

Procedure

122. 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.
123. 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. The List of NRSROs can be obtained at this Web address: <https://www.naic.org/svo.htm>

Policy and Legal Disclosure Pertaining to the List of NRSROs

124. 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; e.g., 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 for the purposes identified in this part.
125. 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.

APPLICATION TO BE ON THE LIST OF QUALIFIED U.S. FINANCIAL INSTITUTIONS

Process

126. 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 this Web address: www.naic.org/documents/svo_qusfi_list_app.pdf.

127. The QUSFI application requires that the applicant:

- Describe whether it is a bank or nondepository lender, as well as identify its federal and state regulators and corporate affiliations.
- 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.)

Procedure

128. **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.

129. **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.

130. **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.

Eligibility Standards to Be Placed on the List of Qualified U.S. Financial Institutions

131. **Eligibility Standards** – The SVO shall place on the List of Qualified U.S. Financial Institutions the name of any financial institution that is:

- 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.
- A U.S. branch or agency of a foreign financial institution:
 - Authorized to issue LOCs for reinsurance.
 - Part of a foreign institution that 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.
 - Domiciled in a country with a sovereign debt rating of (a) “Aa/AA” for long-term debt and/or “P1/A1” for short-term debt by an NAIC credit rating provider (CRP).

SVO Monitoring of Movements in the Credit Quality of Financial Institution on the List of Qualified U.S. Financial Institutions

132. **SVO Monitoring** – The SVO shall monitor the credit quality of financial institutions on the List of Qualified U.S. Financial Institutions by:

- 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.

- 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 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.

133. **Outline of Methodology** – On a quarterly (or semi-annual) 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

134. 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; total 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 (i.e., ratios and data points) for specific credit ratings are published by NRSROs and may be adjusted from year to year by the NRSROs to relate changes in market conditions to the financial profiles associated with their credit ratings.

135. **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.

- 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.
- 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.
- 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.
- If a financial institution on the List of Qualified U.S. Financial Institutions is closed by and/or placed in receivership or conservatorship, or notice is given of such action, by its primary regulator(s), the SVO shall promptly remove the name of the financial institution from the List of Qualified U.S. Financial Institutions. This may result in the SVO being unable to provide Notice of Credit Deterioration.
- 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.

LOC Requirements Under the Model Law

136. **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.
137. **Information** – For information about LOC requirements, see Section 10 A. (3) and Section 12 of the NAIC *Credit for Reinsurance Model Regulation* (#786).

COUNTERPARTY EXPOSURE; NETTING ELIGIBILITY

NAIC Designation

138. 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 and an NAIC Designation Category of **NAIC 1.A**.

Netting Eligibility

139. 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.

COUNTERPARTIES DESIGNATED BY THE SVO FOR SCHEDULE DB, PART D, SECTION 1

Association Values

140. The value 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 Manual* for Life and Health, Fraternal and Property/Casualty companies.

Accounting and Documentation Guidance

141. The NAIC *Accounting Practices and Procedures Manual* contains general accounting guidance, documentation guidance, and specific accounting procedures for derivative instruments.

PROCEDURES FOR DETERMINING NAIC DESIGNATIONS AND NETTING ELIGIBILITY FOR DERIVATIVE INSTRUMENT COUNTERPARTIES
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Purpose

142. The purpose of assigning NAIC Designations or quality ratings is to assign counterparties into SVO Rating Categories for Schedule DB, Part D, Section 1.

Administration

143. **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 or perform a financial analysis of the counterparty, or the counterparty's guarantor, in order to assign an NAIC Designation.

144. **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.

145. If an insurance company doesn't file an annual update by June 1, XXXX, the counterparty will be deleted from the List effective July 1, XXXX. If deleted, the insurance company will have to submit an initial filing in order for the counterparty to be placed on the List.

**LIST OF FOREIGN (NON-U.S.) JURISDICTIONS ELIGIBLE FOR NETTING FOR PURPOSES OF
DETERMINING EXPOSURES TO COUNTERPARTIES FOR SCHEDULE DB, PART D, SECTION 1**

**Procedures for Determining NAIC Designations and Netting Eligibility for Derivative
Instrument Counterparties**

146. **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.
147. **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. 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

**SECURITIES THAT ARE CONSIDERED “EXEMPT OBLIGATIONS” FOR PURPOSES OF
DETERMINING THE ASSET VALUATION RESERVE AND THE RISK-BASED CAPITAL
CALCULATION**

NOTE: This section is used to determine those securities that are included in the “exempt obligations” category for purposes of determining asset valuation reserve and the risk-based capital calculation.

