable, that it will instruct and require the issuer of the annuity responsible for making the lottery prize money payments to pay and deliver the lottery prize money) directly to the insurer, in accordance with the court order.

(ii) Indirect Transfer

(A) An indirect transfer structure is a lottery security in which the reporting insurance company has obtained the right to the lottery prize money by acquiring the beneficial interest in a trust, or through some other similar manner. If more than one lottery prize is transferred to a trust (or similar entity), an additional issue is raised; i.e., would the indirect transfer be considered a transfer of the lottery prize money that must be ordered by a court. To address this issue, the insurer shall submit the documents required by one of the following options:

(B) A certified copy of the court order that authorizes the transfer of the lottery prize money from the trust to the insurer, and a written acknowledgement by the state lottery authority that it has received a copy of the court order and that it will cause the lottery prize money to be paid (and, if applicable, that it will instruct and require the issuer of the annuity responsible for making the lottery prize money payments to pay and deliver the lottery prize money) directly to the trust, in accordance with the court order; or

(C) An unqualified opinion of counsel to the effect that although state lottery law requires a court order to effect a transfer of the right to receive lottery prize money, the transfer of a beneficial interest in a trust is not the transfer of the lottery prize money under state lottery law and thus no approval, consent or authorization of a governmental or administrative authority is required in connection with the transfer of the beneficial interest in the trust; or

(D) (a) An opinion of counsel expressing a qualified opinion that the transfer of the beneficial interest in a trust should not be construed as a transfer of lottery prize money requiring a court order which may be qualified with respect to the lack of case law or legislative history to support this view or by the observation that counsel is unaware that the state lottery authority would concur with this reasoning; and (b) A written acknowledgement by the state lottery authority to the effect that the indirect transfer (for example, via a transfer of the beneficial interest in a trust) is not the transfer of the lottery prize and does not require a court order; or

(E) A copy of the state lottery authority's policy statement that it will irrevocably cause the lottery prize money to be paid (and, if applicable, that it will instruct and require the issuer of the annuity responsible for making the lottery prize money payments to pay and deliver the lottery prize money) to the trust despite the lack of court order.

e) Limited Discretion for Certain Indirect Transfers

An insurer reporting an indirect transfer lottery security arrangement that cannot obtain the documents set forth in (ii) (A), (B), (C) or (D), may submit the transaction to the SVO with a qualified opinion of counsel as set forth in (ii) (D) (a) above. In that case, the SVO may process the transaction, but it shall be limited in its discretion to assigning an NAIC Designation one category lower than the Designation the transaction would have received based on the credit strength of the state or of the lottery authority.

f) Structured Lottery Securities

If more than one lottery prize is transferred to a trust (or similar entity), the security created thereby is considered to be a structured lottery security. The issues and criteria described above are applicable to structured lottery securities. However, securitizations introduce other structural considerations. The insurer is urged to contact the SVO.

SECTION 15. POWER GENERATION PROJECTS

a) **Documentation Requirements**

- Independent Engineer Report – A typical report format identifies the contractor who will construct the Project, experience and the contract type; e.g., fixed cost turnkey. Describes the equipment to be used to construct the Project, provides an assessment of its expected life and identifies and explains applicable warranties. Discusses anticipated completion date and contingencies or ramifications if the completion date is not met. Projects financed after construction is completed will not need to include such construction discussions in the Independent Engineer Report. The report should identify uses of construction funds and any construction budget contingency available. Provides data and a study of Resource Risk including where the geography and time period over which the information was obtained. Often provides an analysis of the Off-Take Arrangement. Provides an analysis of projected cash flows based on Resource Risk and any applicable degradation or curtailment projections.
- Off-Take Arrangement or Power Purchase Agreement – Identifies the Buyer and the terms under which the Project's dedicated capacity, generated electricity, ancillary services, and/or environmental attributes will be sold; identifies pricing (including escalation clauses); permitted degradation; allowances for scheduled and unscheduled outages; financial penalties imposed under the contract for generation below required levels and identifies required reserves and the amount of such reserves.
- Please refer to [Part Three, Section 1 a\) \(ii\) of this Manual](#) for Audited Financial Statement standards applicable to an Off-Taker not rated by an NAIC CRP.
- Information Memorandum – This can be in the form of a Private Placement Memorandum, Confidential Information Memorandum or a Detailed Internal Report. The Information Memorandum should include: a Project description (site), parties and background information on the equipment supplier(s) and contractor, the transaction and the economic rationale of the Project; a description of the sources and uses of funds; cash flow projections covering the term of the debt, including base case and stress case scenarios; a discussion of available reserve accounts such as debt service, operating and maintenance and decommissioning, as applicable; a description of the legal agreements including security and covenants and a description of the Off-Take Arrangement.

- Legal Agreements – The package of legal agreements identifies the terms of the security and collateral package; and provides an opinion whether investors have a perfected security interest and lien on the collateral; indicates the maturity date of the debt incurred in the Project Financing and includes sufficiently detailed Scheduled and Targeted Amortization schedules as well as the requirement for any Cash Sweep (as applicable); identifies the reserves that have been established and confirms that such reserves are pledged as part of the collateral package to bondholders; provides for a cash flow Waterfall to ensure items of cash flow such as revenue, expenses, tax, debt service and distributions occur in the specified priority; and includes the affirmative and negative covenants (such as restricted payments tests and limitations on the incurrence of additional indebtedness) applicable to the Project; identifies events of default, cross-default on the issuer's other debt, if applicable, and remedies upon the occurrence of an event of default.
- Depositary Agreement – The contractual agreement between the Project company, the lenders, and a third-party trustee, which governs the collection and application of cash flow proceeds from the Project as further defined in [Part Three, Section 15 a\).](#)

b) Definitions

Cash Flow Available for Debt Service (CFADS) is defined as cash flow from operations in any given period (cash revenue minus cash operating expenses) less major maintenance capital expenditures. Major maintenance expenditures are those the Project needs to make to operate the plant in good order for the life of the transaction, including expenditures related to a Forced Outage. Excluded from major maintenance capital expenditures are any extraordinary or discretionary capital expenditures that are not required to keep the plant in good working order.

Cash Sweep refers to principal amortization that occurs at specified intervals based on excess cash (or a portion thereof) after completing certain steps in the Project's Depositary Agreement Waterfall. Cash Sweep mechanisms are often utilized in order to reduce leverage with excess cash available, and can be utilized to reduce refinancing risk in certain Financing Structures. Failure to make a Cash Sweep payment does not typically trigger a payment default, but might result in a prohibition on distributions to the parent or sponsor.

Depository Agreement refers to the contractual agreement between the Project company, the lenders, and a third-party trustee, which governs the collection and application of cash flow proceeds from the Project. The Depository Agreement includes provisions for reserve accounts that support specific Project liquidity needs, certain future Project liabilities, and/or backstop debt service.

DSCR stands for **debt service coverage ratio** and is defined as Cash Flow Available for Debt Service (CFADS), divided by the scheduled interest and principal payments as measured during any given period (measured on a twelve month rolling basis) and seeks to show the cash flow cushion available to meet the Project's ongoing debt amortization obligations given the intrinsic cash flow generation ability of the Project. The scheduled interest and principal payments are defined in the Project's bond indenture or loan agreement during a specified period.

EPC stands for **Engineering, Procurement and Construction** and refers to a contract under which a contractor agrees to design and construct a Project on a specified timeline and in accordance with specified performance requirements.

Financing Structure means the specific form of the financing plan describing the type(s) of debt used to capitalize the Project entity, the position of the debt relative to the asset and other participants in the capital structure, terms of repayment, contractual obligations, and protections incorporated in the financing (such as guarantees, security, pledges, reserve accounts, restrictive covenants, etc.).

Fully Amortizing means that the Project's debt is fully repaid during the term of such debt through cash flow from operations.

Fully Contracted means the Project (or Seller) has entered into an agreement with a utility or other purchaser of electricity (as Buyer) to sell all of the electricity it will produce in an Off-Take Arrangement or PPA pursuant to which the Buyer agrees to buy the capacity, electricity, ancillary services, tax credits, and/or environmental attributes/credits generated by the Project.

Forced Outage means the net capability of the Project's main electricity generating units that are unavailable for load for emergency reasons.

Generation means the process of producing electric energy by transforming other forms of energy; also, the amount of electric energy produced, expressed in kilowatt hours.

Heat Content means the amount of heat energy available to be released by the transformation or use of a specified physical unit of an energy form (e.g., a ton of coal, a barrel of oil, a kilowatt-hour of electricity, a cubic foot of natural gas, or a pound of steam). The amount of heat energy is commonly expressed in British thermal units (Btu). **NOTE:** Heat content of combustible energy forms can be expressed in terms of either gross heat content (higher or upper heating value) or net heat content (lower heating value), depending upon whether or not the available heat energy includes or excludes the energy used to vaporize water (contained in the original energy form or created during the combustion process). The Energy Information Administration typically uses gross heat content values.

Hedging Contracts are contracts where a counterparty agrees to purchase a specified quantity of future electric generation (or ancillary services) at fixed prices independent of the real-time spot market prices. These contracts are typically financially settled with the power plant selling its generation into the spot market and paying/receiving the difference between the hedged price and the actual spot market price to/from the counterparty. In the electric power market, these hedges are typically structured as a heat rate call option or revenue put. Interest rate hedges provide for the conversion of floating interest rates to fixed rates. Derivatives may be used for this purpose.

Implied Heat Rate is a calculation of the day-ahead electric price divided by the day-ahead natural gas price. Implied heat rate is also known as the “break-even natural gas market heat rate,” because only a natural gas generator with an operating heat rate (measure of unit efficiency) below the implied heat rate value can make money by burning natural gas to generate power. Natural gas plants with a higher operating heat rate cannot make money at the prevailing electricity and natural gas prices.

Merchant Pricing means the price of electricity agreed to between a buyer and seller set in an open market on the basis of supply and demand.

Off-Taker means the purchaser of the Project company’s electricity under an Off-Take Arrangement or a PPA.

Off-Take Arrangement means an agreement under which the Project company enters into an agreement with the Off-Taker to provide a specified quantity of electric generation, available capacity, ancillary services and/or environmental attributes and the Off-Taker is typically obligated to pay for that product whether or not it accepts the product; provided the Project company has the current capacity to produce it.

O&M stands for **operation and maintenance** expenses and refers to the costs related to the normal operating, maintenance and administrative activities of the Project.

Partially Amortizing is a debt amortization profile that includes a balloon payment at the end of the debt term. This structure typically relies on refinancing or an equity contribution to repay the balloon amount.

Partially Contracted is a Project that has entered into a PPA or Off-Take Arrangement for less than the plant's full generating capacity.

Power Generation Project (Project) refers to a power plant that generates and sells electricity within a special purpose entity, using a specified Technology and Fuel Source.

Power Purchaser means the buyer of electric generation, capacity, ancillary services and/or environmental attributes from the Project company.

Power Purchase Agreement (PPA) means an agreement in which the Power Purchaser agrees to purchase all or up to a specified quantity of electric generation, capacity, ancillary services and/or environmental attributes produced by the Project company.

Project Financing means the issuance of debt by a special purpose entity on a non-recourse basis, whereby the debt incurred to construct or acquire the Project is repaid from the cash flow from operations of the Project company, typically pursuant to an Off-Take Arrangement or in a PPA, rather than relying on the equity Sponsor.

Renewable Energy Power Generation Project means a Project Generation Project whose Technology is based on the capture of energy from on-going natural processes, such as sunshine, wind, wave power, flowing water, biological processes such as anaerobic digestion and geothermal heat flow.

Resource Risk refers to the inherent variability and uncertainty in projected solar irradiation and wind speeds using data gathered from the Project site that is then correlated to a longer historical meteorological data set to produce a long-term resource projection for the Project.

Scheduled Outage refers to planned downtime during which a plant is unavailable to operate. Scheduled Outages are typically planned in advance and communicated with the RTO, ISO and/or the Off Taker.

Scheduled Principal payments are the principal amortization amounts required to be paid, pursuant to a schedule included either in the Note Purchase Agreement, Credit Agreement, or the form of Note. Scheduled Principal is distinguished from Targeted Principal payments and Cash Sweep principal payments by the fact that failure to make a Scheduled Principal payment would result in payment default.

Solar Power Generation Project is a Renewable Energy Power Generation Project based on a technology that converts heat energy into electricity using mechanical processes (solar thermal) for example, by concentrating solar radiation to create steam or that converts sun light directly into electricity based on semiconductor technology (photovoltaic or PV solar).

Targeted Principal payments are principal amortization amounts that are paid if and to the extent that cash is available at that point of the Waterfall according to the priority of payments in the Depositary Agreement. Failure to make a Targeted Principal payment does not result in a payment default. Satisfaction of Targeted Principal payments may be a condition to permitting distributions to the parent or sponsor. Financing Structures with debt tranches that utilize Targeted Principal payments are often intended to address the inherent period to period variability in renewable resources (such as solar or wind) by allowing the Project to amortize principal during periods of strong resource without penalizing or straining Project cash flow during periods of weaker resource.

Technology and Fuel Sources refers to the technology on which a power plant will be based and the mechanical process or fuel to be used to generate electricity, which may involve any one of the following: gas-fired; coal; hydroelectric; nuclear; bio-mass; renewable; or other.

Waterfall describes the order and priority of payments that may (or must) be made according to the Depositary Agreement or other Project document.

Wind Power Generation Project is a Renewable Energy Power Generation Project that utilizes one or more wind turbine generators (WTGs) that harness the energy generated by wind and convert it to electricity.

c) **Economic Dynamic of Power Generation Projects**

The methodology discussed in Section 7 and more particularly in subsection (c) below, applies to non-recourse power generation projects. A typical non-recourse power generation project relies on one or a small number of assets to generate all of the Project's revenue and operating margin over the life of the asset(s). In some instances, the Project's collateral may consist of only a single asset and an assignment of rights under an offtake agreement. In order to properly assess the credit quality of these Project Financings, a number of factors must be considered, with the strengths and relative weaknesses weighed against one another in an organized and holistic manner.

d) General Methodology for Power Generation Project Finance Transactions

Assessment of a Project incorporates an evaluation of the analytical constructs described in this subsection (c). The conclusions drawn from each analytical constructs are then organized by reference to the factors shown in the Credit Factor Chart in subsection (d) below applied in conjunction with the Principles Guiding the Use of the Credit Factor Chart to reflect the unique structural elements in each transaction.

- 1) Cash Flows – Analysis of the Project's cash flow during the debt term (and beyond, as applicable) to assess its composition and predictability.
- 2) Competitive Position of the Project Asset and its PPA/Off-Take Arrangement – An assessment of the Project asset within the context of the marketplace and regulatory environment and an analysis of the PPA or Off-Take Arrangement relative to the power market in its region and regulatory considerations.
- 3) Operating and Technical Risks – Assessment of the Project's technology and operating risks.
- 4) Financial Metrics – Analysis of the Project's key financial metrics. The primary metric for a Project Financing Structure that is fully contracted and fully amortizing is DSCR. Financial metrics are evaluated against peers with similar characteristics, debt service obligations and leverage. The NPV of projected cash flow compared to total debt is another key metric used in this analysis. Additional considerations that could strengthen or weaken the above core analysis include:
 - Liquidity/Reserve Accounts
 - Structure
 - Refinancing Risk
 - Structural Subordination
 - Construction Exposure

e) Tools and Concepts Used in the Application of the General Methodology for Power Generation Projects

- (i) Credit Factor Chart
The following Credit Factor Chart is intended as a tool to organize the primary analytical considerations derived from the application of the methodology discussed in subsection (c) above to the most important factors in determining the credit quality of a transaction. Given the highly specialized nature of this asset class, the baseline assumption is that there will be unique structural elements in each transaction that reflect the specific facts and circumstances of that credit. Accordingly, judgment is required in the application of the Credit Factor Chart to specific

transactions. For each Credit Factor there is a recommended range for weighting to reflect that risk can vary significantly among Projects.

Credit Factor	Subcategory	Weight Range	Project Risk Score Descriptions		
			Weak	Average	Strong
Construction	Construction	0%–40%	Contractor with little relevant experience or weak reputation; floating contract; aggressive budget and schedule; difficult construction process and/or complexity	Contractor with some relevant experience; fixed rate contract; reasonable budget and schedule; reasonable construction complexity	Contractor with significant experience and strong financial position; fixed rate contract with financial incentives and penalties; reasonable budget and schedule; simple construction
Operations & Technology	Operator	5% – 10%	Operator with little relevant experience; irreplaceable operator; compensation is not performance based	Operator with some relevant experience; operator can be replaced; compensation is based on performance	Operator with significant experience; operator can be replaced; compensation is based on results with LDs for underperformance
	Technology	10% – 20%	Unproven technology with limited performance history	Proven technology with some performance history, or newer technology with appropriate equipment warranties backstopping performance guarantees	Proven technology with significant performance history
	Operations & Maintenance (O&M)	10% – 15%	O&M is managed by the Project and funded from cash flow from operations	O&M is managed by the Project or third party and expenses are smoothed/backstopped by reserve accounts and/or equipment warranties. Adequate sensitivity modeling for higher than projected O&M expenses.	O&M is managed by a reputable third party through a long-term service agreement with fixed pricing
	Resource/Fuel Assessment	5% – 20%	Fuel is purchased on the open market; resource assessment lacks on-site historical reference data	Firm fuel transportation and supply; resource assessment is acceptable and based on some on-site historical data correlated to a reference station with longer data set	Fuel is purchased through a long-term agreement with fixed pricing and transportation or is subject to a tolling agreement with the power purchaser; resource assessment is high-quality and based on significant historical data or meaningful historical operating data is present in lieu of a new resource assessment
Counterparty Credit Profile & Competitive Position	Creditworthiness of Counterparty	10% – 25%	Weak counterparties; aggressive contractual terms; high probability of default or termination	Creditworthy counterparties; reasonable contractual terms, and achieved performance standards	Counterparties whose creditworthiness is rated above the Project's; favorable contractual terms
	Competitive Position	5% – 15%	All of the Project's generation would be sold into merchant market	Partial merchant exposure with some hedging or some PPA offtake to mitigate price fluctuations	Generation is sold under a long-term power purchase agreement or hedge arrangement
Transaction Structure	Transaction Structure	10% – 20%	Absent legal structure/separation provisions; no distribution tests; no refinancing risk; cross-default provisions with other debt; weak depositary terms/cash control/liquidity	Strong bankruptcy remoteness and legal separation provisions; limited refinancing risk; historical look-back distribution tests; appropriate depositary arrangement and average reserve account/liquidity protection	Strong bankruptcy remoteness and legal separation provisions; strong look-back and look-forward distribution tests; no refinancing risk; strong depositary terms; excellent liquidity protection with appropriate reserve accounts

(ii) Principles Guiding the Use of the Credit Factor Chart

(A) *Credit Factors*

Construction: Projects are often financed for a long-term period, with the private placement debt coming in before, during, or after construction. Accordingly, if the debt is funding before or during construction, an analysis of the construction exposure and its potential impact on the financing must be completed. The assessment of construction risk is intended to facilitate the assignment of a long-term rating for the Project from the first date of the financing, assuming steady state operations, that is unaffected by the presence of a typical construction scenario with a properly structured Engineering, Procurement and Construction (EPC) arrangement. Accordingly, the analysis of construction risk exposure is meant to capture outsized risk exposures that have a high probability of causing a meaningful delay in achievement of commercial operations, materially increasing costs, or delaying/impairing the Project's ability to service debt.

This analysis should address the likelihood of the Project's construction being completed on time, on budget (or within contingency), and within the expected operating performance parameters. In addition to the likelihood of a smooth construction process, the contractual structure of the EPC arrangement should be assessed to determine the adequacy of remedies and mechanisms in the EPC arrangement to address potential delays, disputes, cost overruns, and operational deficiencies. A fixed-price EPC Contract with a reputable construction company that includes mechanisms (such as bonuses and liquidated damages) to align the parties' incentives to complete the Project on time, within operational specifications, and within budget would be expected to score as a Strong in the risk factor scoring for this category. Unqualified contractors, unrealistic construction budgets, or unachievable timelines (if not addressed by structural enhancements to the EPC Contract) could merit a Weak score. Escrow accounts and letters of credit may be used to help ensure performance under the EPC Contract where a guarantee from the construction company's parent is deemed insufficient/lacking creditworthiness to backstop the contractor's obligations. An independent engineer would typically assess the quality of the contract, the pricing, adequacy of contingency, and the ability of the contractor to complete the scope of work in the timeline expected.

Special Considerations Unique to Renewable Projects: Wind and solar projects are generally considered to have lower risk construction processes than conventional power plants due to the modular nature of the equipment involved and the shorter timeline required to complete construction and commissioning activities. Both solar and wind projects are typically commissioned in stages, allowing the Project to begin earning revenue prior to Commercial Operation Date (COD), which can help to offset exposure to construction delays if they arise in the final stages of commissioning. The level of complexity in the construction activities for a photovoltaic (PV) solar project is typically considered to be low due to minimal moving parts and the modular nature of the plant assembly.