148. The securities issued, guaranteed or insured by U.S. Government Exempt entities considered to be in the “exempt obligations” category for purposes of determining Asset Valuation Reserve and the Risk-Based Capital charge calculation.
149. 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.
150. 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).

SVO ORGANIZATION

Internal Administration

151. The staff of the SVO is organized in the manner specified by the NAIC Internal Administration Subcommittee. The SVO Director implements internal administrative procedures, operational policies and guidelines as necessary or appropriate to conduct the functions assigned to the SVO. The organization and staffing of the SVO and its ability to perform the regulatory functions assigned to it are acknowledged as part of the oversight function of the VOS/TF.

Statement of Practice

152. 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.

SVO Administrative Symbols

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

SVO Analytical Department Symbols

154. All SVO analytical departments use the following administrative symbols:
- **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 by insurers that meet the definitional criteria for a “Sub-paragraph D Company” as defined in 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 filing with the SVO and is used by an insurance company to report an exempt security. NAIC Designations for **FE** securities are assigned by the SVO pursuant to the instructions and procedures in this Manual. The NAIC Designation determined by the SVO is disseminated in the SVO List of Securities compiled and published pursuant to the SVO's compilation function as described in this Part. The administrative symbol **FE** is used with an **NAIC 1** through **NAIC 6** Designation.
- **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.
- **ND** means Not Designated. 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 **ND** 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.
- **ND*** indicates that the security so designated belongs to a class of securities currently under policy review by the NAIC.
- **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 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.
- **YE** means that the security is a properly filed annual update that the SVO has determined will not be assigned an NAIC Designation by the close of the year-end reporting cycle. The symbol **YE** is assigned by the SVO pursuant to the administrative procedure described in this Manual. When the SVO assigns the symbol **YE** it also assigns the NAIC Designation in effect for the previous reporting year.

- **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 this Manual. The **Z** symbol is used to identify an insurer-owned security that is in transition in reporting or filing status because:
 - It is newly purchased and has not yet been submitted to the SVO;
 - It has been properly submitted to the SVO for assignment of an NAIC Designation which is still pending, whether at year-end or otherwise;
 - It is in transition from one reporting or filing status to another (e.g., 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
 - An SVO assigned NAIC Designation for the security has been dropped from AVS+ and the insurer has otherwise followed all other filing requirements.
- NOTE:** This text shall be amended as additional transition situations are identified.
- **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.

NAIC POLICY ON THE USE OF CREDIT RATINGS OF NRSROs

NOTE: See “Coordination Between the Statutory Accounting Principles Working Group and the Valuation of Securities Task Force, “Use of Credit Ratings of NRSROs in NAIC Processes” and “Policies Applicable to the Filing Exemption (FE) Process” in Part One; “Definition – Credit Ratings Eligible for Translation to NAIC Designations in this “NAIC Policy on the Use of Credit Ratings of NRSROs”; “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” in Part Three; and “Filing Exemption Status of CLO, RMBS and CMBS” in Part Four, which excludes CLO, RMBS and CMBS from the use of NRSRO credit ratings for NAIC regulatory processes.

Procedure to Become an NAIC Credit Rating Provider

155. 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 relating its credit rating symbols to NAIC Designations.
- 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.

156. 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.

Regulatory Significance – Filing Exempt Rule

157. 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. Only those NAIC CRP ratings that meet the definition below may be translated into NAIC Designations under the filing exempt rule. Securities assigned ratings by NAIC CRPs that do not meet the definition 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 this Manual.

Definition – Credit Ratings Eligible for Translation to NAIC Designations

158. As disclosed below, the NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D 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, as specified in this manual.

159. The credit rating of the CRP to which this section and the NAIC Credit Rating Provider List refers is the (a) credit rating assigned by the NAIC CRP; (b) by application of its long-term obligation ratings scale and methodology; to (c) securities.

160. 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 except that the presumption of convertibility is subject to the following limitations:

- Those rating activities or markets in which the entity has NAIC CRP status.
- Securities with monitored NAIC CRP ratings that:
 - Are monitored at least annually by the CRP that issued the rating;
 - Are assigned to a specific issue that must be specifically identified;
 - Apply to securities where the issuer promises to repay principal and interest or dividends;
 - 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
 - Are 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 pay only principal or the interest/dividends, in the case of security structured to pay only interest/dividends (an “Eligible NAIC CRP Rating”).

161. The NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D 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, as specified in this manual.

Special Rating Systems

162. Unless otherwise specifically approved by the VOS/TF 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.

Disclosures and Considerations Related to the Translation of Credit Ratings into NAIC Designations

163. 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.

GENERAL FILING PROCEDURES

FILING

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

Filing Logic

165. Insurer need only file a security that is not in AVS+ or that is in AVS+ without a recently assigned NAIC Designation, is in AVS+ but without a current year review date or a symbol that is other than an **ND** or has not been filed in VISION.

Use of a Filing Agent

166. 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.

Security Identification Numbers

167. No security may be filed with the SVO without a valid CUSIP, PPN or CINS Identifier. Only S&P CUSIP may assign CUSIP Identifiers, PPNs and CINS.
168. 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.

FILING PROCESS AND REQUIRED DOCUMENTS

Initial and Subsequent Annual Filings

169. An insurance company makes an initial and subsequent annual filing by providing the SVO with any applicable completed form(s) and the information, documents and data necessary for the SVO to conduct an analysis of the issuer's creditworthiness and the terms of the security.

Informational Deficiencies

170. When an insurance company submits an initial or subsequent annual filing, the SVO logs the submission by date and time received and the filing is assigned to the appropriate staff analyst. If the SVO determines that there is an informational deficiency, then the SVO will advise the insurance company that submitted the filing.
171. If the SVO identifies an information deficiency, the transaction is held by the SVO without processing for a period not to exceed 45 days. If the insurance company has not filed the necessary information with the SVO at the completion of the 45 days, the SVO discards the filing and all documentation submitted with it and enters a note in VISION to reflect that the filing was discarded due to insufficient information.
172. On an exception basis, the SVO may grant an extension to the insurance company not to exceed 90 days in total with the time period to begin on the date that the SVO issues an information request. If the SVO grants this extension, and if the insurance company fails 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.
173. 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 begins, unless an extension is granted as indicated above, in which case a new 90-day period will begin.

Filing Procedures and Documentation Requirements

174. Filing procedures and documentation requirements can be accessed at <https://vision.naic.org>. The SVO webpage (<https://www.naic.org/svo.htm>) also maintains general Guidance on Documentation, Applications and Forms.

NOTE: See Part Three, which contain filing procedures and documentation requirements for the asset classes identified there.

PROCEDURE TO AUTHORIZE SVO USE OF A NATIONAL FINANCIAL PRESENTATION STANDARD

Procedure

175. 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. 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.

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

176. **Information Supporting the Request** – As part of its request, the national insurance association shall:
- 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.
 - Provide evidence of both investment opportunity and industry interest to make investments in the country.
 - 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.
 - 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.

Parameters of the SVO Study

177. 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. 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. 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. 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).

Process

178. The national insurance association will, as 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.
179. 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.
180. 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.
181. 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.
182. 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.

Information Requirements Associated with the Use of a National Financial Presentation Standard

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

- Where materially different from Global Financial Presentation Standards, identify how local accounting standards treat specific issues relevant to assessment of credit risk.
- 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.
- Be prepared to provide the SVO with access to the issuer's management or to convey questions and retrieve information from the issuer's management.
- Include a consolidated statement of cash flows for the past three years. See the definition of Audited Financial Statement for additional guidance pertaining to this requirement.
- 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 IFRS or U.S. 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; and
 - Segment reporting of sales, assets, income and depreciation.
- 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 U.S. GAAP;

- Disclosure of pension assets and liabilities, as well as any other post-employment plan obligations, especially of any unfunded amounts; and
- Disclosure of the amount of Treasury stock, if any, and how it is accounted for.
- 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 U.S. GAAP;
 - Disclosure of pension assets and liabilities as well as any other post-employment plan obligations, especially 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; and
 - Consolidation information and consolidated financial statements where relevant.
- For filings presented on the basis of Spanish GAAP, the following additional documentation is required:
 - A complete set of audited financial statements (for at least three years, if available) comprising: balance sheet, income statement and consolidated statement of cash flows;
 - Disclosure of operating lease commitments in a manner similar to that required by IFRS or U.S. GAAP;
 - Disclosure of Government Grants, initial amount and year-to-date and cumulative amortization;
 - Disclosure of gross capitalized research costs and cumulative amortization;
 - Disclosure of gross goodwill and cumulative amortization, including goodwill created by fresh-start accounting;
 - Disclosure in the change in fair value for financial assets and liabilities;
 - Disclosure of joint ventures recorded not using the equity method, including full financial results;

Countries and Associated National Financial Presentation Standards

184. 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 specified above and annually thereafter as specified in this Manual.
- Dutch (Netherlands) GAAP.
- Italian GAAP but subject to the presentation of additional documentation as specified above and annually thereafter as specified in this Manual.
- Belgian 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 specified in this Manual.
- Spanish GAAP but subject to the presentation of additional documentation as specified above and annually thereafter as specified in this Manual.

Annual Update Information

185. For corporate issuers whose Audited Financial Statements are presented in accordance with a National Financial Presentation Standard, the insurer shall also file with the SVO the items of information identified in this Manual.