Operational & Technology: Assessment of a Project's Operational & Technology profile is intended to determine the level of exposure to these challenges that could impact both revenue and expenses. These risks are assessed through four primary sub-categories: operator, technology, O&M expense profile, and resource/fuel assessment. Typical investment grade Projects will utilize commercial, proven technology, a sophisticated operator, a carefully planned operating and capital expense projection, and an appropriate fuel arrangement that avoids financial penalties for fuel supply/transportation constraints and exposure to fuel costs that are not passed through to the Off-Taker. Comprehensive property damage and liability insurance is expected to be in place, with business interruption coverage that compensates that Project for force majeure disruptions in operations.

Special Considerations Unique to Renewable Projects: For renewable Projects, a professional resource assessment by an experienced third-party engineering firm will typically be completed prior to construction of a Project, with appropriate sensitivities and adjustments for the particular geography, climate, and details of the Project site and equipment being used. Wind speeds or solar insolation measurements on site for a meaningful period of time in advance of the start of construction is preferable. The debt sizing should account for downside resource scenarios as well as the mean projected resource. Operational Projects that have meaningful resource and generation data from historical operations may rely on actual historical data points in base and stress cases if the actual operating history is determined to be a better predictor for future performance than the original resource assessment.

(B) *Counterparty Exposure and Competitive Position*

Counterparty Exposure – In instances where the Project's cash flow stream is dependent upon payment or other performance by a counterparty, the credit quality of that entity should be assessed. The primary counterparty of concern in a typical power project financing is the Off-Taker or hedge counterparty for the sale of the Project's generated power. The credit rating of the Off-Taker/hedge counterparty typically serves as the ceiling for the Project's credit quality due to reliance on the counterparty for cash flow to service the debt financing. The power purchase agreement or hedge does not need to cover all of a power project's generation in order for the Project to qualify for an investment grade quality conclusion or a strong assessment in this category, but the debt sizing should be appropriate for the level of contracted cash flows under the Offtake arrangement, with limited or no reliance on the merchant cash flow to service debt. Please refer to [Part Three, Section 1 a\) \(4\) of the Manual](#) for Audited Financial Statement standards applicable to an Off-Taker not rated by an NAIC CRP.

Letters of credit, guarantees, and other security posted in support of a lower credit quality counterparty's obligations should be taken into account, as the security could be sufficient to ensure performance throughout the contract. If the Project must provide a pari-passu lien to the hedge provider to secure the Project's obligations under the hedge, the potential detriment to the senior lenders caused by sharing this security interest should be evaluated relative to the debt amount and value of the Project's long-term cash flows under scenarios where the hedge is out of the money. Capped liens in such situations are typically preferred.

Off-Take Arrangements should be assessed to identify risks to the Project's cash flow due to the Project failing to meet specified performance standards, uncompensated curtailment, and any clauses that could allow the Off-Taker to reduce payments or terminate the agreement due to future regulatory/market changes. In some instances, the market alternatives to a counterparty, and the ease with which such counterparty could be replaced, should be evaluated.

Competitive Position: Fully contracted Projects with power purchase agreements or hedge arrangements under market terms should generally be considered to have a strong competitive position. In situations where the contractual price of the power being sold under the offtake agreement materially exceeds prevailing spot and forward

market prices in the region, the Off-Taker's motivation for entering into the agreement (and ability to pass the cost of such agreement on to its ratepayers/customers) should be considered. State renewable portfolio standards, federal environmental legislation, the current political climate, federal/state energy policy and regulations, and regional supply/demand fundamentals may support the viability/defensibility of above market Off-Take Arrangements. If the viability of an Off-Take Arrangement is in question, it might be appropriate to consider the Project's ability to service debt if it were to sell power (and any applicable ancillary services) under current and forward market rates.

Projects that are fully exposed to merchant pricing are likely to be considered to have a weak competitive position unless a particular heat rate or cost advantage that results in superior cash flow relative to other market participants can be proven.

Structure: A typical power project financing is structured as a non-recourse, stand-alone entity that is neither reliant on its parent, nor impacted by its parent's credit profile. While the ultimate structure of the transaction can take different forms (including lease), several components are needed in order for the Project to be considered separate from its parent(s):

- The Project entity is a limited or special purpose entity (solely engaged in the generation, distribution, voltage regulation, and/or transmission of electricity).
- The debt investors have a security interest in the assets, accounts, and equity of the Project. The debt investors have an assignment of key contracts/agreements.
- The Project is contractually entitled to the cash flow stream that services the debt.

Additionally, a typical Project structure includes the following:

- The Project's funds are segregated from the parent/sponsor, and a third-party trustee administers the movement of cash flow, in accordance with a Waterfall.
- Distributions to the parent/sponsor are allowed only when certain criteria and DSCRs are met.

- Standard affirmative and negative covenants requiring regular operational and financial reporting, restricting the sale of assets, prohibiting/restricting the incurrence of additional liens/indebtedness, limiting modifications to and cancellation of material Project agreements, restricting acquisitions or changes in line of business, and other standard Project finance covenants.

The assessment of strong, average, or weak for the Project's structure is dependent upon the strength of the above terms, and how they have been crafted to address the Project's specific attributes/risk profile.

Financial structures that should be evaluated further to determine whether their structure merits a designation of average or weak include:

- Refinancing Risk – Projects with partial or a back-ended amortization during the debt term should present downside scenarios to show the most likely level of debt outstanding at maturity that will be refinanced, and the likelihood that a refinancing would be accepted by the marketplace based on the cash flow post-maturity, contract structure post-maturity, and the expected asset value at the time of refinancing. The life of the asset (compared to its expected useful life), cost/kW of capacity, and current mergers & acquisition (M&A) values for similar assets on a transaction price per kW basis should be used to evaluate the viability of a refinancing. A Project with a fully amortizing structure (with otherwise strong structural elements) will be considered stronger than a partially amortizing structure.
- Structural Subordination – Projects where the debt is at a holding company and there is a significant degree of Project or subsidiary level debt (or equity) that needs to be serviced prior to cash being available to service the debt of the rated issuer.

The ability of the Project to withstand revenue disruptions due to unscheduled Forced Outages and other events is assessed. The assessment factors include the existence and amounts of debt service reserve, major maintenance reserves, operating reserves, property damage and business interruption insurance, and committed working capital facilities. A debt service reserve of six-month is standard. The need for a major maintenance reserve may be mitigated by a long-term service agreement.

(C) *Overall Financial Risk Profile*

After evaluating the Project's credit factors, the average debt service coverage ratio (DSCR) profile necessary to support a quality conclusion will be determined. DSCR is not the only metric used to determine the appropriate quality conclusion—in structures with multiple tranches, Cash Sweeps, Targeted Amortization, and refinancing risk, the net present value (NPV) of the remaining projected cash flow divided by the total debt amount (NPV Ratio) is an appropriate measure of the Project's ability to service debt over the term of the financing (or post-financing, when evaluating refinancing risk). The calculation of the NPV Ratio typically uses the coupon (or weighted average interest rate) as the discount rate for the calculation. In evaluating a refinancing scenario post-maturity of the current financing, market rates (accounting for the current forward interest rate environment) can be used to approximate the appropriate coupon/discount rate.

Projects exhibiting an overall credit factor assessment of "weak" are not expected to fall within the highest or high-quality categories due to their inherent weaknesses. Projects with unique situations that give rise to higher variability or uncertainty in cash flow, may require higher debt service coverage ratios to achieve the same quality conclusion as a comparable Project without such volatility. The following table provides guidance for what ranges of DSCRs or NPV Ratios would generally indicate higher versus lower quality conclusions given different overall risk assessments from the Credit Factor Chart.

Average Debt Service Coverage or NPV of Cash Flow to Total Debt					
Overall Credit Factor Chart Risk Assessment	Quality Conclusion				
	Investment Grade		Speculative Grade		
	Highest	High	Medium	Low	Lowest
Weak	N/A	N/A	1.30 – 2.00x	1.20 – 1.50x	1.10 – 1.35x
Average	1.75 – 3.25x	1.30 – 2.00x	1.20 – 1.50x	1.10 – 1.35x	1.00 – 1.25x
Strong	1.50 – 3.00x	1.20 – 1.75x	1.10 – 1.35x	1.00 – 1.25x	1.00 – 1.15x

f) Additional Methodological Considerations for Renewable Energy Projects

(i) Additional Considerations Applicable to Solar Power Generation Projects

Assessment of Solar Power Generation Projects is conducted on the basis of the general methodology described [Section 15 b\) of this Part](#), above but is subject to the additional considerations that follow.

Regulatory Incentives – The electrical output of Solar Power Generation utilizing photovoltaic technology can be expensive relative to the cost of the output of thermal combined cycle gas turbines or coal-fired plants depending on the regional market that the Project is operating in and time of day that the power is being delivered. This often means the viability of individual Projects depends on regulatory incentive, subsidy or support. When such support exists, the form of the support; its predictability; the general level of political support for renewable energy and the fit with the energy policy and framework are evaluated.

Structural Risk – If the form of incentive, subsidy or support imposes time lines for Project completion as a condition, the ability to meet the timelines and the potential loss of the incentive, subsidy or support on the viability of the Project should be considered.

Technology Risk – Technology risk is defined by reference to the potential for serial defects that can cause panel yields to be below specification or make yields degrade more quickly than originally assumed. The presence of warranties and insurance products supporting the Project's panel technology, as well as decreasing future panel placement costs should be considered as potential risk mitigants.

Resource Risk – The volume of electricity produced by a PV solar power plant depends on the period to period variability of solar irradiation. The expected volume of irradiation over a given time is contained in forecasts provided by reputable and experienced consultants prior to the commencement of commercial operations, expressed as a probability distribution function. The Project's ongoing ability to service debt is assessed by using both the P50 and the P90 forecast to calculate base case and downside financial ratio scenarios. Operational Projects that have meaningful insolation and generation data from historical operations may rely on actual historical data points in base and stress cases if the actual operating history is determined to be a better predictor for future performance than the original resource assessment.

(ii) Additional Considerations Applicable to Wind Power Generation Projects

Assessment of Wind Power Generation Projects is conducted on the basis of the general methodology described in [Section 7 b\) of this Part](#) above, but is subject to the additional considerations that follow.

Regulatory Incentives – The cost of electrical output from Wind Power Generation is typically competitive with the cost of the output of thermal combined cycle gas turbines or coal-fired plants depending on the regional market in which the Project is operating and time of day that the power is being delivered. Some Projects, however, rely on a regulatory incentive, subsidy or support. When such support exists, the form of the support; its predictability; the general level of political support for renewable energy and the fit with the energy policy and framework are evaluated.

Structural Risk – If the form of incentive, subsidy or support imposes time lines for Project completion as a condition, the ability to meet the time lines and the potential loss of the incentive, subsidy or support on the viability of the Project should be considered.

Technology Risk – Technology risk is defined by reference to the potential for serial defects that can cause lower than projected availability and/or higher than projected operating expenses. The presence of warranties and insurance products supporting the Project's turbine technology, carefully considered O&M projections, as well as the level of deployment of the turbine model/similar technology, and availability of spare parts (OEM and/or aftermarket) are factors that can balance this risk.

Resource Risk – The volume of electricity produced by a wind power plant is impacted by the period to period variability of the wind resource. The wind resource forecast is provided by reputable and experienced consultants prior to the commencement of commercial operations, expressed as in a probability distribution function. The Project's ongoing ability to service debt is typically assessed by using both the P75 and the P90 forecast to calculate base case and downside financial ratio scenarios. (Different base or downside scenarios may be used in certain instances if the circumstances of a Project or the presence of a unique risk exposure merits a different projection scenario.) Projects that have meaningful wind speed and generation data from historical operations may rely on actual historical data points in base and stress cases if the actual operating history is determined to be a better predictor for future performance than the original resource assessment.

(iii) Principles Guiding the Use of the Credit Factor Chart – Special Considerations Unique to Renewable Projects

(A) *Credit Factors*

Construction: Wind and solar projects are considered to have lower risk construction processes than conventional power plants due to the modular nature of the equipment involved and the shorter timeline required to complete construction and commissioning activities. Both solar and wind projects are typically commissioned in stages, allowing the Project to begin earning revenue prior to Commercial Operation Date (COD), which can help to offset exposure to construction delays if they arise in the final stages of commissioning. The level of complexity in the construction activities for a photovoltaic (PV) solar project is typically considered to be low due to minimal moving parts and the modular nature of the panel assembly.

Operational & Technology: Assessment: For renewable projects, a professional resource assessment by an experienced third-party engineering firm will typically be completed prior to construction of a Project, with appropriate sensitivities and adjustments for the particular geography, climate, and details of the Project site and equipment being used. Wind speeds or solar insolation data gathered on site for a meaningful period of time in advance of the start of construction is preferable. The debt sizing should account for downside resource scenarios as well as the mean projected resource. Projects that have meaningful resource and operational data from historical operations may rely on actual historical data points in projection scenarios if the actual operating history is determined to be a better predictor for future performance than the original resource assessment.

Special Considerations for Renewable Projects: Projects should be evaluated using both the financing case (typically P75 for wind or P50 for solar, unless pre-financing actual results differ materially and necessitate the usage of a different probability of exceedance as the baseline projection) and a stress case (typically P90 unless unique circumstances or a Project's risk profile or its historical performance merit the use of a different scenario) to determine which designation is most appropriate.

SECTION 16. CATASTROPHE-LINKED SECURITIES**a) Definition**

For the purposes of this Manual, Catastrophe-Linked Bonds are financial instruments that:

- (A) Are specifically designed to transfer underwriting risk associated with the occurrence of a natural catastrophic event, such as a hurricane, an earthquake or a flood (a “Catastrophe Event”), from an originating insurer to the reporting insurance company investor and other security holders; and
- (B) Are structured so that payment of interest or principal to the reporting insurance company depends on the occurrence of a Catastrophe Event of a defined magnitude or, that causes an aggregate insurance loss in excess of a stipulated amount, and
- (C) Are structured so that either all or a portion of the principal invested by the reporting insurance company is at risk.

b) Filing Exemption Status

Catastrophe-Linked Bonds are eligible for the filing exemption in Part Three of this Manual, provided that: (1) the transaction has been rated by an NAIC CRP; (2) the NAIC CRP rating will be continuously monitored; and (3) the NAIC CRP’s rating results from application of a methodology that incorporates historical information, as well as stochastic probability models and computer simulations; assesses the potential for loss of interest and/or principal from underwriting risk; and correlates the probability of the occurrence of the Catastrophe Event and the loss associated with the damage caused by such event to the statistical probability of bond default and its severity reflected by the NAIC CRP’s alphanumeric rating.

c) Procedure for Other Catastrophe-Linked Bonds

Catastrophe-Linked Bonds that have not been assigned a credit rating by an NAIC CRP and those that have been assigned a credit rating by an NAIC CRP based on the use of a methodology other than that specified subject to the Special Reporting Instruction in this Manual.

SECTION 17. SUBSIDIARY, CONTROLLED AND AFFILIATED (SCA) DEBT OR PREFERRED STOCK
INVESTMENTS

a) Filing Instructions

(i) Common Stock

An investment in the form of common stock issued by an insurance or non-insurance subsidiary, controlled or affiliated (SCA) entity of the reporting insurance company or an investment in the form of a preferred stock issued by an insurance subsidiary, controlled or affiliated company of the reporting insurance company **is required to be filed with the NAIC Financial Regulatory Services Division in the manner and form and with the documentation provided for in the Appendix to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.**

(ii) Bonds

An investment in the form of a bond issued by an insurance or noninsurance SCA entity of the reporting insurance company **is filed with the SVO.** To file an SCA bond investment, the reporting insurance company files a completed SAR, 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.

(iii) Preferred Stock

An investment in the form of preferred stock issued by a noninsurance SCA entity of the reporting insurance company **is filed with the SVO.** To file an SCA preferred stock issued by a non-insurer, the reporting insurance company files an Audited Financial Statement for the issuer of the preferred stock, a copy of the corporate resolution authorizing the issuance of the preferred stock, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary, together with details of the terms of the preferred stock, as well as the NAIC Financial Statement Blank for the reporting insurance company. Please see the section on preferred stock in this Part for additional analytical procedures applicable to that asset class.

b) Purpose

This section applies to credit assessment¹ of any SCA investment in the form of a debt instrument purchased (or otherwise acquired) from an insurance or non-insurance entity (SCA debt) and preferred stock issued by an insurance or non-insurance entity (SCA preferred stock). This procedure is used to determine whether an SCA debt or SCA preferred transaction is eligible for reporting as an Investment Security pursuant to [Part Two, Section 2 a\) of this Manual](#). The determination of “Investment Security” and credit assessment provided by the SVO shall not be construed to reflect assessments specific to affiliated transactions contained in *SSAP No. 25—Affiliates and Other Related Parties*. As such, an SVO-assigned NAIC Designation for affiliated transactions:

- Does not reflect collectability based on independent payment ability of a parent reporting entity.
- Does not reflect whether the transaction was conducted at arm’s-length.
- Does not reflect whether the transaction is considered “economic” under SSAP No. 25.

c) Notification Procedure

Prior to applying the procedures required below, the SVO shall:

- (A) Confirm that the SCA relationship has been reported to the NAIC Financial Regulatory Services (FRS) Division, if required.
- (B) If the SCA common preferred stock transaction was reported (or if not required to be reported), the SVO shall:
 - (1) Inform the state insurance department of the reporting insurance company’s state of domicile that the SCA debt or SCA preferred stock has been filed with the SVO.
 - (2) Evaluate whether the SCA debt or SCA preferred stock transaction is circular within the meaning of [Part One, Section 2 c\) \(ii\) of this Manual](#).

¹ Consistent with guidance in Part One, Section Two, the result of an SVO credit analysis expresses an opinion of the credit quality of a specific liability in the issuer’s capital structure. The ability to realize payment may be affected by factors not related to credit risk, or by the manner in which the repayment promise has been structured. NAIC designations do not measure other risks or factors that may affect repayment, including volatility/interest rate, prepayment, extension, liquidity, and for affiliated transactions addressed in this section, whether the transaction is considered arms-length and economic.

- (3) In the case of SCA preferred stock, determine the SCA preferred stock issuer's senior unsecured debt designation and obtain the appropriate designation level for the preferred stock by applying the methodology specified in [Section 1 b\) of this Part](#).

Although an NAIC Designation does not provide assurances regarding arms-length or economic, if the SVO becomes aware of any information that indicates further review is warranted, the SVO shall contact the reporting entity to discuss, with subsequent notification (by the reporting entity or SVO) to the domiciliary state regulator, as needed. Pursuant to SSAP No. 25, affiliate transactions that are not arm's-length and/or economic are subject to additional accounting and reporting guidelines and each reporting entity is required to be knowledgeable about its domiciliary state regulatory requirements for approval of these transactions.

The following definitions/concepts are from SSAP No. 25:

- **Arm's-Length:** An arm's-length transaction is defined as a transaction in which willing parties, each being reasonably aware of all relevant facts and neither under compulsion to buy, sell, or loan, would be willing to participate.
- **Economic:** An economic transaction is defined as an arm's-length transaction which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof; i.e., "permanence." The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed. An economic transaction must represent a bona fide business purpose demonstrable in measurable terms. A transaction which results in the mere inflation of surplus without any other demonstrable and measurable betterment is not an economic transaction. The statutory accounting shall follow the substance, not the form of the transaction.

d) Procedure for Credit Assessment of Filed SCA Transactions

The procedure specified in this subsection applies to bonds and preferred stock whose terms, structure, complexity and purpose are like those in transactions between unaffiliated parties filed with the SVO so that credit risk assessment methodologies applied to transactions between unaffiliated parties can be meaningfully applied to transactions between affiliated parties.

A determination that a bond or a preferred stock submitted for an assessment under this Section is not like a transaction between unaffiliated parties and/or that analytical methodologies applied to transactions between unaffiliated parties cannot be meaningfully applied to the filed transaction shall be in the sole discretion of the SVO.

An insurer apprised of the SVO's determination may request a conference call with the SVO to evaluate whether focused disclosure and documentation pertaining to the terms, structure, complexity and purpose of the transaction may enable the SVO to develop a credit assessment methodology specific to the transaction. If the insurer and the SVO agree that a transaction specific credit assessment approach can be developed, administrative details pertaining to the conduct of the assessment shall be as negotiated between the SVO and the insurer. Instead of filing a transaction under this section, an insurer may choose to file an RTAS submission (discussed in [Part Four, Section 2 of this Manual](#)) to solicit an opinion and rationale from the SVO whether or not an SCA transaction would be considered to be like those between unaffiliated entities or ask its domiciliary state regulator to consider requesting that the SVO assist the department in the determination of an NAIC Designation for the transaction under the Regulatory Transactions procedure discussed in [Part Three, Section 2 e\)](#) of this Manual.

SECTION 18. MILITARY HOUSING BONDS OR SECURITIES

a) **Initial Filing Requirements**

Military housing bonds or Securities are defined below in Part Four, Section 5(b) of this Manual. Readers are urged to familiarize themselves with that Section before filing a security with the SVO. An insurance company requesting an analysis of a military housing bond or security shall provide the SVO with the documentation described in this subparagraph.

(i) Analytical Memorandum

A detailed analytical memorandum containing a complete analysis of the transaction in the following form:

- Name of Project
- Identification of risk assessment on key issues
- Transaction Summary and Structure Overview
- Project Summary
- Debt Issuance
- Participants and Issuance Details
- Bonds Outstanding and Sources and Uses at Close
- Scope Plan
- Any Modifications including New Sources and Uses Based on Modified Scope Plan
- Other Deal Provisions
- Accounts and Reserves
- Key Waterfall Provisions
- Base Overview
- Developer Overview
- Basic Allowance for Housing (BAH) and DSCR Performance
- BAH Rates and BAH Rate Growth
- Occupancy Rates
- Cumulative New and Renovated Military Housing Units
- Debt Service Coverage Ratio for last several years
- Occupancy and Construction History

At a minimum the memorandum shall include a detailed analysis of the following key risk factors:

- Stabilized/Permanent Debt Service Coverage
- Stabilized/Permanent Occupancy
- Developer Opinion
- Political (BRAC) Opinion
- Expense Ratio (if applicable)
- Overall Credit Opinion

(ii) Certification from Insurer Investment Officer

The insurance company shall also file with the SVO a certification in such form as the SVO shall determine and provide. The certification form shall require an investment officer of the insurance company to attest to the truth and accuracy of the facts and conclusions reached in the memorandum.

(iii) Prospectus

A final and current prospectus or offering memorandum for Project and bonds or securities.

(iv) Audited Financial Statements

The most recent audited financial statements for the Project or issuer.

b) Subsequent Filing Requirements

(i) Analytical Memorandum

A detailed revised or updated analytical memorandum containing a complete analysis of the transaction, discussing, at a minimum, the following key risk factors:

- Stabilized/Permanent Debt Service Coverage
- Stabilized/Permanent Occupancy
- Developer Opinion
- Political (BRAC) Opinion
- Expense Ratio (if applicable)
- Overall Credit Opinion

(ii) Certification from Insurer Investment Officer

An updated certification.

(iii) Audited Financial Statements

The most recent Audited Financial Statements for the issuer.

c) Direction

The SVO is directed to assess investment risks of military housing bonds or securities, as defined below, using the certification process discussed in this Section 5 to assign such bonds or securities an NAIC Designation and any other appropriate analytical values it deems appropriate.

d) Definition

For purposes of paragraph (a) above, military housing bonds are defined as bonds or securities that:

(A) Are issued to finance the construction of housing for U.S. military personnel and their civilian families in Projects developed in conjunction with the U.S. Department of Defense (DOD);

Provide for ongoing construction of new and/or rehabilitation of existing housing to be located on and/or off U.S. military bases over a time horizon that may exceed 40 years;

Involve significant federal government involvement in the Project, such as: the grant of land and/or housing stock for the construction project or payment by the federal government of the rent allowance for military personnel and their dependents directly into the Project account;

(B) Were issued before December 31, 2009, and were:

(1) Initially assigned a credit rating by an NAIC CRP on the basis of a financial guaranty issued by an NAIC CRP-rated monoline insurer where the NAIC CRP subsequently downgraded or withdrew the rating on the military housing bond or security solely as a result of a decision to downgrade or withdraw the rating assigned by it to the monoline insurer; or

(2) Never insured by a monoline or rated by an NAIC CRP but which nevertheless meets the underwriting standards and criteria typical of transactions that were underwritten by monoline insurers, as determined by the SVO in its sole analytical discretion.

e) Status of Other Military Housing Bonds

(i) Bonds with Stand-Alone Ratings

Military housing bonds or securities issued before December 31, 2009, that have been assigned and retain a stand-alone credit rating (sometimes referred to as an underlying rating) by an NAIC CRP continue to be subject to the filing exempt rule and process discussed in Part Three of this Manual.

(ii) Bonds Newly Issued and Bonds Rated by an NAIC CRP

Military housing bonds or securities that were issued on or after December 31, 2009, and were rated by an NAIC CRP shall be subject to the filing exempt rule.

f) **Certification Process for Military Housing Bonds**(i) Documentation

An insurance company filing a military housing bond or security with the SVO under this Section 6 shall provide the SVO with a detailed analytical memorandum, a certification and the other documentation as described above.

(ii) Certification(A) *Finding*

Military housing bonds or securities require expert and ongoing evaluation to determine that the construction process is in compliance with requirements set forth in the loan and other documents governing the housing project as well as periodic determinations of how the construction process impacts financial assumptions underlying the transaction. Most of this risk assessment centers around the effectiveness of the construction and development process, the consequent availability of housing, the generation of rent from that housing, and the sufficiency of that rent for debt service, both in the current and future time periods. Military housing bonds or securities also incorporate complex contractual provisions that govern the distribution of cash flows received from rent payments to project purposes or to equity and other investors.

Military housing bonds and securities are structured with financial guaranty policies issued by monoline insurance companies and are assigned credit ratings based on the rating of the financial guarantor. As NAIC CRPs downgraded or withdrew the credit ratings assigned to monoline insurance companies, military housing bonds or securities were also downgraded or became unrated. Often, the stand-alone credit quality of the bond or its issuer is higher than that of the financial guarantor. Because credit ratings for rated military housing bonds or securities no longer accurately reflect the quality of the bond or security, and because some military housing bonds or securities are no longer rated, it is necessary to have an alternative credit assessment procedure to assess risk for statutory risk-based capital and other state insurance regulatory reporting purposes.

(B) *Analytical Memorandum and Certification*

An insurance company filing a military housing bond or securities for analysis under this section shall provide the SVO with a detailed analytical memorandum that discusses key risk factors in the project. The general format of the memorandum and the key risk factors that must be addressed are more fully discussed above. The insurance company shall also provide the SVO with a certification in such form as the SVO shall require, in which an investment officer of the filing insurance company, familiar with the status of the project/investment, attests to the accuracy of the facts and data and analytical conclusions in the analytical memorandum provided to the SVO. The certification process approved by this Section begins with the submission of both of these documents to the SVO.

(C) *SVO Due Diligence Obligation*

(1) *Completed Certification Required for Reliance*

Upon receipt of a completed certification from an appropriate insurance company investment professional, the SVO shall be entitled to rely on the facts and data presented in the analytical memorandum to reach an analytical determination and to treat the facts, data and analytical conclusions contained in the analytical memorandum as true and accurate in all material respects, subject to its own due diligence obligation as specified below.

(2) Independent SVO Analysis

The SVO shall use the documentation provided by the insurance company to perform an independent analysis of the transaction and to assign an NAIC Designation and any other appropriate analytical values to it. In particular, the SVO shall use third-party information such as the project prospectus, audited financial statements and other documentation to verify and confirm key aspects of the financial, legal and structural aspects of the transaction described in the analytical memorandum. The SVO shall then proceed to form an independent opinion of the risks in the project, utilizing appropriate corporate and other analytical methodologies.

(3) Obligation to Pass on Sufficiency of Analytical Memorandum

Where the analytical memorandum is deemed to be unclear or deficient in any respect, the SVO shall require the insurance company to update it or to provide a written supplement on the issues or concerns identified by the SVO. The SVO shall assign an NAIC Designation that reflects its level of confidence in the analysis.

Not for Distribution

**PART FOUR
SPECIAL REGULATORY
PROCEDURES APPLICABLE TO
INVESTMENT ACTIVITY OF
INSURERS**

SECTION 1. REPLICATION (SYNTHETIC ASSET) TRANSACTIONS (RSATs)

a) Definitions

The following terms shall have the meaning ascribed in this section. The definitions of derivative instruments set forth in [Part Six, Section 3 c\) \(i\) \(B\) of this Manual](#) are incorporated by reference.

(i) Approved RSAT

Any transaction that meets either of the following conditions:

(A) *Safe Harbor – Defined RSATs*

Any transaction structured according to the following defined transaction types shall be presumed to be an Approved RSAT and should be submitted to the SVO pursuant to [this paragraph \(A\)](#). Transactions that are structured to contain elements of risk other than those normally associated with the Defined RSAT descriptions below, and transactions involving assets that would not normally qualify for an NAIC Designation, are not eligible for safe harbor treatment and must be submitted to the SVO pursuant to [paragraph \(B\) below](#). If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.

(1) **Bond with Interest Rate Swap** – In this RSAT, the insurer enters into a swap agreement to exchange a floating interest rate for a fixed interest rate, or vice versa.

(2) **Bond with Credit Default Risk Swap** – In this RSAT, the insurer enters into a credit default swap to exchange the credit default risk of a bond for that of another bond.

(3) **Bond with Total Return Swap** – In this RSAT, the insurer enters into a total return swap to exchange the return of one Basket or Index of bonds for the return of another Basket or Index of bonds.

(4) **Bond with Foreign Currency Swap** – In this RSAT, the insurer enters into a currency swap to exchange the right to receive principal and/or interest in the currency of one country for that of another. A foreign currency swap can be structured on a fixed or floating rate bond. The swap can involve any currency.

(5) **Bond with Equity Option** – In this RSAT, the insurer holds a bond and enters into a call option to purchase common stock or a call on an equity index.

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

(6) **Convertible Bond with Sale of Equity Option** – In this RSAT, the insurer holds a convertible bond and enters into an agreement to sell the equity conversion rights connected with the bond to another party.

(7) **Bond with Index Amortizing Interest Rate Swap** – In this RSAT, the insurer enters into an agreement to exchange fixed interest rate payments for floating interest rate payments or vice versa. The notional amount of the swap, and therefore the size of the interest rate swap, amortizes by reference to an index, usually also tied to interest rates.

(8) **Bond with Interest Rate Swap and Swaption Agreement** – In this RSAT, the insurer enters into two agreements. The first agreement is to exchange a fixed interest rate for a floating interest rate or vice versa. In the second agreement, the insurer enters into a swaption agreement by which it allows itself the option of transferring its obligations under the swap agreement.

(9) **Bond with Interest Rate Swap and Interest Rate Cap/Floor** – In this RSAT, the insurer enters into two agreements. The first agreement is to exchange a fixed interest rate for a floating interest rate or vice versa. In the second agreement, the insurer limits its exposure above or below a certain interest rate level by entering into a cap or floor agreement.

(B) *Transactions Subject to RSAT Approval Review*

Transactions that are not structured according to one of the transaction types defined above must be submitted to the SVO for a determination of whether or not the transaction is an Approved RSAT. This determination shall be made through a review of the submitted documents that describe the characteristics of the derivative and cash components of the transaction. The description submitted shall include the following:

(1) An identification of the cash flows in the transaction; both from the insurer to other parties and from other parties to the insurer.

(2) An identification of the resulting synthetic asset.

(3) A demonstration of how the cash flows serve to produce the synthetic asset.

The documentation should demonstrate that the combined cash flows will achieve the economic performance sought to be produced by the insurer and, therefore, qualify the transaction as an Approved RSAT. If the SVO receives a transaction that does not qualify for an NAIC Designation but would otherwise qualify as an Approved RSAT, the SVO will bring the transaction to the attention of the VOS/TF and await instructions on how to proceed with it.

(ii) Basket

means composite of specific financial instruments that are determined by agreement between two parties to be used as a statistical benchmark.

(iii) Cash Component

means the instrument, or portfolio of instruments, owned by the insurance company that is identified by the insurer as the cash instrument component of the RSAT. In an RSAT, the credit quality of the Cash Component may differ from the credit quality of the reference securities.

(iv) Change in Credit Profile

means an RSAT where the credit risk, as defined pursuant to [Part One of this Manual](#) and denoted by NAIC Designation and/or NAIC CRP rating, the Cash Component is different from the credit risk of the replicated (synthetic) asset. Examples of transactions that constitute a change in credit profile may include:

(A) **A Bond with Credit Default Risk Swap** where the risk of loss of principal results from the potential of default by an obligor different from the Cash Component obligor. This RSAT can also be structured to use the same obligor for the Cash Component and the replicated (synthetic) asset, but where the replicated (synthetic) asset is in a different position in the capital structure of the obligor. For example, the swap may result in a change from senior creditor's status to one of subordinated debt holder.

(B) **A Bond with Total Return Swap** where the obligors in the Cash Component portfolio are different from those in the derivative instrument component.

Examples of transactions that do not, on their own, constitute a change in credit profile include:

(C) **A Bond with Interest Rate Swap.**

(D) **A Bond with Foreign Currency Swap.**

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

(v) Effective RSAT

means a reported transaction that meets the following conditions:

- (A) The transaction is determined to be an Approved RSAT; and
- (B) The replicated (synthetic) asset is an otherwise permissible investment; and
- (C) At the time the RSAT is entered into, the insurer's investment in the cash and derivative components have a market value that is not materially different from the market value ascribed to the RSAT; and
- (D) The insurer's maximum potential loss in the Replicated (Synthetic) Asset does not exceed the sum of the book/adjusted carrying value of the Cash Component, and the derivative component; and
- (E) The RSAT consists of a fixed income Cash Component and a derivative component and the term of the derivative component does not exceed the term to maturity of the Cash Component; and
- (F) At no time is there exposure to a derivative transaction without a corresponding Cash Component assigned exclusively to the Replicated (Synthetic) Asset.

(vi) Identical RSAT

means an RSAT entered into by multiple, yet legally separate and distinct, insurance companies of the same insurer company group through separate derivative contracts, but utilizing the same type of derivative transaction, Cash Component, counterparty, transaction effective date, scheduled termination date and assigned a single CUSIP Identifier.

(vii) Index

means a composite of financial instruments whose composition is determined by application of objective, pre-defined rules to be used as a statistical benchmark. Financial instruments may be added to or deleted from the index universe.

(viii) Reference Security

means a financial instrument or instruments whose creditworthiness is referenced in a derivative agreement (typically, a credit default risk swap) and that serves as the instrument by which a credit event is determined or triggered.

- (ix) RSAT
stands for Replication (Synthetic Asset) Transaction and means a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. Notwithstanding the rule set forth in [Part Two of this Manual](#) pertaining to short-term investments, the term RSAT includes long-term transactions (i.e., those with a when-issued maturity of a year or more) and short-term transactions (i.e., those with a when-issued maturity of a year or less). Although transactions structured with a futures or forward equity contract may not exactly reproduce a specific asset, these transactions are permitted to the extent such RSATs are permissible investments according to the insurer's state of domicile. A derivative transaction entered into by an insurer as a hedging or income generation transaction shall not be considered to be a replication (synthetic asset) transaction. The insurer shall be responsible for determining that a derivative transaction is considered to be either a hedging, income generation or replication (synthetic asset) transaction prior to filing the transaction with the SVO. For a definition of hedging and income generation, see [SSA No. 86—Derivatives](#).
- (x) RSAT Form
refers to the Replication (Synthetic Asset) Transaction Form used to report the RSATs discussed and defined [in this Section 1](#).
- (xi) RSAT-CCA Form
refers to the Replication (Synthetic Asset) Transaction – Credit Change Annex Form used to report transactions where the RSAT results in a Change in Credit Profile from that of the Cash Component.
- (xii) RSAT Basket Form
refers to the Replication (Synthetic Asset) Transaction Form used to Report RSATs using Baskets discussed and defined [in this Section 1](#).
- (xiii) RSAT Fixed Income Index Form
refers to the Replication (Synthetic Asset) Transaction Form used to report RSATs using Indices discussed and defined [in this Section 1](#).
- (xiv) RSAT Index List Application
refers to the form used to apply for inclusion on the NAIC Approved RSAT Index List as discussed [in this Section 1](#).

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

b) Instruction to Report Replication (Synthetic Asset) Transactions

(i) Instruction

Insurance companies shall report all RSAT transactions, including RSAT transactions of duration less than 365 days, to the SVO and the SVO shall apply the instructions contained in this Section 1 to all reported RSATs including Baskets and Indices.

(ii) Special Instruction Regarding Identical RSATs

Only one insurance company that is a member of an insurance company group that has engaged in an Identical RSAT is required to file the RSAT with the SVO. All of the rules and procedures specified in this Section 1 shall be applicable to that filing.

Notwithstanding this special instruction, all of the members of the insurance company group that have entered into an Identical RSAT shall nevertheless fully report their holdings as required by the NAIC Annual Statement Instructions for Schedule DB, Part C.

Any state insurance regulator who questions whether the RSAT entered into by members of an insurance company group meets the definition of an Identical RSAT may require the members of the group to file relevant information with the SVO so that the SVO may verify whether transactions claimed to be identical are identical within the meaning of the definition and/or whether the insurance companies have otherwise appropriately reported the RSAT transaction.

The SVO shall have authority to make inquiries of insurance companies and to request insurance companies to file relevant information with it so it may verify whether transactions claimed to be identical are identical within the meaning of the definition and/or whether the insurance companies have otherwise appropriately reported the RSAT transaction.

(iii) Counterparty Risk-Based Capital

The NAIC Designation assigned to a RSAT does not capture any counterparty risk associated with any derivative component of the RSAT. The credit risk of any particular counterparty is captured in the risk-based capital charge of the counterparty reported in Schedule DB, Part D, Section 1.

c) Initial Reporting of Replication (Synthetic Asset) Transactions

(i) Informational Requirements – General

Each reporting insurance company is required to file the information listed under subsection (c) (i) below for every RSAT filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the reporting insurance company shall be required to file the information listed under subparagraph (B) below.

(A) General Filing Instructions

(1) RSAT Form

(2) If any Cash Component is required to be filed with the SVO and is not on the VOS Process with a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents identified in Part Two or Part Three of this Manual.

(3) The reporting insurance company is required to file the prospectus, offering circular, detailed term sheet, trade confirmation, swap agreement, call option agreement, foreign currency agreement or other agreement or document, as appropriate to the transaction, corresponding to each derivative component of the reported Approved RSAT.

(4) If the derivative component of the Approved RSAT relies on a counterparty that is not on the List of Counterparties Designated by the SVO (refer to Part Six, Section 1 c) of this Manual for a description of analytical procedures).

(B) Additional Instructions for RSATs with a Change in Credit Profile

(1) RSAT-CCA Form.

(2) If the transaction is one that involves securities, including Reference Securities that require an NAIC Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents for such securities as set forth in Part Two or Part Three of this Manual.

d) Procedures Applied to Initial Reports of Replication (Synthetic Asset) Transactions

(i) Effective RSAT

The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in subsections (A), (D), (E) and (F) of Section 1 a) (v) of this Part above. The reporting insurance company shall

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

have responsibility for ensuring that the standards of effectiveness set forth in subsections (B) and (C) of [Section 1 a\) \(v\) of this Part](#) have been met.

(ii) Credit Assessment

The SVO shall apply the procedures listed under subsection (A) below for every filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the SVO shall apply the procedures set forth in subsection (B) below.

(A) *General Procedures*

(1) If the Cash Component is of a type that is required to be filed with the SVO and is not on the VOS Process with a current year designation, the SVO shall apply the procedures set forth in [Part Three of this Manual](#).

(2) If any counterparty involved in the RSAT is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall apply the procedures set forth in [Part Six, Section 1 of this Manual](#).

(3) The SVO shall review the documents corresponding to each derivative component of the reported Approved RSAT to verify that the relationships and identities of the parties to the agreement(s) are as reported on the RSAT Form.

(4) If the SVO determines that the documentation provided comports with the reported RSAT, then the analyst shall assign the NAIC Designation of the Cash Component to the RSAT.

(B) *Additional Procedures for RSATs with a Change in Credit Profile*

(1) If the transaction involves securities, including Reference Securities, which are on the VOS Process with a current year designation, the SVO shall assign that Designation associated with the Reference Securities to the RSAT.

(2) If the transaction involves securities, including Reference Securities, that are not on the VOS Process with a current year designation, the SVO shall apply the procedures set forth in [Part Three of this Manual](#) to the securities. Upon determination of an NAIC Designation for such securities, the SVO shall apply that Designation associated with the Reference Securities to the RSAT.

e) Subsequent Reporting of Replication (Synthetic Asset) Transactions

(i) Informational Requirements – General

Each reporting insurance company is required to file the information listed under subsection (i) below for every RSAT filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the reporting insurance company shall be required to file the information listed under subsection (B) below.

(A) General Filing Instructions

(1) For the Cash Component, file the documentation required by Part Two or Part Three of this Manual.

(2) There are no additional subsequent reporting requirements if there are no changes in any of the components of the RSAT. Any sale, termination or modification of the component pieces of an Approved RSAT must be reported to the SVO within 30 days. This can be done by submitting to the SVO either a Material Change AIF Form or a Renumbering Request for the affected RSAT. Any such sale, termination or modification that results in the RSAT ceasing to be effective pursuant to Section 1 a) (v) of this Manual above will immediately terminate the replication (synthetic asset) transaction.

(B) Additional Instructions for RSATs with a Change in Credit Profile

File the documentation required by Part Two or Part Three of this Manual for securities, including Reference Securities, in the VOS Process. If a security is no longer listed on the VOS Process, file the documentation required by Part Two or Part Three of this Manual.

f) Procedures Applied to Subsequent Reports of Replication (Synthetic Asset) Transactions

(i) Credit Assessment

The SVO shall apply the procedures listed under subsection (i) below for every filing. Additionally, for those RSATs exhibiting a Change in Credit Profile, the SVO shall apply the procedures set forth in subsection (B) below.

(A) General Procedure

(1) The SVO shall monitor the NAIC Designation assigned to the Cash Component.

(2) The SVO shall monitor the NAIC Designation assigned to the counterparties to the derivative component of the RSAT.

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

The reporting insurance company must report a change in the documentation relating to any derivative component to the SVO. The SVO shall assess the significance of such change.

(B) *Additional Procedures for RSATs with a Change in Credit Profile*

The SVO shall monitor the NAIC Designation assigned to any security, including Reference Securities, involved in the RSAT.

g) **Additional Procedures for RSATs Using Baskets**

(i) Initial Reporting

(A) *Informational Requirements*

Reporting insurance companies are required to file the information listed below for each replication they enter into using a Basket.

(1) RSAT Basket Form

(2) If any of the component instruments in a Basket are not on the VOS Process with a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents set forth in Part Two or Part Three of this Manual for each of those instruments.

(3) If the derivative component of the RSAT relies on a counterparty that is not on the List of Counterparties Designated by the SVO (see [Part Six, Section 2 c\) of this Manual](#)).

(ii) Procedures Applied to Initial Reports of Baskets

(A) *Effectiveness Testing*

The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in subsections (A), (D), (E) and (F) of [Section 1 a\) \(v\) of this Part](#) above. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in subsections (B) and (C) of [Section 1 a\) \(v\) of this Part](#) above have been met.

(B) *Credit Assessment*

If any component instrument of a Basket is not on the VOS Process with a current year Designation, the SVO shall apply the procedures set forth in [Part Three, Section 1 a\) of this Manual](#).

(C) *Counterparty*

If any counterparty named in the RSAT is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall apply the procedures set forth in [Part Six, Section 2 of this Manual](#).

h) Subsequent Reporting

(i) Informational Requirements

Reporting insurance companies are required to file the information listed below for each replication they enter into using a Basket on an annual basis.

(A) If there are additions or deletions to the component instruments in a Basket, the SVO should be notified within 30 days. If any new component instrument in a basket is not on the VOS Process, the reporting insurance company is required to follow the reporting conventions and file the required documents set forth in Part Two or Part Three of this Manual for each of those instruments.

(B) If any of the existing or new component instruments in a Basket are on the VOS Process, but do not have a current year Designation, the reporting insurance company is required to follow the reporting conventions and file the required documents set forth in Part Two or Part Three of this Manual for each of those instruments.

(ii) Procedures Applied to Subsequent Reports of Baskets

(A) The SVO shall monitor the NAIC Designation of those Basket components with NAIC Designations pursuant.

(B) The SVO shall monitor the NAIC Designation assigned to the counterparty to the derivative component of the RSAT.

i) Additional Procedures for RSATs Using Indices

(i) Initial Reporting

(A) Informational Requirements

Reporting insurance companies are required to file an RSAT Fixed Income Index Form with the SVO for each replication they enter into using an equity or fixed income Index. An insurance company may only enter into an RSAT using a fixed income Index if the Index is listed on the SVO's RSAT Index List. Equity Indices are not required to be on the SVO's RSAT Index List as no credit quality evaluation is performed on equity investments.

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

(B) *Procedures Applied to Initial Reports of Indices*

(1) Effectiveness Testing

The SVO shall verify that the reported RSAT meets those standards of effectiveness set forth in subsections (A), (D), (E), and (F) of Section 1 a) (v) of this Part above. The reporting insurance company shall have responsibility for ensuring that the standards of effectiveness set forth in subsections (B) and (C) of Section 1 a) (v) above have been met.

(2) Counterparty

If any counterparty named in the RSAT Form is not currently listed on the SVO's List of Counterparties Designated by the SVO, the SVO shall apply the procedures set forth in Part Six, Section 3 of the Manual.

(3) Verification

The SVO will verify that any fixed income Index named in the RSAT Form is on the SVO's current RSAT Index List.

j) **Subsequent Reporting**

(i) Informational Requirements

(A) Reporting insurance companies are not required to file any annual information with the SVO for RSATs using an Index as long as the Index, if it is a fixed income Index, remains on the SVO's RSAT Index List. If a Fixed Income Index is removed from the list, any RSAT utilizing such Index will no longer qualify as an Approved RSAT.

(B) The SVO shall monitor the NAIC Designation assigned to the counterparty to the derivative component of the RSAT.

k) **Procedures for Compilation of the RSAT Index List**

(i) Compilation of List

The staff is instructed to compile and maintain a list of fixed income indices that meet the standards identified in subsection (ii) below (RSAT Index List). The RSAT Index List may be used by reporting insurance companies when filing fixed income Index RSATs with the SVO. If the SVO determines that an Index does not meet the eligibility requirements set forth below, the Index will not be included on the list. Publication of an Index on the RSAT Index List does not imply an opinion of the quality of such Index or of the Index vendor.

(ii) Eligibility Requirements

A fixed income Index may be eligible for listing on the RSAT Index List if the Index meets the following requirements:

(A) *Rule-Based*

The Index is composed and valued based on the application of objective, pre-defined criteria.

Additions to or deletions from the list must be made based on the application of such criteria.

(B) *Information Available*

Rating information about the components is, or can be made available, to the SVO.

(C) *Components Rated*

All, or substantially all, of the Index components are rated or have obligors that are rated, by an NAIC CRP or have received a current year NAIC Designation from the SVO. In the event that not all of the Index components are NAIC CRP-rated or have a current year NAIC Designation, the reporting insurance company may either (1) file the component with the SVO to obtain a Designation or (2) assign an **NAIC 5GI** Designation to the unrated instrument, as long as it is current on principal and interest or an **NAIC 6*** Designation if it is not or if the status is not determinable. Instruments assigned an **NAIC 5GI** Designation or **NAIC 6*** Designation, on a combined basis, represent no more than 5% of the Index's total value.

(D) *Independent*

The Index is predominantly composed of instruments whose issuers are unaffiliated with the Index vendor.

(iii) Initial Reporting

In order to apply for listing of a fixed income Index on the RSAT Index List, a reporting insurance company should submit the following to the SVO:

(A) A listing of all Index components.

(B) The ratings of all NAIC CRP-rated Index components from all NAIC CRPs that have rated the component.

Section 1. Replication (Synthetic Asset) Transactions (RSATs)

(C) The actual NAIC Designation for each Index component with an NAIC Designation or an equivalent NAIC Designation for each component rated by an NAIC CRP using the conversion instructions set forth in Part Three if rated and monitored by one NAIC CRP, the equivalent NAIC Designation; if rated and monitored by two NAIC CRPs, then the lowest rating and if rated and monitored by three or more NAIC CRPs, then the second lowest rating. In the case of a security rated and monitored by three or more NAIC CRPs, the NAIC CRP ratings for a security are ordered according to their NAIC Designation equivalents and the rating that is second lowest will be selected, even if that rating is equal to that of the first lowest.

(D) A demonstration and certification by the insurance company, as evidenced by an executed certificate by an officer of the insurance company, that the eligibility requirements set forth in [Section 1 k\) \(iii\) of this Part](#) have been met.

(iv) Subsequent Reporting

The reporting insurance company shall annually submit to the SVO the items listed in [Section 1 k\) \(iii\) of this Part](#) for each Index it desires to maintain on the RSAT Index List. Any Index on the RSAT Index List for which the required documents are not submitted, or any Index that no longer meets the eligibility requirements set forth in [Section 1 k\) \(ii\) of this Part](#), shall be deleted from the RSAT Index List.

(v) Publication

The SVO shall publish the RSAT Index List quarterly in [Section 1 l\) of this Part](#).

l) **RSAT Index List**

Index Name

Markit CDX NA IG Index
Markit CDX NA HY Index
Markit CDX EM Index
Markit CMBX Index
Markit iTraxx Europe Index
Markit MCDX Index

SECTION 2. THE RTAS – EMERGING INVESTMENT VEHICLE

a) Emerging Investment Vehicle

(i) Finding

The VOS/TF finds that the pace of financial innovation and extent of financial engineering requires close cooperation between regulated insurance companies, investment banks and other financial market participants and the regulators who must assess the solvency implications of financial innovation and engineering. This subsection establishes the mechanism for an insurance company or another market participant (Applicant) to apply to the SVO for the purpose of determining the probable regulatory treatment to be accorded to an Emerging Investment Vehicle (EIV) before it is sold to an insurance company, or for any other security.

(ii) Definition of “Probable Regulatory Treatment”

For purposes of this subsection, “probable regulatory treatment” means the professional opinion of the SVO as to the credit quality designation; and/or asset classification for **statutory** reporting purposes; and/or the valuation that would be accorded to the EIV under this Manual if it were purchased by an insurance company and reported to the SVO.

Probable regulatory treatment includes a statement by the SVO that in its opinion: (1) the existing regulatory framework already captures the risks posed by the security either through the mechanism of credit ratings, valuation policy or classification methodology; (2) that the existing regulatory framework does not capture the risks posed by the security and that it is necessary to apply to the VOS/TF to develop an appropriate regulatory accommodation for the instrument; or (3) that the SVO lacks an approved methodology that could be used to assess the risks contained in the EIV and that it is necessary to apply to the VOS/TF to develop an appropriate methodology.

(iii) Definition of “Emerging Investment Vehicle”

For purposes of this subsection, an EIV is an investment security or other financial product that is newly offered and that contains characteristics or features not previously reviewed by the VOS/TF or the SVO for a determination of the probable regulatory treatment to be accorded to the EIV. An EIV may be “newly offered” in the sense that the security or financial product has not previously been known (and hence none of its characteristics or features are known) or in the sense that a security or financial product whose primary characteristics or features are understood

Section 2. The RTAS – Emerging Investment Vehicle

has evolved to incorporate substantially different features or to contain significant innovation such that it should be considered as never having been reviewed by the VOS/TF or the SVO.

(iv) Who May Request an Analysis Under This Section

An EIV may be filed: by an insurance company or by another market participant (without the requirement of insurance company sponsorship); or by a state insurance regulator for any security owned by an insurance company under the authority and for purposes discussed in this Section 2 a), subject only to the conditions imposed in this subsection and in other referenced sections.

The SVO is not authorized to require anyone to file a transaction as an EIV. However, nothing in this subsection limits the obligation or the authority of the SVO to report to the VOS/TF any transaction, whether or not filed with the SVO, that presents issues or contains features that require guidance from the VOS/TF, either pursuant to [Part One, Section 2 f\) of this Manual](#) or otherwise.

(v) Submission Procedure

To request an analysis of probable regulatory treatment of an EIV, the Applicant submits an original completed Application for Regulatory Treatment Analysis Service (Application) to the Director, SVO (Director) or the Director's designated representative. An Application shall be accompanied by written and substantially finalized documentation showing all material terms with the same specificity and clarity as the SVO requires to complete a purchased transaction. A copy of the prospectus or private placement memorandum will not be required if it is unavailable at the time of the filing of the Application, however, it may be required before a determination on the EIV in question can be made by the SVO.

(vi) Requirement of a Substantially Finalized Transaction

Analysis of probable regulatory treatment will be provided only for securities and financial products that have been substantially finalized in all material respects. The SVO is not authorized to assist the Applicant to structure a transaction to attain specific regulatory objectives. The SVO shall have full discretion to determine that the terms of a security or financial product as reflected in the documentation submitted with the Application indicate that the security or financial product is not substantially finalized.

(vii) Discretion

The Director shall have full discretion to reject an Application if, in the Director's sole discretion, acceptance of the Application would not meet the objectives of the NAIC Financial Regulation Standards and Accreditation Program. The Director will communicate any such rejection to the Applicant and will return the Application fee and may communicate such rejection to the VOS/TF for informational purposes.

(viii) Communication of Determination

At the conclusion of the processing of the EIV, the SVO will provide a letter to the EIV Applicant setting forth its conclusions with respect to the issue(s) raised by the EIV.

If the SVO concludes that this Manual does not provide sufficient guidance to determine an NAIC Designation, valuation or classification for the EIV, or that in its opinion the NAIC Financial Regulation Standards and Accreditation Program does not clearly specify standards or criteria for responding to the issue(s) raised by the Applicant, it will so inform the Applicant and the VOS/TF pursuant to Part One, Section 1(f) of this Manual.

Information provided as part of the RTAS – Emerging Investment Vehicle Application shall be treated as confidential by the SVO. The Applicant may communicate the content of the letter to anyone provided the Applicant also communicates that the purpose of the analysis reflected in the letter is regulatory. The Applicant may also provide copies of the SVO letter to anyone provided a complete copy of the SVO letter must be given.

If, after the SVO has communicated its decision to the Applicant, an insurance company purchases the EIV and reports it to the SVO, either on its own initiative or at the direction of an insurance regulator, the SVO may be required to enter its determination into NAIC systems, including systems accessible to the market participants for regulatory purposes. This shall not be considered a breach of the agreement to hold our determination confidential.

The regulatory expectation is that Applicants who advise insurance companies will make full disclosure of the SVO determination to any insurance company that requests such information, even if the conclusion is contrary to the Applicant's initial expectations.

Section 2. The RTAS – Emerging Investment Vehicle

(ix) Standing of EIV Application in the NAIC Financial Condition Framework

The activity authorized by this subsection is intended solely to facilitate the business and regulatory objectives of the NAIC and the financial solvency function of the VOS/TF. The SVO's acceptance of an Application does not convey any regulatory status or recognition to the EIV.

A preliminary NAIC Designation assigned under the procedure specified in this subsection is only valid for the day issued as such designation reflects the preliminary draft of documents and other information that have been presented to the SVO.

A preliminary NAIC Designation will not be published in the Database or the AVS+ Products and, therefore, cannot be used to report the credit quality of the security to the NAIC or any state insurance department. Only NAIC Designations published in the AVS+ Products may be used to report an investment to an NAIC member's state insurance department.

If an insurance company subsequently purchases the security, the purchasing company must file an Initial Report or, if the security is filing exempt, report the security in accordance with that procedure. The SVO shall apply its usual procedure for initially reported securities before assigning an NAIC Designation and publishing such NAIC Designation in the AVS+ Products.

Not for Distribution

PART FIVE

VALUATION OF SECURITIES

(NOTE: This section left intentionally blank.)

Not for Distribution

PART SIX
SVO VERIFICATION
ACTIVITIES IN SUPPORT OF
CERTAIN REGULATORY
PROCESSES

SECTION 1. LIST OF QUALIFIED U.S. FINANCIAL INSTITUTIONS

a) Regulatory Purpose and Objectives

The List of Qualified U.S. Financial Institutions established in this Part Six implements Section 3 C. (1) and Section 4 A. of the NAIC *Credit for Reinsurance Model Law* (#785) (Model Law).

Section 3 C. (1) of the Model Law permits an asset or a reduction from liability for reinsurance ceded by a domestic insurer to an assuming insurer. The asset or reduction may be in an amount held by or on behalf of the ceding insurer, including security in the form of a LOC issued or confirmed by a qualified U.S. financial institution. Section 4 A. of the Model Law defines the term “qualified U.S. financial institution,” which is hereby incorporated by reference.

The List of Qualified U.S. Financial Institutions is a compilation of the names of banks and non-depository lenders (financial institutions) that have applied to the NAIC to be identified as issuers of LOCs in support of reinsurance arrangements under the Model Law or state law provisions based on the Model Law.

The placement of the name of a financial institution on the List of Qualified U.S. Financial Institutions indicates that the SVO has verified that the applicant meets the financial and other eligibility standards specified in this part and that the financial institution has agreed to provide the SVO with any information necessary to permit the SVO to evaluate whether the financial institution continued to meet the eligibility standards specified in this Part.

The List of Qualified U.S. Financial Institutions is maintained for the use of state insurance regulators administering credit for reinsurance provisions in state law based on the Model Law and may also be used by insurance companies to identify financial institutions willing to support reinsurance arrangements as identified in Section 3 C. (1) and Section 4 A. of the Model Law.

The List of Qualified U.S. Financial Institutions implemented under this Part is not intended to be used for any other purpose or by any other person or entities. The placement of the name of a financial institution on the List of Qualified U.S. Financial Institutions is not an opinion as to any aspect of the financial institution’s operations, the appropriateness of doing business with the financial institution or the suitability or unsuitability of any financial institution on the list to serve as a provider of credit enhancement for securities transactions.

b) Directive to Compile the List of Qualified U.S. Financial Institutions

The SVO shall compile the List of Qualified U.S. Financial Institutions in accordance with the procedures and instructions provided in this Part Six.

Section 1. List of Qualified U.S. Financial Institutions

c) **List of Nationally Recognized Statistical Rating Organizations**

(i) Establish a List of Nationally Recognized Statistical Rating Organizations

The SVO shall establish a List of Nationally Recognized Statistical Rating Organizations (NRSROs), as specified in this Section, to be used to administer the List of Qualified U.S. Financial Institutions. The SVO shall place on the List of NRSROs any credit rating organization that:

A) Is registered with the U.S. Securities and Exchange Commission (SEC) as an NRSRO, as that term is defined in the applicable federal statute.

B) Has criteria and methodology for assigning credit ratings to banks and non-depository lenders—sometimes hereafter referred to as nonbank financial institutions (NBFIs)—that the SVO has confirmed is consistent with the needs of the NAIC for purposes of the Model Law and which at a minimum:

- Utilizes an analytical framework that assesses the incremental risk of banks and NBFIs (i.e., non-depository lenders) relative to each other and incorporates as criteria in its bank and NBF methodology the nature and robustness of regulation, access to the central bank for contingent liquidity and the stability of funding.
- Results in the expression of an opinion on the bank's or NBF's likelihood of default on an LOC obligation and/or long-term debt obligation.
- Results in the assignment of a stable credit rating, defined to mean that the NRSRO considers it unlikely that the assigned credit rating would be downgraded within one year under the moderate stress scenario specified in its credit rating criteria.

(ii) Procedure

(A) The SVO may place an NRSRO on the List of NRSROs either on its own initiative or upon the application of the NRSRO, after confirming that as an analytical matter and in its sole discretion the NRSRO's criteria and methodology meets the minimum standards specified above and is otherwise consistent with the needs of the NAIC for the purposes of the Model Law. The SVO may delete the name of an NRSRO if, as an analytical matter and in its sole discretion, it determines that changes in the NRSRO criteria and/or methodology no longer meet specified minimum standards or are otherwise no longer consistent with the needs of the NAIC for purposes of the Model Law.

(B) The SVO shall place on the List of NRSROs the name of the NRSRO, the titles and dates of publication of the criteria, and methodology for banks and NBFIs that the SVO has determined will provide the NAIC a credit rating suitable for the administration of aspects of credit risk pertaining to reinsurance arrangements under the Model Law.

(iii) Policy and Legal Disclosure Pertaining to the List of NRSROs

The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments. In adopting or in implementing the procedure described in this part, the NAIC acts solely as a private consumer of publicly available credit ratings. The sole NAIC objective in obtaining and using publicly available credit ratings is to conserve limited regulatory resources, for example, the resources of the SVO. The Valuation of Securities (E) Task Force has established the procedure specified in this section solely to ensure that the NAIC can avail itself of publicly available credit rating opinions for the purposes identified in this part.

The NAIC is not selecting, approving or certifying NRSROs or other rating organizations or distinguishing among them for any public or policy purpose whatsoever. Nor is the NAIC endorsing the credit rating or analytical product of any NRSRO or distinguishing between NRSROs for any specific public purpose. The NAIC disclaims any authority to regulate NRSROs.

d) List of Qualified U.S. Financial Institutions

(i) Application to be on the List of Qualified U.S. Financial Institutions

(A) *Process*

A representative of a financial institution may apply to have the name of the financial institution added to the List of Qualified U.S. Financial Institutions by completing and submitting to the SVO the QUSFI application and paying the applicable fee. The QUSFI Application can be obtained at:

www.naic.org/documents/svo_qusfi_list_app.pdf.

The QUSFI application requires that the applicant:

- Describe whether it is a bank or non-depository lender, as well as identify its federal and state regulators and corporate affiliations.

Section 1. List of Qualified U.S. Financial Institutions

- Represent that it meets the definition of a qualified U.S. financial institution as specified in the Model Law (as printed in the Application).
- Describe its experience in the issuance of letters of credit.
- Provide evidence of a credit rating grade, assigned by an NRSRO on the List of NRSROs developed using the criteria and methodology specified in the List of NRSROs.
- Provide initially and agree to provide on a periodic basis the financial information identified in the application as the financial institution's profile and metrics to enable the SVO to monitor the financial institution's credit rating and financial profile. (The best method of data collection and the most appropriate data sources to be used for this information are still being determined and thus may change based upon availability and system modifications.)

(ii) Procedure

(A) *Initial Application*

An application is submitted to the SVO. (The mechanics of the application process and of required information has not been finalized). Upon receipt, the SVO shall review the application and supporting documentation and communicate in a writing its determination whether the application has been approved and whether the name of the financial institution will be placed on the List of Qualified U.S. Financial Institutions.

(B) *Annual Updates*

On an annual basis the SVO shall contact all financial institutions whose names shall then appear on the List of Qualified U.S. Financial Institutions by mail, requesting each financial institution to indicate whether it requests to be maintained on the List of Qualified U.S. Financial Institutions by submitting the annual update portion of the application and renewal fee or drop off the list.

(C) *Failure to Timely Respond*

The failure to submit a response to this inquiry and/or to provide the required annual update application documents and/or the renewal fee shall be interpreted as a request that the name of the financial institution be removed from the List of Qualified U.S. Financial Institutions. The SVO shall accordingly remove the name of the

financial institution from the List of Qualified U.S. Financial Institutions without further communication or notice.

e) Eligibility Standards to Be Placed on the List of Qualified U.S. Financial Institutions

The SVO shall place on the List of Qualified U.S. Financial Institutions the name of any financial institution that is:

(A) A domestic financial institution authorized to issue or confirm LOCs that have been assigned a credit rating from an NRSRO on the List of NRSROs generated pursuant to the criteria and methodology specified on the List of NRSROs for that NRSRO of “Baa/BBB” or better for its LOC or long-term debt obligation.

(B) A U.S. branch or agency of a foreign financial institution:

(1) Authorized to issue LOCs for reinsurance.

(2) That is a part of a foreign institution that (a) has attained a credit rating from an NRSRO on the List of NRSROs generated pursuant to the criteria and methodology specified in the List of NRSROs for that NRSRO of “Baa/BBB” or better for its LOC or long-term debt obligation.

(3) Domiciled in a country with a sovereign debt rating of “Aa/AA” for long-term debt and/or “P1/A1” for short-term debt by an NAIC credit rating provider (CRP).

f) SVO Monitoring of Movements in the Credit Quality of Financial Institution on the List of Qualified U.S. Financial Institutions

(i) SVO Monitoring

The SVO shall monitor the credit quality of financial institutions on the List of Qualified U.S. Financial Institutions by:

(A) Monitoring NRSRO activity relative to the financial institution’s assigned LOC or long-term debt obligation credit rating, including whether the NRSRO considers the rating to be stable or has indicated that the financial institution may be placed on Negative Outlook or Negative Watch.

(B) Conducting independent analysis of the financial institution’s profile and metrics. The objective of the independent analysis is to monitor the potential for and actual deterioration of the credit quality of a financial

Section 1. List of Qualified U.S. Financial Institutions

institution on the List of Qualified U.S. Financial Institutions in order to provide notice to the regulatory community and insurers including to determine whether the entity should be added to the SVO Watch List so the regulatory community and insurers may consider the implications of the noted credit deterioration for reinsurance arrangements with the financial institution, if any.

(ii) Outline of Methodology

On a quarterly (or semiannual) basis, the SVO shall:

Calculate the following financial ratios or items for each financial institution on the SVO Watch List or for those financial institutions on the List of Qualified U.S. Financial Institutions:

- Net interest income to total income
- Net Interest Margin
- Efficiency Ratio
- Charge-Offs / Allowance for Losses
- Tier 1 Capital Ratio
- Total Capital Ratio
- Financial Leverage Ratio

The SVO will compare the results obtained for the metrics discussed above to the ranges published by nationally recognized statistical rating organizations (NRSROs) for the minimum NAIC credit rating requirement (Baa3/BBB-) as they pertain to: total assets to equity capital; annualized cash from operations; debt to capital; and EBITDA to interest coverage. This information will be used to estimate the likelihood that the financial institution will drop below the required minimum credit rating.

NOTE: The financial metrics (e.g., ratios and data points) for specific credit ratings are published by NRSROs and may be adjusted from year to year by the NRSROs to reflect changes in market conditions to the financial profiles associated with their credit ratings.

(iii) Notice of Credit Deterioration

The SVO shall provide notice to the NAIC Reinsurance (E) Task Force and state insurance regulators more generally and to insurers about the credit quality of financial institutions on the List of Qualified U.S. Financial Institutions as described below.

- (A) If a financial institution is rated by an NRSRO at “A-/A3” or better and the SVO determines that a financial institution no longer

meets one or more of the financial metrics specified above, the SVO will monitor the institution to assess the likelihood of the NRSRO to take a potential negative rating action against the institution.

(B) If the SVO determines that a financial institution on the List of Qualified U.S. Financial Institutions rated “BBB+/Baa1” or below but not lower than “BBB-/Baa3” by an NRSRO no longer meets one or more of the financial metrics specified above or that it has been placed on Negative Outlook or Negative Watch by an NRSRO, the SVO shall perform a more detailed review of the financial condition of the institution.

If the SVO determines that the noted credit deterioration suggests that the financial institution may soon no longer meet the required minimum, the SVO will place the name of the financial institution on its Watch List. If the name of the financial institution is placed on the SVO Watch List, the financial institution will not be allowed to renew participation on the financial institution list for the next year.

(C) If a financial institution on the List of Qualified U.S. Financial Institutions is downgraded below “BBB-/Baa3” by an NRSRO, the SVO shall remove the name of the financial institution from the List of Qualified U.S. Financial Institutions.

(D) A financial institution whose name is deleted from the List of Qualified U.S. Financial Institutions because its NRSRO credit rating dropped below the minimum credit rating may renew participation on the financial institution list when the financial institution’s credit rating is restored to “BBB-/Baa3” or higher with a stable outlook.

g) LOC Requirements Under the Model Law

(i) Not an SVO Activity

The SVO does not review individual LOCs, trust agreements or reinsurance arrangements. The placement of the name of a financial institution on the List of Qualified U.S. Financial Institutions does NOT imply that the Model Law requirements pertaining to LOCs, trust agreements or reinsurance arrangements have been met.

(ii) Information

For information about LOC requirements, see Section 10 A. (3) and Section 12 of the NAIC *Credit for Reinsurance Model Regulation* (#786).

Section 1. List of Qualified U.S. Financial Institutions

h) List of Qualified U.S. Financial Institutions

EXPLANATORY NOTE: State insurance regulators and insurance companies may use this list for the purposes discussed above.

A specific financial institution must apply to be listed only once. This means that an insurance company may do business with: (i) a listed domestic parent bank entity, and any of its unlisted domestic branches; (ii) a listed domestic branch of a domestic parent bank entity, the unlisted domestic parent bank entity and any other unlisted domestic branches of the same domestic parent bank entity; and (iii) a listed U.S. branch of a foreign bank entity and any other unlisted U.S. branches of the same foreign parent bank entity and to the equivalent relationships when a financial institution other than a bank is an Applicant.* Notwithstanding the above, any entity related to a domestic listed entity (i.e., parent or branch) may apply to be listed independently. Any domestic parent bank entity, its domestic branches and U.S. branches of a foreign parent bank entity with no related entity on the list that wants to be listed must apply to the SVO.

This list is updated monthly. For the latest version, please visit the Securities Valuation Office web page: www.naic.org/svo.htm.

** This policy only applies to financial institutions that share the same legal identity. Banking entities or other financial institutions that share the same or similar names but that are separately chartered and bank subsidiaries, that want to be listed, must apply individually.*

INSTITUTION NAME	BRANCH NAME	ABA/LEI	SOVEREIGN
American Business Bank	Los Angeles, CA	12204290	USA
Associated Bank, N.A.	Green Bay, WI	75005575	USA
Australia and New Zealand Banking Group Limited	New York, NY	26009917	Australia
Banco Bilbao Vizcaya Argentaria S A	New York, NY	26001877	Spain
Banco Santander S.A.	New York, NY	5493006QMFDDM YWIAM13	Spain
Bank of America, N.A.	Charlotte, NC	26009593	USA
Bank of Hawaii	Honolulu, HI	121301028	USA
Bank of Montreal	Chicago, IL	71000288	Canada
Bank of the West	Los Angeles, CA	121100782	USA
Barclays Bank PLC	New York, NY	26002574	United Kingdom
Bayerische Landesbank	New York, NY	26003337	Germany
BMO Harris Bank N.A.	Chicago, IL	71904627	Canada
BNP Paribas	New York, NY	26007689	France
BOKF, NA	Tulsa, OK	103900036	USA

INSTITUTION NAME	BRANCH NAME	ABA/LEI	SOVEREIGN
Branch Banking & Trust Co.	Charlotte, NC	53101121	USA
Canadian Imperial Bank of Commerce	New York, NY	26002558	Canada
Capital One N A	New York, NY	65000090	USA
CIBC Bank USA	Chicago, IL	FDXQ75GPEQKR PWABYN63	USA
Citibank, N.A.	New York, NY	21000089	USA
Citizens Bank PA	Citizens Bank PA	36076150	USA
Citizens Bank, N.A.	Providence, RI	11500120	USA
City National Bank	Beverly Hills, CA	122016066	USA
CoBank, ACB	Greenwood Village, CO	307088754	USA
Comerica Bank	Dallas, Tx	111000753	USA
Commerce Bank	Kansas City, Missouri	7DMUJT19FFTVI AG9H788	USA
Commerzbank, A.G.	New York, NY	26008044	Germany
Commonwealth Bank of Australia	New York, NY	26009027	Australia
Compass Bank	Houston, TX	6201186	USA
Coöperatieve Rabobank U.A.	New York, NY	26000901	Netherlands
Credit Agricole Corporate and Investment Bank	New York, NY	26008075	France
Credit Industriel et Commercial	New York, NY	26008609	France
Credit Suisse AG	New York, NY	26009179	Switzerland
Deutsche Bank A.G. New York Branch	New York, NY	20161231	Germany
Deutsche Bank Trust Company Americas	Jersey City, NJ	21001033	USA
DNB Bank ASA	New York, NY	549300GKFG0RYR RQ1414	Norway
DZ Bank AG	New York, NY	61050057	Germany
East West Bank	Pasadena, CA	322070381	USA
Enterprise Bank & Trust	Springfield, MO	K0ZDN2CBIQC0E HBKNK35	USA
Federal Home Loan Bank of Atlanta	Atlanta, GA	MQ942CBKGDEM 4ZABHY63	USA
Federal Home Loan Bank of Boston	Boston, MA	11000536	USA
Federal Home Loan Bank of Chicago	Chicago, IL	71004501	USA

Section 1. List of Qualified U.S. Financial Institutions

INSTITUTION NAME	BRANCH NAME	ABA/LEI	SOVEREIGN
Federal Home Loan Bank of Dallas	Dallas, TX	R7UJYAV8DF2UV 19RDE54	USA
Federal Home Loan Bank of Pittsburgh	Pittsburgh, PA	43001435	USA
Federal Home Loan Bank of San Francisco	San Francisco, CA	121000701	USA
Federal Home Loan Bank of Topeka	Topeka, KS	101101947	USA
Fifth Third Bank	Cincinnati, OH	QFROUN1UWUY U0DVIWD51	USA
First Hawaiian Bank	Honolulu, HI	121301015	USA
First Midwest Bank	Joliet, IL	KV8W1JTB8FZ821 S5ED75	USA
First National Bank of Omaha	Omaha, NE	104000016	USA
First National Bank of Pennsylvania	Pittsburgh, PA	N8T7HW55LK5D2 ORCHP39	USA
First Tennessee Bank, N.A.	Memphis, TN	840000026	USA
First-Citizens Bank & Trust Company	Raleigh, NC	L9VVX1K1T5TFTK S0MLF66	USA
Frost Bank	San Antonio, TX	114000093	USA
Fulton Bank	Lancaster, PA	31301422	USA
Goldman Sachs Bank USA	New York, NY	KD3XU17C6144H NAYL162	USA
Hancock Whitney Bank	New Orleans, LA	65300681	USA
HSBC Bank USA, N.A.	Buffalo, NY	001088	USA
Huntington National Bank	Columbus, OH	00000004	USA
Industrial and Commercial Bank of China Ltd.	New York, NY	26014591	China
INTRUST Bank, N.A.	Wichita, KS	549300IXP5DNWS GY6F96	USA
JPMorgan Chase Bank	New York, NY	210000021	USA
KBC Bank, N.V.	New York, NY	26008248	Belgium
KeyBank National Association	Cleveland, OH	41001039	USA
Landesbank Baden-Wuerttemberg	New York, NY	26013453	Germany
Landesbank Hessen-Thüringen Girozentrale	New York, NY	26002545	Germany
Legacy Texas Bank	Plano, TX	549300I0C7TLHQL QDH91	USA
Lloyds Bank Corporate Markets plc	New York, NY	981390502	United Kingdom
Lloyds Bank Plc	New York, NY	26002655	United Kingdom

INSTITUTION NAME	BRANCH NAME	ABA/LEI	SOVEREIGN
Macquarie Bank Limited	New York, NY	4ZHCHI4KYZG2 WVRT8631	Australia
Manufacturers and Traders Trust Co.	Baltimore, MD	22000046	USA
Manufacturers Bank	Brea, California	122226076	USA
MB Financial Bank, N.A.	Chicago, IL	YJMYTIGWK1HM 7EQ06C15	USA
Mizuho Bank, Ltd.	New York, NY	26004307	Japan
Morgan Stanley Bank, N.A.	Salt Lake City, UT	26014630	USA
MUFG Bank Ltd Chicago Branch	Chicago, IL	71002341	Japan
MUFG Bank Ltd Los Angeles Branch	Los Angeles, CA	122004162	Japan
MUFG Bank Ltd New York Branch	New York, NY	26009632	Japan
MUFG Union Bank N.A.	San Francisco, CA	OX3PU53ZLPQKJ 4700D47	USA
National Australia Bank Ltd.	New York, NY	26007728	Australia
National Bank of Canada	New York, NY	26005487	Canada
Natixis	New York, NY	26009926	France
Norddeutsche Landesbank Girozentrale	New York, NY	26012548	Germany
Nordea Bank AB (PUBL)	New York, NY	26007786	Finland
Old National Bank	Evansville, IN	2300A7189FJA F0E64	USA
Peoples United Bank	Burlington, VT	26017286	USA
Pinnacle Bank	Nashville, TN	54930098EZ8JMSA 2GS24	USA
PNC Bank, National Association	Pittsburgh, PA	43000096	USA
Regions Bank	Birmingham, AL	62000019	USA
Resanant Bank	Tupelo, MS	84201294	USA
Royal Bank of Canada	New York, NY	26004093	Canada
Santander Bank, National Association	Boston, MA	11075150	USA
ServisFirst Bank	Birmingham, AL	549300X551CPK8G 7B851	USA
Silicon Valley Bank	San Jose, CA	0K2D5AK28E3O5 CC06E35	USA
Skandinaviska Enskilda Banken	New York, NY	26003036	Sweden
Societe Generale	New York, NY	26004226	France

Section 1. List of Qualified U.S. Financial Institutions

INSTITUTION NAME	BRANCH NAME	ABA/LEI	SOVEREIGN
Standard Chartered Bank	New York, NY	26001591	United Kingdom
State Street Bank and Trust Company	Boston, MA	11000028	USA
Sumitomo Mitsui Banking Corp.	New York, NY	26009674	Japan
Sumitomo Mitsui Trust Bank, Limited New York Branch	New York, NY	5493006GGLR4BT EL8O61	Japan
SunTrust Bank	Atlanta, GA	61000104	USA
Svenska Handelsbanken AB	New York, NY	26010841	Sweden
TD Bank, N.A.	Mt. Laurel, NJ	31201360	Canada
Texas Capital Bank, NA	Dallas, TX	111017979	USA
The Bank of New York Mellon	New York, NY	21000018	USA
The Bank of Nova Scotia	New York, NY	26002532	Canada
The Chiba Bank, Ltd.	New York, NY	26011125	Japan
The Northern Trust Company	Chicago, IL	6PTKHDJ8MDU 8PFWH30	USA
The Shizuoka Bank Ltd New York Branch	New York	26011947	Japan
The Toronto-Dominion Bank	New York, NY	26003241	Canada
Trustmark National Bank	Jackson, MS	63572279	USA
U.S. Bank N.A.	Cincinnati, Ohio	71502277 71722402	USA
UBS AG Stamford Branch	Stamford Branch	560801CT2L1Q CEMLK50	Switzerland
UMB Bank N.A.	Kansas City, MO	VNOO6EITDJ2YU BMSZ83	USA
Umpqua Bank	Portland, OR	123205054	USA
UniCredit Bank AG	New York, NY	26008808	Germany
United Bank	Tysons Corner Vienna, VA	56004445	USA
Webster Bank N.A.	Waterbury, CT	WV0OVGBTLUP1 XIUJE722	USA
Wells Fargo Bank	San Francisco, CA	121043218	USA
Wells Fargo Bank, N.A.	Winston-Salem, NC	121000248	USA
Western Alliance Bank	Phoenix, AZ	122105980	USA
Wilmington Trust Company	Wilmington, DE	31100092	USA
Wilmington Trust, National Association	Wilmington, DE	22313005	USA

INSTITUTION NAME	BRANCH NAME	ABA/LEI	SOVEREIGN
ZB, N.A.	Salt Lake City, UT	124042559	USA
<p>* Institutions which were previously on the list but which have not paid the required \$750.00 annual maintenance fee have been removed from the list. Institutions which no longer met the eligibility requirements have been removed from the list.</p> <p>** Due to timing differences in the production of the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i>, please consult the monthly list publication to further confirm changes to the list that may include additions and/or de-listings.</p>			

Section 1. List of Qualified U.S. Financial Institutions

i) List of Nationally Recognized Statistical Rating Organizations and Methodology and Criteria Used to Monitor Institutions on the NAIC List of Qualified U.S. Financial Institutions

NAME OF NRSRO	METHODOLOGY/CRITERIA	DATE	
Moody's Investors Service	Bank Rating Methodology	March 16, 2015	
Standard & Poor's Global Ratings Portal, RatingsDirect	Nonbank Financial Institutions Rating Methodology Issue Credit Rating Methodology for Nonbank Financial Institutions and Nonbank Financial Services Companies Banks: Rating Methodology and Assumptions	December 9, 2014 December 9, 2014 November 9, 2011	The criteria for banks was originally published on Nov. 9, 2011, was republished after a review completed on Sept. 30, 2014. The review replaced or revised criteria for the application of sovereign ratings and assessment of bank branch creditworthiness published Oct. 14, 2015, and other articles identified in the Appendix.
Fitch Ratings	Global Bank Rating Criteria Global Non-Bank Financial Institutions Rating Criteria	November 26, 2016 March 10, 2017	
Kroll Bond Rating Agency*	Global Bank and Bank Holding Company Rating Methodology Global Finance Company Rating Methodology	February 19, 2016 November 28, 2017	*Limited to the use of all Bond Rating Agency's Senior Bank Ratings. The stand-alone financial strength rating is not acceptable for the above purposes.

SECTION 2. MUTUAL FUNDS

a) **SVO Administration**

The SVO is charged with verifying whether a money market fund is eligible to be listed on the U.S. Direct Obligations/Full Faith and Credit Exempt List, and whether a bond mutual fund is eligible to be listed on the Bond List. Eligibility requirements for the aforementioned lists are described below and apply notwithstanding the definition of the term “short-term investment” set forth elsewhere in this Manual.

b) **Mutual Fund Lists**

(i) U.S. Direct Obligations/Full Faith and Credit Exempt List

A money market fund is eligible for listing on the U.S. Direct Obligations/Full Faith and Credit Exempt List if the fund meets the following conditions:

- (A) The fund maintains a money market fund rating of A-1 Am from Standard & Poor’s or Aaa-mf from Moody’s Investor Services or an equivalent money market fund rating from an NAIC CRP.
- (B) The fund maintains a stable net asset value per share of \$1.00.
- (C) The fund allows a maximum of seven-day redemption of proceeds.
- (D) The fund invests 100% of its total assets in securities that are direct obligations of the U.S. Government and/or in securities that are backed by the full faith and credit of the U.S. Government or collateralized repurchase agreements comprised of such obligations at all times. Refer to [Section 2 e\)](#) below for a list of securities considered to be direct obligations of the U.S. Government and entities that are entitled to the full faith and credit of the U.S. Government.

(ii) Bond Fund List

A bond mutual fund is eligible for listing on the Bond List if the fund meets the following conditions:

- (A) The fund shall maintain the highest credit quality rating given by an NAIC CRP.
- (B) The fund shall maintain at least the highest market risk rating given by an NAIC CRP to a fund that invests in bonds that are issued or guaranteed as to payment of principal and interest by agencies and instrumentalities of the U.S. Government, including loan-backed bonds and collateralized mortgage obligations, and collateralized repurchase agreements comprised of those obligations.

Section 2. Mutual Funds

(C) The fund shall allow a maximum of seven-day redemption of proceeds.

(D) The fund shall invest 100% of its total assets in the U.S. Government securities listed in [Section 2 e\) of this Part](#) below, class 1 bonds that are issued or guaranteed as to payment of principal and interest by agencies and instrumentalities of the U.S. Government, including loan-backed bonds and collateralized mortgage obligations, and collateralized repurchase agreements comprised of those obligations at all times.

(E) The fund shall declare a dividend of its net investment income each day prior to calculating its net asset value per share.

(F) The fund shall not invest in any derivative instruments, as that term is defined in the [NAIC Accounting Practices and Procedures Manual](#).

(G) The fund shall not invest in any bonds that receive some or all of the interest portion of the underlying collateral and little or no principal, or in any bonds with coupons which reset periodically based on an index and which vary inversely with changes in the index.

(H) The fund shall not invest in the following types of securities: (a) leveraged or deleveraged notes that pay a multiple or fraction of an index or indices; (b) notes that pay principal or interest linked to foreign currencies, non-U.S. dollar interest rates, equity or commodities indices or any other index that is not composed of U.S. dollar-denominated fixed-income instruments; or (c) notes that pay principal or interest linked to more than one index.

c) Approval of Listing

If the SVO determines that a money market fund has met the eligibility requirements for the [U.S. Direct Obligations/Full Faith and Credit Exempt List](#), or that a bond mutual fund has met the eligibility requirements for the [Bond List](#), the SVO will confirm such eligibility to the person who applied for the confirmation, in writing.

d) Exchange Traded Funds

(i) Regulatory Presumption

Exchange Traded Funds (ETFs) are similar to mutual funds but they also differ from mutual funds in important ways. This section creates a presumption that shares of an ETF owned by an insurance company are to be reported as common stock. The presumption may be overcome if the ETF meets the conditions specified in [subparagraph \(d\) \(ii\)](#) below.

(ii) ETFs Eligible for Classification Analysis

An ETF is eligible for analysis if it operates pursuant to the terms of an exemptive order granted by the SEC (SEC Order) that requires the:

- (A) ETF not advertise or market itself as an open-end fund or as a mutual fund;
- (B) ETF sponsor not register a future ETF with the SEC (that would rely on the requested relief) unless the sponsors have requested and received with respect to such future ETF either an SEC Order from the Commission or a no-action letter from the Division of Investment Management of the Commission that contains the condition stated in paragraph (A) above; and
- (C) ETF be listed on a national securities exchange for as long as it operates in reliance on the SEC Order, provided, however, that:

- 1) Any request submitted to the SVO for classification analysis of an ETF that is believed to meet these conditions, shall be submitted through the Regulatory Treatment Analysis Service Application process (Application) described collectively in Part Four, Section 2 of this Manual.
- 2) The insurance company shall submit copies of the prospectus or other documents describing the ETF, the application of the fund sponsor requesting regulatory exemptions and identifying the agreed upon conditions (SEC Application) and the corresponding final SEC Order to the SVO.
- 3) The SVO shall have verified that the SEC Application and SEC Order include the conditions stated above.

(iii) Determining Whether an Eligible ETF Has Debt or Preferred-Stock Characteristics

Subject to the right of the SVO to reject an RTAS – Emerging Investment Vehicle Service Application, the SVO is authorized to conduct classification analysis of any ETF that meets the conditions specified in Section 2(d)(4) of this Part. In its analysis, the SVO shall determine whether the component securities held in the ETF portfolio have the characteristics of debt or of preferred stock instruments and whether the ETF structure permits a “look-through” analysis of its portfolio securities on a daily basis.

If the SVO concludes that the ETF should be classified as a debt instrument, it shall place the name of the ETF on the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List) in [Section 2 h](#)) and [Section 2 i](#)) of this Part.

If the SVO concludes that the ETF should be classified as a preferred-stock, it shall place the name of the ETF on the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred-Stock (the ETF Preferred-Stock List) in [Section 2 d](#)) (ii) of this Part.

(iv) The ETF List

Any ETF on the ETF Bond List may be reported as a bond on Schedule D without the need for an insurer to file a further RTAS – Emerging Investment Vehicle Service Application.

Any ETF on the ETF Preferred-Stock List may be reported as preferred-stock on Schedule D without the need for an insurer to file a further RTAS – Emerging Investment Vehicle Service Application.

Any insurance company interested in an ETF that is not currently listed on either the ETF Bond List or the ETF Preferred Stock List may follow the procedure discussed above to determine if the ETF is eligible for listing on one or the other ETF List.

(v) Relationship Between the Regulatory Treatment Analysis Service Application Process and the Initial and Subsequent Reporting of ETFs

The RTAS – Emerging Investment Vehicle Service Application process is used solely to determine whether the ETF is eligible to be reported as a debt or preferred-stock instrument. Accordingly, the Regulatory Treatment Analysis Service Application process is not a substitute for the procedures that govern the initial or subsequent filing of insurer-owned securities with the SVO.

An Initial Report of the purchase of shares of an ETF is made in accordance with the instructions contained in this Manual. A Subsequent Report of the purchase of shares of an ETF is made in accordance with the instructions contained in this Manual.

e) List of Securities That Are Considered “Exempt Obligations” for Purposes of Determining the Asset Valuation Reserve and the Risk-Based Capital Calculation

This Section is used to determine those securities that are included in the “Exempt Obligations” category for purposes of determining the asset valuation reserve (AVR) and the risk-based capital (RBC) calculation.

The securities issued, guaranteed or insured by entities shown in [Part Two, Section 4 c\) \(iv\) of this Manual](#) are considered to be in the “exempt obligations” category for purposes of determining the AVR and the RBC calculation.

Securities issued, guaranteed or insured by entities on the Filing Exempt Other U.S. Government list are not “exempt obligations,” and shall be reported in the Special Revenue and Special Assessment Obligations category, not in the U.S. Government category.

The loan-backed and structured securities that are “exempt obligations” and are reported in the U.S. Government category are securities that have a full guarantee for their interest and principal payments by the U.S. Government. Examples are the pass-through securities and Collateralized Mortgage Obligations guaranteed by the Government National Mortgage Association (GNMA) or the U.S. Department of Veterans Affairs (VA).

Section 2. Mutual Funds

f) List of Money Market Funds Filed with the SVO (U.S. Direct Obligations/Full Faith and Credit Exempt List)

COMPLEX_NAME	FUND_NAME	CUSIP
BlackRock	BCF Treasury Fund – Institutional Shares	066922659
	T-FUND ADMIN SHS	09248U676
	T-FUND CAP SHS	09250C804
	T-FUND CASH MGMT SHS	09248U668
	T-FUND CASH RESV SHS	09248U650
	T-FUND DLR SHS	09248U692
	T-FUND SELECT SHS	09250C812
	TREAS TR FD	09250C770
	TREAS TR FD CAP SHS	09250C496
	TREAS TR FD CASH MGMT SHS	09248U536
	TREAS TR FD DLR SHS	09248U644
	TREASURY TR FD ADMIN SHS	09248U452
	TREASURY TR FD CASH RESV SHS	09248U660
BlackRock Liquidity Funds	T-Fund – Institutional Shares	09248U711
	Treasury Trust Fund – Institutional Shares	09248U681
Cavalan Hill Funds	U S TREASURY FD SELECT SHS	14956P877
	U.S. Treasury Fund – Administrative Shares	14956P802
	U.S. Treasury Fund – Institutional Shares	14956P703
	U.S. Treasury Fund – Service Shares	14956P885
Deutsche Asset Management	DEUTSCHE TREAS PORTFOLIOCAP SHS	461473829
	ICT – Treasury Portfolio – Institutional Shares	461473209
Dreyfus	Institutional Treasury Securities Cash Advantage – Hamilton	26200X811
	Institutional Treasury Securities Cash Advantage – Inst'l	26200X829
	Institutional Treasury/Agency Cash Advantage – Hamilton	26200X860
	Institutional Treasury/Agency Cash Advantage – Institutional	26200X878
	Treasury & Agency Cash Management Fund – Admin Shares	261908305
	Treasury & Agency Cash Management Fund – Institutional Share	261908107
	Treasury & Agency Cash Management Fund – Investor	261908206
	Treasury Securities Cash Management – Administrative Shares	261941306
	Treasury Securities Cash Management Fund – Institutional	261941108
	Treasury Securities Cash Management Fund – Investor	261941207
Dreyfus Service Corporations	DREYFUS INSTL PFD TREASURY SECMONEY MKT FD HAMILTON SHS	177366507
	DREYFUS INSTL PFD TREASURY SECMONEY MKT FD INSTL CL	177366879
Federated Investors, Inc.	Treasury Obligations Fund – Capital Shares	60934N823
	Treasury Obligations Fund – Institutional Shares	60934N500
	Treasury Obligations Fund – Service Shares	60934N872
	Trust for U.S. Treasury Obligations	60934N799

COMPLEX_NAME	FUND_NAME	CUSIP
	U.S. Treasury Cash Reserves – Institutional Shares	60934N682
	U.S. Treasury Cash Reserves – Service Shares	60934N674
Fidelity Investment	TREAS ONLY PORT INSTL CL	31607A802
Fidelity Investments	Fidelity Institutional MMF Treasury Portfolio Institutional C	31607A885
	Institutional Treasury Only Portfolio – Class I	233809300
	Institutional Treasury Only Portfolio – Class II	233809805
	Institutional Treasury Only Portfolio – Class III	233809888
	Institutional Treasury Only Portfolio – Select Class	192826105
	Institutional Treasury Portfolio – Class I	316175504
	Institutional Treasury Portfolio – Class II	316175835
	Institutional Treasury Portfolio – Class III	316175884
	Institutional Treasury Portfolio – Select Class	192826204
First American Funds	TREAS OBLIGS FD CL P	31846V829
	Treasury Obligations – Class Y	31846V807
	Treasury Obligations – Class A	31846V830
	Treasury Obligations – Class D	31846V300
	Treasury Obligations – Class X	31846V828
	Treasury Obligations – Class Z	31846V542
	Treasury Obligations – Institutional Investor Class	31846V419
	Treasury Obligations – Reserve Shares	31846V716
	US Treasury – Class A	31846V476
	US Treasury – Institutional Investor Shares	31846V393
	US Treasury – Class D	31846V468
	US Treasury – Class Y	31846V534
	US Treasury – Class Z	31846V450
Gabelli Funds Inc	SHS U S TREASURY MONEY MARKET F	36239W106
Goldman Sachs Trust	Financial Square Treasury Instruments Fund – Admin Shares	38142B609
	Financial Square Treasury Instruments Fund – Capital Shares	38143H407
	Financial Square Treasury Instruments Fund – Cash Management	38145C729
	Financial Square Treasury Instruments Fund – Institutional S	38142B500
	Financial Square Treasury Instruments Fund – Preferred Share	38142B807
	Financial Square Treasury Instruments Fund – Premier Shares	38145C737
	Financial Square Treasury Instruments Fund – Resource Shares	38145C711
	Financial Square Treasury Instruments Fund – Select Shares	38142Y724
	Financial Square Treasury Instruments Fund – Service Class	38142B708
	Financial Square Treasury Obligations – Cash Management	38145C786
	Financial Square Treasury Obligations Fund – Admin Class	38141W315
	Financial Square Treasury Obligations Fund – Capital Shares	38143H308
	Financial Square Treasury Obligations Fund – Institutional S	38141W323

Section 2. Mutual Funds

COMPLEX_NAME	FUND_NAME	CUSIP
	Financial Square Treasury Obligations Fund – Preferred Share	38141W281
	Financial Square Treasury Obligations Fund – Premier Shares	38145C794
	Financial Square Treasury Obligations Fund – Resource Shares	38145C778
	Financial Square Treasury Obligations Fund – Select Shares	38142Y732
	Financial Square Treasury Obligations Fund – Service Class	38141W299
	Financial Square Treasury Solutions Fund – Admin Class	38142B872
	Financial Square Treasury Solutions Fund – Capital Shares	38143H605
	Financial Square Treasury Solutions Fund – Cash Management	38145C752
	Financial Square Treasury Solutions Fund – Institutional	38142B880
	Financial Square Treasury Solutions Fund – Preferred Shares	38142B856
	Financial Square Treasury Solutions Fund – Premier Shares	38145C760
	Financial Square Treasury Solutions Fund – Resource Shares	38145C745
	Financial Square Treasury Solutions Fund – Select Shares	38142Y790
	Financial Square Treasury Solutions Fund – Service Class	38142B864
HSBC Funds	U.S. Treasury Money Market Fund – Class D	40428X297
	U.S. Treasury Money Market Fund – Class I	40428X200
	U.S. Treasury Money Market Fund – Class Y	40428X299
	US Treasury Money Market Fund – Intermediary Class	40430V464
	US Treasury Money Market Fund – Intermediary Service Class	40430V456
Invesco Advisers, Inc.	Treasury Obligations Portfolio – Cash Management Class	825252794
	Treasury Obligations Portfolio – Corporate Class	825252547
	Treasury Obligations Portfolio – Institutional Class	825252505
	Treasury Obligations Portfolio – Personal Investment Class	825252828
	Treasury Obligations Portfolio – Private Investment Class	825252604
	Treasury Obligations Portfolio – Reserve Class	825252786
	Treasury Obligations Portfolio – Resource Class	825252810
	Treasury Portfolio – Cash Management Class	825252307
	Treasury Portfolio – Corporate Class	825252570
	Treasury Portfolio – Institutional Class	825252406
	Treasury Portfolio – Personal Investment Class	825252208
	Treasury Portfolio – Private Investment Class	825252109
	Treasury Portfolio – Reserve Class	825252836
	Treasury Portfolio – Resource Class	825252703
JP Morgan Funds	U.S. Treasury Plus Money Market – Capital Shares	4812C2239
	U.S. Treasury Plus Money Market – IM Shares	4812C2262
JPMorgan Funds	100% US Treasury Securities Money Market – Agency Shares	4812A2843
	100% US Treasury Securities Money Market – Capital Class	4812A0375
	100% US Treasury Securities Money Market – Institutional	4812A2835
	100% US Treasury Securities Money Market – Morgan Shares	4812A2827
	100% US Treasury Securities Money Market – Premier Shares	4812A2819

COMPLEX_NAME	FUND_NAME	CUSIP
	U.S. Treasury Plus Money Market – Agency Shares	4812C2742
	U.S. Treasury Plus Money Market – Institutional Shares	4812C2734
	U.S. Treasury Plus Money Market – Morgan Shares	4812C2726
Legg Mason Partners	Western Asset US Treasury Reserves – Class N	52470R805
	Western Asset Inst U.S. Treas Obligations MM Fund – Admin Sh	52470G536
	Western Asset Inst U.S. Treas Obligations MM Fund – Inst Sh	52470G551
	Western Asset Inst U.S. Treas Obligations MM Fund – Inv Shs	52470G544
	Western Asset Institutional US Treasury Reserves – Inst.	52470G841
	Western Asset Institutional US Treasury Reserves – Investor	52470G684
	Western Asset Premium US Treasury Reserves	52470M202
Morgan Stanley Institutional Liquidity Funds	Treasury Portfolio – Administrative Class	61747C016
	Treasury Portfolio – Advisory Class	61747C090
	Treasury Portfolio – Cash Class	61747C434
	Treasury Portfolio – Institutional Class	61747C002
	Treasury Portfolio – Institutional Select Class	61747C550
	Treasury Portfolio – Investor Class	61747C074
	Treasury Portfolio – Participant Class	61747C566
	Treasury Securities Portfolio – Administrative Class	61747C541
	Treasury Securities Portfolio – Advisory Class	61747C533
	Treasury Securities Portfolio – Institutional Class	61747C525
	Treasury Securities Portfolio – Institutional Select Class	61747C491
	Treasury Securities Portfolio – Investor Class	61747C483
	Treasury Securities Portfolio – Participant Class	61747C517
Northern Institutional Funds	Treasury Portfolio – Money Market Portfolio Premier	665279873
	Treasury Portfolio – Money Market Portfolio Shares	665279808
PNC Advantage Funds	Advantage Institutional Treasury MM – Advisor Shares	73015P500
	Advantage Institutional Treasury MM – Inst Shares	73015P401
	Advantage Institutional Treasury MM – Service Class	73015P609
PNC Funds	Treasury Money Market Fund – Class A	69351J199
	Treasury Money Market Fund – Institutional Class	69351J215
SEI Daily Income Trust	Treasury Fund – Class A	783965726
	Treasury II Fund – Class A	783965619
State Street Global Advisors	State Street Institutional Treas Plus Money Market Fund – Inve	857492599
	State Street Institutional Treasury Money Market Fund – Inve	857492623
	State Street Institutional Treasury Money Market Fund – Prem	857492888
	State Street Institutional Treasury Plus Money Market Fund	857492862
State Street Global Advisors Limited	INSTL TREAS PLUS MONEY MKT FDTR CL	85749Q448
	TREAS MONEY MKT FDINST	857492565

Section 2. Mutual Funds

COMPLEX_NAME	FUND_NAME	CUSIP
	TREAS PLUS MONEY MKT FDINSTL CL	857492557
	TREASURY FD INVT CL	857492870
	TREASURY MONEY MKT FDADMIN CL	857492631
	TREASURY PLUS FD INVT CL	857492854
	TREASURY PLUS MONEY MKT FDADMIN CL	857492615
TD Asset Management USA Funds Inc.	Institutional Treasury Oblig. Money Market Fund – Com Class	87237U741
	Institutional Treasury Oblig. Money Market Fund – Inst Svc	87237U758
UBS Global Asset Management	Select Treasury Institutional Fund	90262Y802
	Select Treasury Investor Fund	90262Y851
	Select Treasury Preferred Fund	90262Y877
Wells Fargo Funds	100% Treasury Money Market Fund – A	94975H288
	100% Treasury Money Market Fund – Administrator Class	949921566
	100% Treasury Money Market Fund – Institutional Class	94975H759
	100% Treasury Money Market Fund – Service Class	94975H170
	100% Treasury Money Market Fund – Sweep	949921299
	Treasury Plus Money Market Fund – A	94975H120
	Treasury Plus Money Market Fund – Administrator Class	949921563
	Treasury Plus Money Market Fund – Institutional	94975H296
	Treasury Plus Money Market Fund – Service Class	94975H312
	Treasury Plus Money Market Fund – Sweep Class	949921282
Wilmington Funds	U.S. Treasury Money Market Fund – Admin Shares	97181C480
	U.S. Treasury Money Market Fund – Select Shares	97181C514
	US Treasury Money Market Fund – Service Shares	97181C498

* Funds which were previously on the list, but which have not paid the required \$250.00 annual maintenance fee, have been removed from the list. Funds which no longer meet the eligibility requirements have been removed from the list.

** Due to timing differences in the production of this Manual, please consult the monthly Mutual Funds List publication to further confirm changes to the Funds list that may include additions and/or deletions.

g) List of Bond Mutual Funds Filed with the SVO (Bond Funds)

COMPLEX NAME	FUND NAME	CUSIP
Wells Fargo Funds	Adjustable Rate Government Fund – A	94985D665
	Adjustable Rate Government Fund – Administrator Class	94975P785
	Adjustable Rate Government Fund – C	94985D640
	Adjustable Rate Government Fund – Institutional	94985D632

* Funds which were previously on the list, but which have not paid the required \$250.00 annual maintenance fee, have been removed from the list. Funds which no longer meet the eligibility requirements have been removed from the list.

**** Due to timing differences in the production of this Manual, please consult the monthly Mutual Funds List publication to further confirm changes to the Funds list that may include additions and/or deletions.**

h) List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond

An insurance company that purchases an ETF whose name was added by the SVO to either the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond or to the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock, must file the ETF with the SVO to obtain a final NAIC Designation for reporting purposes.

The Regulatory Treatment Analysis Services (RTAS) process used to evaluate ETFs under [Part Four, Section 2 of this Manual](#) only results in the assignment of a preliminary NAIC Designations to the ETF.

Preliminary NAIC Designations are indications of the likely SVO response if the ETF were purchased by an insurer and reported to the SVO for regulatory purposes and therefore cannot be used to report the ETF to the NAIC or state insurance regulators.

Please refer to [Part Four, Section 2 of this Manual](#) for text discussing the RTAS process and to [Section 3 a\) \(ix\)](#) of that Part for a detailed discussion of the preliminary status of NAIC Designations assigned under the RTAS process.

Exchange Traded Funds – Bonds

Exchange Traded Funds – Bonds – ETF NAME	CUSIP
Xtrackers High Beta High Yield Bond ETF	233051259
Xtrackers Low Beta High Yield Bond ETF	233051267
Xtrackers Short Duration High Yield Bond ETF	233051283
Deutsche X-trackers USD High Yield Corporate Bond ETF	233051432
Deutsche X-trackers Municipal Infrastructure Revenue Bond ETF	233051705
First Trust Senior Loan ETF	33738D309
First Trust Enhanced Short Maturity ETF	33739Q408
FlexShares iBoxx 3-Year Target Duration TIPS Index Fund	33939L506
FlexShares iBoxx 5-Year Target Duration TIPS Index Fund	33939L605
FlexShares Ready Access Variable Income Fund	33939L886
Franklin Short Duration U.S. Government ETF	353506108
Goldman Sachs Access High Yield Corporate Bond ETF	381430453
Goldman Sachs Access Investment Grade Corporate Bond ETF	381430479
Goldman Sachs Treasury Asset 0-1 Year ETF	381430529
Highland/iBoxx Senior Loan ETF	430101774
IQ MacKay Shields Municipal Intermediate ETF	45409F827
IQ MacKay Shields Municipal Income ETF	45409F843
Invesco International Corporate Bond ETF	46138E636

Section 2. Mutual Funds

Exchange Traded Funds – Bonds – ETF NAME	CUSIP
Invesco Fundamental High Yield® Corporate Bond ETF	46138E719
Invesco Emerging Markets Sovereign Debt ETF	46138E784
Invesco Senior Loan ETF	46138G508
Invesco Taxable Municipal Bond ETF	46138G805
Invesco Treasury Collateral ETF	46138G888
iShares Global High Yield Corporate Bond ETF	464286178
iShares International High Yield Bond ETF	464286210
iShares Emerging Markets Corporate Bond ETF	464286251
iShares Emerging Markets High Yield Bond ETF	464286285
iShares Emerging Markets Local Currency Bond ETF	464286517
iShares TIPS Bond ETF	464287176
iShares Core U.S. Aggregate Bond ETF	464287226
iShares iBoxx \$ Investment Grade Corporate Bond ETF	464287245
iShares 20+ Year Treasury Bond ETF	464287432
iShares 7-10 Year Treasury Bond ETF	464287446
iShares 1-3 Year Treasury Bond ETF	464287457
iShares International Treasury Bond ETF	464288157
iShares 1-3 Year International Treasury Bond ETF	464288125
iShares Short-Term National Muni Bond ETF	464288158
iShares Agency Bond ETF	464288166
iShares J.P. Morgan USD Emerging Markets Bond ETF	464288281
iShares New York Muni Bond ETF	464288323
iShares California Muni Bond ETF	464288356
iShares National Muni Bond ETF	464288414
iShares iBoxx \$ High Yield Corporate Bond ETF	464288513
iShares MBS ETF	464288588
iShares Government/Credit Bond ETF	464288596
iShares Intermediate Government/Credit Bond ETF	464288612
iShares Broad USD Investment Grade Corporate Bond ETF	464288620
iShares Intermediate-Term Corporate Bond ETF	464288638
iShares Short-Term Corporate Bond ETF	464288646
iShares 10-20 Year Treasury Bond ETF	464288653
iShares 3-7 Year Treasury Bond ETF	464288661
iShares Short Treasury Bond ETF	464288679
iShares Core Long-Term USD Bond ETF	464289479
iShares Long-Term Corporate Bond ETF	464289511
iShares Core U.S. Treasury Bond ETF	46429B267
iShares Aaa – A Rated Corporate Bond ETF	46429B291
iShares Core GNMA Bond ETF	46429B333
iShares CMBS ETF	46429B366
iShares iBonds Sep 2017 Term Muni Bond ETF	46429B564

Exchange Traded Funds – Bonds – ETF NAME	CUSIP
iShares Floating Rate Bond ETF	46429B655
iShares 0-5 Year TIPS Bond ETF	46429B747
iShares Short Maturity Bond ETF (Active Fund)	46431W507
iShares Core Short-Term USD Bond ETF	46432F859
iShares iBonds Mar 2020 Term Corporate ex-Financials ETF	46432FAK3
iShares iBonds Mar 2023 Term Corporate ex-Financials ETF	46432FAN7
iShares iBonds Mar 2023 Term Corporate ETF	46432FAZ0
iShares iBonds Mar 2020 Term Corporate ETF	46432FBC0
iShares 0-5 Year Investment Grade Corporate Bond ETF	46434V100
iShares 0-5 Year High Yield Corporate Bond ETF	46434V407
iShares iBonds Sep 2020 Term Muni Bond ETF	46434V571
iShares Core Total USD Bond Market ETF	46434V613
iShares Yield Optimized Bond ETF	46434V78
iShares Treasury Floating Rate Bond ETF	46434V860
iShares Liquidity Income ETF (Active Fund)	46434V878
iShares iBonds Dec 2020 Term Corporate ETF	46434V9A3
iShares iBonds Dec 2019 Term Corporate ETF	46434V9A4
iShares iBonds Dec 2023 Term Corporate ETF	46434V9A8
iShares iBonds Dec 2022 Term Corporate ETF	46434V9A7
iShares iBonds Dec 2025 Term Corporate ETF	46434V9BD1
iShares iBonds Dec 2024 Term Corporate ETF	46434VBG4
iShares iBonds Dec 2021 Term Corporate ETF	46434VBK5
iShare 10+ Year Investment Grade Corporate Bond ETF	46435G144
iShare 5-10 Year Investment Grade Corporate Bond ETF	46435G151
iShares ESG USD Corporate Bond ETF	46435G193
iShares Edge Investment Grade Enhanced Bond ETF	46435G219
iShares ESG 1-5 Year USD Corporate Bond ETF	46435G243
iShares Edge High Yield Defensive Bond ETF	46435G250
iShares iBoxx \$ High Yield ex Oil & Gas Corporate Bond ETF	46435G441
iShares Fallen Angels USD Bond ETF	46435G474
iShares iBonds Dec 2022 Term Muni Bond ETF	46435G755
iShares iBonds Dec 2021 Term Muni Bond ETF	46435G789
iShares iBonds Dec 2026 Term Corporate ETF	46435GAA0
iShares iBonds Dec 2024 Term Muni Bond ETF	46435U697
iShares Broad USD High Yield Corporate Bond ETF	46435U853
JPMorgan Ultra-Short Income ETF	46641Q837
JPMorgan Disciplined High Yield ETF	46641Q878
Sage ESG Intermediate Credit ETF	66538H583
NuShares Enhanced Yield U.S. Aggregate Bond ETF	67092P102
NuShares Enhanced Yield 1-5 Year U.S. Aggregate Bond ETF	67092P110
PIMCO 0-5 Year High Yield Corporate Bond Index Exchange-Traded Fund	72201R783

Section 2. Mutual Funds

Exchange Traded Funds – Bonds – ETF NAME	CUSIP
PIMCO Enhanced Maturity Active ETF	72201R833
SPDR Bloomberg Barclays Corporate Bond ETF	78464A144
SPDR Bloomberg Barclays International Corporate Bond ETF	78464A151
SPDR Nuveen S&P High Yield Municipal Bond ETF	78464A284
SPDR Bloomberg Barclays Short Term International Treasury Bond ETF	78464A334
SPDR Portfolio Long Term Corporate Bond ETF	78464A367
SPDR Portfolio Intermediate Term Corporate Bond ETF	78464A375
SPDR Bloomberg Barclays Mortgage Backed Bond ETF	78464A383
SPDR Bloomberg Barclays Emerging Markets Local Bond ETF	78464A391
SPDR Bloomberg Barclays High Yield Bond ETF	78464A417
SPDR Portfolio Short Term Corporate Bond ETF	78464A474
SPDR Citi International Government Inflation-Protected Bond ETF	78464A490
SPDR Bloomberg Barclays International Treasury Bond ETF	78464A511
SPDR Portfolio Aggregate Bond ETF	78464A649
SPDR Bloomberg Barclays TIPS ETF	78464A656
SPDR Portfolio Long Term Treasury ETF	78464A664
SPDR Bloomberg Barclays Intermediate Term Treasury ETF	78464A672
SPDR Blackstone / GSO Senior Loan ETF	78467V608
SPDR SSGA Ultra Short Term Bond ETF	78467V607
SPDR Portfolio Short Term Treasury ETF	78467V610
SPDR Bloomberg Barclays Investment Grade Floating Rate ETF	78468R200
SPDR Bloomberg Barclays Short Term High Yield Bond ETF	78468R408
SPDR ICE BofAML Crossover Corporate Bond ETF	78468R606
SPDR Bloomberg Barclays 1–3 Month T-Bill ETF	78468R663
SPDR Nuveen Bloomberg Barclays Municipal Bond ETF	78468R721
SPDR Nuveen Bloomberg Barclays Short Term Municipal Bond ETF	78468R739
VanEck Vectors EM Investment Grade + BB Rated USD Sovereign Bond ETF	92189F346
VanEck Vectors Emerging Markets High Yield Bond ETF	92189F353
VanEck Vectors High-Yield Municipal Index ETF	92189F361
VanEck Vectors International High Yield Bond ETF	92189F445
VanEck Vectors Investment Grade Floating Rate ETF	92189F486
VanEck Vectors J.P. Morgan EM Local Currency Bond ETF	92189F494
VanEck Vectors AMT-Free Intermediate Municipal Index ETF	92189F544
Vanguard Extended Duration Treasury ETF	921910709
Vanguard Long-Term Bond Index Fund	921937793
Vanguard Intermediate-Term Bond Index Fund	921937819
Vanguard Short-Term Bond Index Fund	921937827
Vanguard Total Bond Market Index Fund	921937835
Vanguard Emerging Markets Government Bond ETF	921946885
Vanguard Short-Term Inflation-Protected Securities ETF	922020805
Vanguard Total International Bond ETF	92203J407

Exchange Traded Funds – Bonds – ETF NAME	CUSIP
Vanguard Short-Term Government Bond ETF	92206C102
Vanguard Short-Term Corporate Bond ETF	92206C409
Vanguard Total Corporate Bond Fund	92206C573
Vanguard Intermediate-Term Government Bond ETF	92206C706
Vanguard Mortgage-Backed Securities Index Fund	92206C771
Vanguard Long-Term Corporate Bond ETF	92206C813
Vanguard Long-Term Government Bond ETF	92206C847
Vanguard Intermediate-Term Corporate Bond ETF	92206C870
Vanguard Tax-Exempt Bond Index ETF	922907746
WisdomTree Barclays US Aggregate Bond Enhanced Yield Fund	97717X511
WisdomTree Strategic Corporate Bond ETF	97717X693
WisdomTree Emerging Markets Corporate Bond ETF	97717X784
WisdomTree Asia Local Debt Fund ETF	97717X841
WisdomTree Emerging Markets Local Debt Fund ETF	97717X867

(i) List of Exchange Traded Funds Eligible for Reporting as Schedule D Preferred Stock

An insurance company that purchases an ETF whose name was added by the SVO to either the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond or to the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock, must file the ETF with the SVO to obtain a final NAIC Designation for reporting purposes.

The Regulatory Treatment Analysis Services (RTAS) process used to evaluate ETFs under [Part Four, Section 2 of this Manual](#) only results in the assignment of a preliminary NAIC Designations to the ETF.

Preliminary NAIC Designations are indications of the likely SVO response if the ETF were purchased by an insurer and reported to the SVO for regulatory purposes and therefore cannot be used to report the ETF to the NAIC or state insurance regulators.

Please refer to [Part Four, Section 2 of this Manual](#) for text discussing the RTAS process and to [Part Four, Section 3 a\) \(ix\) of this Manual](#) for a detailed discussion of the preliminary status of NAIC Designations assigned under the RTAS process.

Exchange Traded Funds – Preferred Stock

EXCHANGE TRADED FUNDS – PREFERRED STOCK – ETF NAME	CUSIP
Invesco Preferred ETF	46138E511
iShares S&P U.S. Preferred Stock Index Fund	464288687
SPDR Wells Fargo Preferred Stock ETF	78464A292

Section 3. Counterparty Exposure; Netting Eligibility

SECTION 3. COUNTERPARTY EXPOSURE; NETTING ELIGIBILITY

a) **NAIC Designation**

The SVO will convert the counterparty's or the guarantor's financial strength ratings as assigned by an NAIC CRP (e.g., S&P Financial Programs Ratings, Moody's Counterparty's Ratings or Fitch Counterparty Risk Ratings) into an equivalent NAIC Designation. In the absence of an NAIC CRP counterparty financial strength rating, the SVO may convert the counterparty's senior unsecured rating, as assigned by an NAIC CRP, into the equivalent NAIC Designation. In the absence of an NAIC CRP counterparty financial strength or senior unsecured rating, the SVO will conduct a review of the counterparty's financial statements to assign an NAIC Designation. For purposes of the application of this Section, all U.S. domiciled exchanges are assigned an NAIC 1 Designation.

b) **Netting Eligibility**

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.

c) **List of Counterparties Rated by the SVO for Schedule DB, Part D, Section 1**

(i) General

(A) *Association Values*

Association values for derivative instruments, where such derivative instruments are permitted by law or regulation of an insurer's state of domicile, shall be equal to the Statement Value reported in Schedule DB, Part A (Options, Caps and Floors Owned), Part B (Options, Caps and Floors Written), Part C (Collars, Swaps and Forwards), and Part D (Futures) that is calculated according to the procedures found in the NAIC Accounting Practices and Procedures Manuals for Life and Health, Fraternal, and Property & Casualty companies.

(B) *Accounting and Documentation Guidance*

The NAIC *Accounting Practices and Procedures Manual* contains general accounting guidance, documentation guidance, and specific accounting procedures for derivative instruments.

(ii) Procedures for Determining NAIC Designations and Netting Eligibility for Derivative Instrument Counterparties

(A) *Purpose*

(1) NAIC Designations: The purpose of assigning NAIC Designations or quality ratings is to assign counterparties into SVO Rating Categories for Schedule DB, Part D, Section 1.

(B) *Counterparties Rated by the SVO for Purposes of Assignment into SVO Rating Categories for Schedule DB, Part D, Section 1*

Below are counterparties rated by the SVO as of the publication date of this Manual. For an updated list prior to the next publication date of this Manual, see the AVS Bulletin Board.

(1) Administration

(X) Listing a Counterparty

An insurance company that wants to have a counterparty listed on the List of Counterparties Rated 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, in accordance with the procedure discussed in Part Three of this Manual, or perform a financial analysis of the counterparty, or the counterparty's guarantor, in order to assign an NAIC Designation.

Section 3. Counterparty Exposure; Netting Eligibility

(Y) Annual Update of Counterparties on the List

In order to maintain a counterparty on the List, an insurance company must file the following information:

- A Counterparty Rating ATF Annual Update Filing Form.
- 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.

If an insurance company doesn't file an annual update by June 1, XXXX, the counterparty will be deleted from the List effective with the July 1, XXXX, Purposes and Procedures Manual and CD-ROM. If deleted, the insurance company will have to submit an initial filing in order for the counterparty to be placed on the List.

COUNTERPARTY	LOCATION	DESIGNATION
Exchange Traded Derivative Counterparties	All U.S. Registered Exchanges	1
OVER THE COUNTER DERIVATIVE COUNTERPARTIES		
Abbey National Treasury Services PLC	London, UK	1
AIG Markets, Inc.	Wilton, CT	1
Bank of America, N.A.	San Francisco, CA	1
Bank of Montreal	Montreal, Canada	1
Barclays Bank, Plc	London, UK	1
BNP Paribas	Paris, France	1
Citibank, NA	New York, NY	1
Citigroup Global Markets Inc.	New York, NY	1
Credit Agricole Corporate and Investment Bank	Paris, France	1
Credit Suisse International	London, UK	1
Credit Suisse Securities (USA) LLC	New York, NY	1
Deutsche Bank AG	Frankfurt, Germany	1
Fifth Third Bank, Ohio	Cincinnati, OH	1
Goldman Sachs & Co. LLC	New York, NY	1
Goldman Sachs Bank USA	New York, NY	1
Goldman Sachs International	London, UK	1
HSBC Bank USA, N.A.	New York, NY	1
ING Capital Markets LLC	New York, NY	1
J.P. Morgan Chase & Co.	New York, NY	1
J.P. Morgan Securities, LLC	New York, NY	1
JP Morgan Chase Bank, N.A.	Columbus, OH	1

COUNTERPARTY	LOCATION	DESIGNATION
Merrill Lynch Pierce, Fenner & Smith Incorporated	New York, NY	1
Morgan Stanley & Co., LLC	New York, NY	1
Morgan Stanley & Co. International Plc	London, UK	1
Morgan Stanley Capital Services, Inc	New York, NY	1
National Australia Bank Limited	Melbourne, Australia	1
NATIXIS	NY	1
Natixis S.A.	Paris, France	1
Natwest Markets PLC	London, UK	1
Nomura Global Financial Products Inc.	New York, NY	1
Prudential Global Funding	Newark, NJ	1
Royal Bank of Canada	Toronto, Canada	1
Royal Bank of Scotland Plc	Edinburgh, UK	1
Societe Generale – New York Branch	New York, NY	1
Societe Generale S.A.	Paris, France	1
Suntrust Bank	Atlanta, GA	1
Swiss Re Risk Solutions Corporation	Wilmington, DE	1
Toronto Dominion Bank	Toronto, Canada	1
UBS AG	Zurich, Switzerland	1
Wells Fargo Bank N.A.	San Francisco, CA	1
Wells Fargo Securities, LLC	Charlotte, NC	1
Zurich Insurance Company	Zurich, Switzerland	1

d) List of Foreign (non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1

(i) Procedures for Determining NAIC Designation and Netting Eligibility for Derivative Instrument Counterparties

(A) Purpose

(1) **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.

Section 3. Counterparty Exposure; Netting Eligibility

(2) **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 (d). 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.

Jurisdiction:

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

Not for Distribution

PART SEVEN

THE NAIC STRUCTURED SECURITIES GROUP

SECTION 1. THE NAIC STRUCTURED SECURITIES GROUP

The NAIC has determined that it is necessary to establish a staff function to provide NAIC members with an internal analytical capability to assess risks associated with insurer-owned securitizations and other complex financially engineered securities. The SSG is established as the staff function assigned to assess credit and other investment risks in securitizations and other complex financially engineered securities owned by state-regulated insurance companies.

Section 2. Definitions

SECTION 2. DEFINITIONS

The following terms used in this [Part Seven](#) have the meaning ascribed to them below.

ABS stands for **asset-backed securities** and means structured securities backed by consumer obligations originated in the United States.

CMBS stands for **commercial mortgage-backed securities** and means structured securities backed by commercial real estate mortgage loans originated in the United States. The definition of CMBS may refer to securitizations backed by commercial mortgages, respectively, originated outside of the United States if and to the extent that the vendor selected by the NAIC to conduct the financial modeling: 1) has the necessary information about the commercial mortgage and commercial mortgage loans originated outside of the United States to fully model the resulting securities; and 2) can adapt the modeling process to account for any structural peculiarities associated with the jurisdiction in which the mortgage was originated.

Initial Information means the documentation required to be filed with an Initial Filing of an RMBS or a CMBS CUSIP, pursuant to [Section 5](#) below and pertaining to [Loan Information](#), [Reps and Warranty Information](#) and [Structure and Formation Information](#) for the transaction, when

- [Loan Information](#) means a review of the loan files by a third party to assess the sufficiency of legal title and other related issues;
- [Reps and Warranty Information](#) means the actual representation and warranties in effect for the securitization given by the mortgage originator(s) to the Trust pertaining to loan origination processes and standards, compliance with applicable law, loan documentation and the process governing put backs of defective mortgages back to the originator(s); and
- [Structure and Formation Information](#) means the waterfall described in the definition of Ongoing Information, information and documentation in the form of legal opinions and documentation governing the formation of the securitization and its entities relative to issues such as bankruptcy remoteness, true sale characterization, the legal standards and procedures governing the securitization and other similar issues.

Legacy Security, for the purposes of this Section 2, shall mean any RMBS and any CMBS that closed prior to January 1, 2013.

Ongoing Information consists of: a) tranche-level data; such as principal balance, factors, principal and interest due and paid, interest shortfalls, allocated realized losses, appraisal reductions and other similar information for the specific tranche; b) trust-level data, such as aggregate interest and principal and other payments received, balances and payments to non-tranche accounts, aggregate pool performance data and other similar information; c) loan-level performance information; and d) a computerized model of rules that govern the order and priority of the distribution of cash from the collateral pool (i.e., the “waterfall”) to the holders of the certificates/securities—provided in the format and modeling package used by the NAIC financial modeling vendor.

Original Source, with respect to a specific set of data, means the Trustee, Servicer or similar entity that is contractually obligated under the agreement governing the RMBS or CMBS to generate and maintain the relevant data and information in accordance with standards specified in applicable agreements or an authorized re-distributor of the same.

Re-REMIC is a securitization backed by (i) otherwise eligible RMBS from one or two transactions; or (ii) otherwise eligible CMBS from one or two transactions at closing. Re-REMICs cannot acquire any Underlying Securities after closing.

RMBS stands for **residential mortgage-backed securities** and means structured securities backed by non-agency residential mortgages originated in the United States, where the collateral consists of loans pertaining to non-multi-family homes. That includes prime, subprime and Alt-A mortgages, as well as home-equity loans, home-equity lines of credit and Re-REMICs of the above. Excluded from this definition is agency RMBS, where the mortgages are guaranteed by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) and loans against manufactured or mobile homes or collateralized debt obligations backed by RMBS. The exclusion covers bonds issued and guaranteed by, or only guaranteed by, the respective agency. Also not included are loans guaranteed by the U.S. Department of Veterans Affairs or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. The definition of RMBS may refer to securitizations backed by residential mortgages, respectively, originated outside of the United States if and to the extent that the vendor selected by the NAIC to conduct the financial modeling: 1) has the necessary information about the residential mortgage and residential mortgage loans originated outside of the United States to fully model the resulting securities; and 2) can adapt the modeling process to account for any structural peculiarities associated with the jurisdiction in which the mortgage was originated.

Underlying Security means the RMBS or CMBS backing a Re-REMIC. A Re-REMIC cannot be an Underlying Security.

NOTE: The definitions of RMBS and CMBS reflect limitations associated with the financial modeling process, NAIC credit rating provider (CRP) internal naming conventions and SSG processes, as more fully discussed below and may, therefore, be subject to a narrower or a broader reading in any reporting period. *Please call the SSG with any concerns or questions about the scope of the definitions for a given reporting period.*

- It is possible that the scope of the RMBS and CMBS definitions may be broadened because the financial modeling vendors indicate other collateral or waterfall structures can be modeled.

Section 2. Definitions

- NAIC CRPs may adopt different internal conventions with respect to what market or asset segments are within their rated populations of RMBS, CMBS or ABS. This could affect the application of the adopted NAIC methodology or require the NAIC to select which naming process it wishes to adopt.
- It is possible that the SSG will acquire analytical assessment capabilities that permit the assessment of existing, additional or different structured securities that cannot now be modeled or that are not currently rated.

Price Grids means and refers to CUSIP-specific price matrices containing six price breakpoints; i.e., each price corresponding to a specific NAIC Designation category. Each breakpoint on a Price Grid is the price point that tips the NAIC Designation for the RMBS CUSIP into the next NAIC Designation (credit quality/credit risk) category. The plural is used because two Price Grids are generated for any CUSIP. This reflects the difference in RBC for those insurance companies that maintain an asset valuation reserve and for those insurance companies that do not.

Official Price Grids means and refers to those generated by the SSG and provided to an insurance company or insurance companies that own the security for regulatory reporting purposes.

SECTION 3. POLICIES DEFINING THE NAIC STRUCTURED SECURITIES GROUP

a) Directive to Conduct Ongoing Operations

The SSG shall conduct the following ongoing operations pursuant to, and in accordance with, the directives, procedures and instructions described in this Part Seven and those generally applicable to the SVO or other Staff Functions in this Manual and other applicable NAIC guidance:

- (i) Develop and maintain expertise related to securitizations, including, but not limited to, knowledge of: market developments; issues and concerns related to applicable law; accounting regimes; structures, including waterfall arrangements, governing the cash flows and performance characteristics of different types of collateral; and the financial modeling and other technology relevant to assessing their valuation and risk assessment.
- (ii) Collaboration with the SVO to assess credit and other risks of non-securitizations including for the purpose of assigning NAIC Designation.
- (iii) Collaboration with other NAIC staff functions to facilitate related regulatory objectives.
- (iv) Such other analytical assignments assigned or requested by the VCM/STF or other NAIC Regulator Group.

b) SSG Regulatory Products

(i) NAIC Designations

The SSG is authorized to assign NAIC Designations.

(ii) Price Grids

The SSG shall generate Price Grids as required for the annual surveillance specified below in Section 6 a) of this Part; in the exercise of its responsibilities under the Regulatory Treatment Analysis Service (RTAS) as specified in Section 6 c) of this Part, or as shall otherwise be necessary in fulfillment of an assigned responsibility.

c) Other Applicable Policies – Application of Analytical Instructions; Responsibility for Investment Risk Analysis in New Financial Products; Process for Placing Securities Under Regulatory Review

The policies and instructions specified in Part One, Section 2 d), Section 2 e) and Section 2 f) of this Manual made applicable to the SVO shall be also fully applicable to the SSG, allowing for differences inherent in structured securities, analytical assignment given to the SSG and methodologies to be applied by it.

SECTION 4. ADMINISTRATIVE AND OPERATIONAL MATTERS

a) **Certain Administrative Symbols**

The following administrative symbols are used in the Valuation of Securities (VOS) Products to identify RMBS and CMBS that the NAIC vendor has confirmed will be subject to the financial modeling methodology described in [Section 6 a\)](#) of this Part.

FMR indicates that the specific CUSIP identifies an RMBS that is subject to the financial modeling methodology.

FMC indicates that the specific CUSIP identifies a CMBS that is subject to the financial modeling methodology.

The use of these administrative symbols in the VOS Product means the insurer should not use the filing exempt process specified in Part Three of this Manual for the security so identified.

NOTE: The administrative symbols **FMR** and **FMC** are related to symbols that insurers are required to use in the financial statement reporting process. Under applicable financial statement reporting rules, an insurer uses the symbol **FM** as a suffix to identify modeled RMBS and CMBS CUSIPs. The symbol **FM** is inserted by the insurer in the financial statement as a suffix in front of the NAIC Designation category; i.e., **2FM**.

b) **Quarterly Reporting of RMBS and CMBS**

To determine the NAIC Designation to be used for quarterly financial statement reporting for an RMBS or CMBS purchased subsequent to the annual surveillance described in [Section 6 a\) of this Part](#), the insurer uses the prior year-end modeling data for that CUSIP (which can be obtained from the NAIC) and follows the instructions in [Section 6 a\) \(iii\) of this Part](#) in accordance with, SSAP No. 43R—*Loan-Backed and Structured Securities*.

c) **Filing Exemptions**

(i) Limited Filing Exemption for RMBS and CMBS

(A) *RMBS and CMBS That Can Be Financially Modeled*

RMBS and CMBS that can be financially modeled are exempt from filing with the SVDO.

NAIC Designations for RMBS and CMBS that can be financially modeled are determined by application of the methodology discussed in [Section 6 a\) \(iii\) of this Part](#), not by the use of credit ratings of CDOs.

(B) *RMBS and CMBS That Cannot Be Financially Modeled*

(1) But are rated by a CRP

RMBS and CMBS that cannot be financially modeled but that are rated by a CRP are exempt from filing with the SSG. The NAIC Designations for these RMBS and CMBS are determined by application of the filing exemption discussed in this Manual and SSAP No. 43R, paragraph 25.

(2) But are not rated by an CRP

RMBS and CMBS that cannot be financially modeled and that are not rated by a CRP are not filing exempt and must be filed with the SSG as discussed in Section 6 a) (iii) of this Part.

(ii) Filing Exemption for ABS

ABS rated by a CRP are exempt from filing with the SSG pursuant to the filing exemption contained in Part Three of this Manual.

d) Review of Decisions of the SSG

Analytical decisions made through the application of financial modeling are not subject to the appeal process specified in Part One, Section 2 i) of this Manual. In the absence of an appeal, the SSG shall provide whatever clarification as to the results of financial modeling is possible to any insurer who requests it and owns the security, provided that it is not unduly burdensome for the SSG to do so. Any decision made by the SSG that results in the assignment of a NAIC Designation and does not involve financial modeling methodology, whether developed by the SSG on its own or in collaboration with the SVO, is subject to the appeal process in Part One, Section 2 i) of this Manual.

SECTION 5. REQUIRED DATA AND DOCUMENTS FOR TRANSACTIONS SUBMITTED TO THE SSG

a) General Policy on Required Data and Documentation

The policy statement set forth in [this Section 5 a\)](#) shall be applicable generally to any transaction filed with the SSG for an analytical assessment, including, but not limited to, a Price Grid or for assignment of an NAIC. Any filing with the SSG is deemed to be incomplete unless the insurer has provided the information, documentation, and data in quantity and quality sufficient to permit the SSG to conduct an analysis of the creditworthiness of the issuer and the terms of the security to determine the requested analytical value. It is the obligation of the reporting insurance company to provide the SSG with all necessary information. It is the responsibility of the SSG to determine whether the information provided is sufficient and reliable for its purposes and to communicate informational deficiencies to the reporting insurance company.

b) Documentation Standards and Procedure for Annual Surveillance of RMBS and CMBS

(i) Documentation Standard

In order for an insurer-owned RMBS or CMBS to be eligible for a year-end modeling process, conducted pursuant to [Section 5 of the Part](#), the analysis must be based on information, documentation and data of the utmost integrity.

A Legacy Security must meet the Ongoing Information requirements.

An RMBS, CMBS or Re-REMIC that is not a Legacy Security must meet the Initial Information and Ongoing Information requirements. For the purposes of determining a Re-REMIC's status as a Legacy Security, the closing date of the Re-REMIC (not the underlying Security) shall be used.

The SSG may, in its sole discretion, determine that the Initial Information and/or Ongoing Information is not sufficient and/or not reliable to permit the RMBS or CMBS CUSIP to be eligible for financial modeling. If the SSG determines that the Initial Information and/or Ongoing Information is not sufficient and/or not reliable to permit the RMBS or CMBS CUSIP to be eligible for financial modeling, it will communicate this decision to the insurer and invite a dialogue to ascertain whether alternative information is available that would be deemed sufficient and/or reliable by the SSG.

(ii) Initial Information Requirements

An RMBS or CMBS meets the Initial Information Requirements if the security meets one of the following three conditions:

1. **RTAS** – The RMBS or CMBS was assigned a preliminary price grid or designation as described in [this Part Seven](#);
2. **Initial Sufficiency Filing** – The RMBS or CMBS was reviewed by SSG through an Initial Sufficiency Filing; or
3. **Safe Harbor** – The RMBS or CMBS meets the Safe Harbor requirements.

(A) *Initial Sufficiency Information Filing*

An insurance company may file Initial Sufficiency Information with the SSG for the purpose of obtaining a determination that an RMBS or CMBS CUSIP is eligible for financial modeling under the annual surveillance process discussed in [Section 6 a\) \(iii\) of this Part](#).

Initial Sufficiency Information is only filed once for any given RMBS or CMBS. Reporting insurance companies are solely responsible for providing the SSG with Initial Information.

A determination by the SSG that a given RMBS or CMBS CUSIP is eligible for financial modeling after an Initial Sufficiency Filing assessment is subject to the further and continuing obligation that the SSG obtain or the insurer provide the SSG with updated Ongoing Information close to the date of the annual surveillance.

Required Documents for Initial Sufficiency Filing – An insurer that owns an RMBS or a CMBS for which Initial Information is not publicly available shall provide the SSG with the following documentation.

(1) RMBS

Unless otherwise specified to the SSG in a Modeling Alert, as further described below, an Initial Filing for an RMBS consists of submission of Initial Information and Ongoing Information in the form of the following documentation:

- Pooling and Servicing Agreement or similar
- Prospectus, Offering Memorandum or similar
- Accountant's comfort letter
- If applicable, ISDA Schedules and Confirmations or similar
- Legal opinions given in connection with the transaction
- Any other documents referenced by the above

- Third-party due diligence scope document and raw results. If less than 100% due diligence, detailed description of the loan selection process.
- If applicable, loan purchase agreements or similar.
- Loan tape.

(2) CMBS

Unless otherwise specified by the SSG in a Modeling Alert, as further described below, an Initial Filing for a CMBS consists of submission of Initial Information and Ongoing Information in the form of the following documentation:

- Pooling and Servicing Agreement or similar.
- Prospectus, Offering Memorandum or similar.
- Accountant's comfort letter.
- If applicable, ISDA Schedules and Confirmations or similar.
- Legal opinion given in connection with the transaction.
- Any other documents reference in the above.
- Asset summaries.
- Loan tape.
- Loan documents, including reliable information about the terms of the transaction; including, but not limited to, financial covenants, events of default, legal remedies and other information about financial, contractual or legal aspects of the transaction in form and substance consistent with industry best practices for CMBS issuance.
- In certain cases, additional documents below will enable the SSG to verify and validate initial underwriting information of the property securing the CMBS. These documents may be required in form and substance consistent with best practices for typical CMBS issuance.
- Historical operating statements and borrower's budget.
- Underwriter's analysis of stabilized cash flow with footnotes of assumptions used.
- Property type specific, rent roll information.
- Appraisals and other data from recognized industry market sources.
- Independent engineering report (Property Condition Assessment).
- Environmental Site Assessment (ESA) – Phase I/Phase II.
- Documentation related to seismic, flood and windstorm risks.
- Franchise agreements and ground leases, if applicable.
- Management agreements.

(3) SSG Modeling Alerts

The SSG shall at all times have discretion to determine that differences in the structure, governing law, waterfall structure or any other aspect of a securitization or a class of securitization requires that insurance companies provide Initial Information and/or Ongoing Information additional to or different from that identified in this Part Seven. The SSG shall communicate such additional or different documentation requirements to insurers by publishing a Modeling Alert on the NAIC website and scheduling a meeting of the Valuation of Securities (E) Task Force to ensure public dissemination of the decision.

(B) *Safe Harbor*

Safe Harbor options serve as proxies for the Initial Sufficiency filing. The options reflect publicly available information that a third party has analyzed the Initial Information. Because the structured securities market is quite dynamic, the list of Safe Harbor options may change frequently, with notice and opportunity for comment, as described in [Part Seven, Section 5 b\) \(ii\) \(3\) of this Manual](#). An RMBS or CMBS meets the Initial Information requirement if:

- i. At least two Section 17(g)-7 reports issued by different CRPs are publicly available; or
- ii. A security that is publicly registered under the federal Securities Act of 1933.

(iii) Ongoing Information Requirements

An RMBS or CMBS meets the Ongoing Information Requirements if Ongoing Information is available to the SSG and the relevant third-party vendor from an Original source. The SSG, in its sole discretion and in consultation with the relevant third-party vendor, may determine that the Ongoing Information is not sufficient or reliable to permit a given RMBS or CMBS CUSIP to be financially modeled. However, in making such a determination, the SSG shall take into account reasonable market practices and standards.

(iv) Special Rules for Certain Re-REMICs

Re-REMICs are generally simple restructurings of RMBS or CMBS. An Initial Sufficiency Filing for a Re-REMIC (a) which is not a Legacy Security itself but (b) where each Underlying Security is a Legacy Security shall not require submission of information regarding the Underlying Securities. In most cases, a prospectus for the Re-REMIC will be sufficient. If the SSG determines that additional information about the Re-REMIC structure or formation is required, it will communicate this decision to the insurer and invite a dialogue to ascertain whether additional information is available that would be deemed sufficient by the SSG.

SECTION 6. ANALYTICAL ASSIGNMENTS

a) Annual Surveillance of RMBS and CMBS – Modeled and Non-Modeled Securities – General Instructions

(i) Scope

This Section 6 a) explains the financial modeling methodology applicable to RMBS and CMBS (defined in [Section 2 of this Part](#)) securitizations and the book/adjusted carrying value methodology applicable to modeled and non-modeled securities subject to [SSAP No. 43R—Loan-Backed and Structured Securities](#). Please refer to [SSAP No. 43R](#) for a description of securities subject to its provisions. The Valuation of Securities (E) Task Force does not formulate policy or administrative procedures for statutory accounting guidance. Reporting insurance companies are responsible for determining whether a security is subject to [SSAP No. 43R](#) and applying the appropriate guidance.

(ii) Important Limitation on the Definitions of RMBS and CMBS

The definitions of RMBS and CMBS in [Section 2 of this Part](#) are intended solely to permit the SSG to communicate with financial modeling vendors, insurance company investors who own RMBS and CMBS subject to financial modeling and/or the book/adjusted carrying value methodology and their investment advisors to facilitate the performance by the SSG of the financial modeling methodology described below. The definitions contained in this Section are not intended for use and should not be used as accounting or statutory statement reporting instructions or guidance. Readers must refer to [SSAP No. 43R](#) for applicable accounting guidance and reporting instructions.

(iii) Analytical Procedures Applicable to RMBS and CMBS Securitizations Subject to Financial Modeling Methodology

(A) Filing Exemption Status of RMBS and CMBS

RMBS and CMBS are not eligible for the filing exemption provided in [Part Three of this Manual](#) because credit ratings of CRPs are no longer used to set risk-based capital (RBC) for RMBS or CMBS. However, RMBS and CMBS are not submitted to the SSG. Please refer to [Section 4\(c\) \(i\) of this Part](#) and [Part Three of this Manual](#) for related instructions.

(B) *Use of Financial Modeling for Year-End Reporting for RMBS and CMBS*

Beginning with year-end 2009 for RMBS and 2010 for CMBS, probability weighted net present values will be produced under NAIC staff supervision by an NAIC-selected vendor using its financial model with defined analytical inputs selected by the SSG. The vendor will provide the SSG with a range of net present values for each RMBS or CMBS corresponding to each NAIC designation category. The NAIC designation for a specific RMBS or CMBS is determined by the insurance company, based on book/adjusted carrying value ranges. Please refer to SSAP No. 43R for guidance on all accounting and related reporting issues.

(C) *Analytical Procedures for RMBS and CMBS*

The SSG shall develop and implement all necessary processes to coordinate the engagement by the NAIC of a vendor who will perform loan-level analysis of insurer-owned RMBS and CMBS using the vendor's proprietary models.

RMBS and CMBS Subject to Financial Modeling

(1) *Setting Microeconomic Assumptions and Stress Scenarios*

Not later than September of each year, the SSG shall begin working with the vendor to identify the assumptions, stress scenarios and probabilities (hereinafter, "model criteria") the SSG intends to use at year-end to run the vendor's financial model.

(2) *Financial Modeling Process*

Information about the financial modeling process can be found at: www.naic.org/structured_securities/index_structured_securities.htm.

(3) *Use of Net Present Value and Carrying Value for Financially Modeled RMBS and CMBS*

For each modeled RMBS and CMBS, the financial model determines the net present value at which the expected loss equals the midpoint between the RBC charges for each NAIC Designation; i.e., each price point, if exceeded, changes the NAIC Designation. Net present value is the net present value of principal losses, discounted using the security's coupon rate (adjusted in case of original issue discount securities to book yield at original issue and in case of floating rate securities, discounted using LIBOR curve + Origination spread). Because of the difference in RBC charge, the deliverable is five values for each RMBS and CMBS security for companies required to maintain an

asset valuation reserve (AVR) and five values for companies not required to maintain an AVR. This is illustrated in the chart below.

RBC charge / NAIC designation (pre-tax)		
P&C	RBC	Midpoint
1	0.3%	0.65%
2	1.0%	1.50%
3	2.0%	3.25%
4	4.5%	7.25%
5	10.0%	20.00%
6	30.0%	
Life	RBC	Midpoint
1	0.4%	0.85%
2	1.3%	2.95%
3	4.6%	7.30%
4	10.0%	16.50%
5	23.0%	26.50%
6	30.0%	

The NAIC designation for a given modeled RMBS or CMBS CUSIP owned by a given insurance company depends on the insurer's book/adjusted carrying value of each RMBS or CMBS, whether that carrying value, in accordance with SSAP No. 43R, paragraphs 25 through 26a, is the amortized cost or fair value, and where the book/adjusted carrying value matches the price ranges provided in the model output for each NAIC Designation; *except that an RMBS or CMBS tranche that has no expected loss under any of the selected modeling scenarios and that would be equivalent to a* **NAIC 1** Designation if the filing exempt process were used,

would be assigned an **NAIC 1** Designation regardless of the insurer's book/adjusted carrying value. Please refer to the detailed instructions provided in [SSAP No. 43R](#).

- (4) Securities Not Modeled by the SSG and Not Rated by an NAIC CRP or Designated by the SVO

Securities subject to [SSAP No. 43R](#) that cannot be modeled by the SSG and are not rated by an NAIC CRP or designated by the SVO are either: (X) assigned the NAIC administrative symbol **NR** (not rated) (**NOTE: The symbol NR will be changed to ND, meaning "Not Designated," effective December 31, 2019**), requiring subsequent filing with the SVO; or (Y) assigned the NAIC designation for Special Reporting Instruction; i.e., an **NAIC 5GI** or **NAIC 6*** (five-star or six-star), as discussed in [Part Two, Section 5 of this Manual](#).

b) Mortgage Referenced Security

(i) Definition

A Mortgage Referenced Security is a category of a Structured Note, as defined above in [Part Three, Section 8 of this Manual](#).

In addition to the Structured Note definition, the following are characteristics of a Mortgage Referenced Security:

A Mortgage Referenced Security's coupon and/or principal payments are linked, in whole or in part, to prices of, or payment streams from, real estate index or indices related to real estate, or assets deriving their value

from instruments related to real estate, including, but not limited to, mortgage loans.

(ii) Not Filing Exempt

A Mortgage Referenced Security is not eligible for the filing exemption in Part Three of this Manual but is subject to the filing requirement indicated in [Part Two, Section 2 a\) of this Manual](#).

(iii) NAIC Risk Assessment

In determining the NAIC designation of a Mortgage Referenced Security, the SSG may use the financial modeling methodology discussed in [Section 6 a\) of this Part](#), adjusted to the specific reporting and accounting requirements applicable to Mortgage Referenced Securities.

c) The RTAS – Emerging Investment Vehicle

(i) Purpose

Price grids are generated for the exclusive use of insurance companies and the NAIC regulatory community. Insurance companies use official Prices Grids by following the instructions in [SSAP No. 43R—Loan Packed and Structured Securities](#) to derive a final NAIC Designation for the RMBS or CMBS, which they use to derive the RBC applicable for the RMBS or CMBS. Please refer to [SSAP No. 43R](#) for a full explanation of the applicable procedure.

(ii) Extension of Authority

The procedure specified in [Part Four, Section 2 of this Manual](#) for the SVO is extended to the SSG, and the SSG is authorized to determine probable regulatory treatment for RMBS and CMBS pursuant to [Section 5 a\) of this Part](#) or for other securities, where, in the opinion of the SSG, financial modeling methodology would yield the necessary analytical insight to determine probable regulatory treatment or otherwise enable the SSG to make recommendations to the VOS/TF as to regulatory treatment for a security, as discussed in [Part Four, Section 2 of this Manual](#).

(iii) Interpretation

To facilitate this purpose, wherever in [Part Four, Section 2 of this Manual](#), reference is made to the SVO, it shall be read to also refer to and apply to the SSG, adjusted for differences in the operational or methodological context.

[Part Four, Section 2 of this Manual](#) shall also be read as authority for collaboration between SVO and SSG staff functions so as to encompass RTAS assignments that require the use of SVO financial, corporate, municipal, legal, and structural analysis and related methodologies, as well as of financial modeling methodologies.

(iv) Translation of Preliminary into Official Price Grids

Price Grids generated by the SSG pursuant to an RTAS under [Section 6 c\)](#) of this Part are preliminary within the meaning of that term as used in [Part Four, Section 2 of this Manual](#) and, accordingly, cannot be used for official NAIC regulatory purposes.

Preliminary NAIC Designations are translated into official NAIC Designations by the SVO when an insurance company purchases and files the security and the SVO conducts an official assessment. However, this Manual does not require the filing of RMBS and CMBS subject to financial modeling methodology with the SSG. It is, therefore, necessary to specify a procedure for the translation of preliminary Price Grids into official Price Grids that can be used for NAIC regulatory purposes.

Preliminary Price Grids generated by the SSG become an official Price Grid within the meaning of this Section when an insurance company has purchased the security for which the Price Grid was generated and reported that security for quarterly reporting purposes using the SSG-generated Price Grid.

A Price Grid for a security reported by an insurance company for quarterly reporting is effective until the SSG conducts the next annual surveillance pursuant to [Section 6 a\) of this Part](#) at which time the Price Grids generated by the SSG at year-end shall be the official Price Grid for that security.