NOTE: See “Audited Financial Statements” in Part One.

APPEALS OF SVO DETERMINATIONS

APPEALS OF SVO ANALYTICAL DECISIONS

Requests for Clarification of SVO Decisions

186. Any insurer that owns a security for which the SVO has provided an NAIC Designation, a classification or a valuation, may request a clarification of the decision from the SVO. The SVO analyst responds informally to informal requests for clarification and 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.

Condition to Filing of an Appeal

187. 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 as in the insurer's opinion supports the claim that the original decision of the SVO should be reviewed.

Procedure for Filing an Appeal

188. Filing an appeal with the SVO is accomplished through a computer linkup with the VISION computer system of the SVO. 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.

SVO Review of the Appeal

189. 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 lead to the conclusion appealed from.

190. 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.
191. 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.
192. 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 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.
193. 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.

Review Timeline

194. 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 the VOS/TF, respective to the stage of the appeal.

REVIEW OF SVO DECISIONS BY THE VOS/TF
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Task Force Review for Alleged Violations of Procedures

195. 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.

Condition to Request; Exhaust SVO Remedies

196. 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.
197. 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.

Basis of Review by the Task Force

198. 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 this Manual and instruct the SVO to reformulate a decision.

YEAR-END CARRYOVER PROCEDURE

Acceptable Carryover Population Rate

199. 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 VOS/TF 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.

Definition

200. When used in this section, 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.

Procedures

201. 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 shall be assigned the NAIC Designation then in effect for the just concluded reporting period; e.g., **2YE**, if the security was designated **NAIC 2** in the just concluded year.
 - A security in the carryover population that is an initial filing 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+.

Year-End Carryover Procedure

- 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.

PROCESS FOR PLACING SECURITIES UNDER REGULATORY REVIEW; WHEN ANALYTICAL INSTRUCTIONS ARE INSUFFICIENT OR INADEQUATE

Notice

202. 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.

Deliberation

203. 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.
204. 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.

Hearing and Declaration

205. 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.

Reporting Framework for Securities under Regulatory Review

206. 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 **ND*** 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.
207. 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 **ND*/Z*** in the Annual Statement Instructions for that year's year-end NAIC Financial Statement Blank.

Filing of Securities Under Regulatory Review

208. 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.

MAINTENANCE AND MONITORING OF SVO DETERMINATIONS FOR SCHEDULE BA ASSETS

NOTE: See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity.

Maintaining and Publishing SVO Determinations

209. SVO analytical determinations for Schedule BA assets that have the underlying characteristic of a bond or other fixed income instrument are compiled in a separate database within the VOS Process and published as a part of the SVO List of Securities in the AVS+ Products under a separate heading to facilitate the work of NAIC members and their staff.
210. The SVO monitors improvement or deterioration of credit quality for Schedule BA assets entered into the VOS Process. On at least an annual basis, the SVO reviews the credit quality and value of the Schedule BA assets in the VOS Process.
211. The SVO will delete any Schedule BA asset from the VOS Process on if the investment has matured or if the investment is no longer owned by an insurance company.
212. The SVO will also delete a Schedule BA asset from the VOS Process if a reporting entity has failed to provide sufficient or timely information to permit the SVO to conduct the annual review assessment required above. Schedule BA assets assigned the administrative symbol ND are deleted from the VOS Process if an information deficiency is not addressed by the end of the first quarter following the previous year-end. However, a Schedule BA asset assigned the administrative symbol ND is not deleted 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.

PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION
OF NAIC DESIGNATIONS

INTRODUCTION

Parameters for Use of Instructions and Methodologies

1. The description of methodologies and the instructions pertaining to the application of those methodologies in this Part are general and mandatory instructions from the VOS/TF to the SVO. The SVO shall have reasonable professional latitude to interpret how the instructions and methodologies contained in this Part apply to specific securities, financial products or differing 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.

Updating Instructions and Methodologies

2. 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.

NOTE: See “Authority to Direct Insurers on Reporting” and “Use of Generally Accepted Techniques or Methodologies” in Part One.

PROCEDURE APPLICABLE TO FILING EXEMPT (FE) SECURITIES AND PRIVATE LETTER (PL) RATING SECURITIES

NOTE: See “Use of Credit Ratings of NRSROs in NAIC Processes” and “Coordination Between the Statutory Accounting Principles Working Group and the Valuation of Securities Task Force” (especially “NAIC Designations Do Not Communicate Statutory Accounting or Reporting” and “Policies Applicable to the Filing Exemption (FE) Process”) in Part One; “NAIC Policy on the Use of Credit Ratings of NRSROs” (especially “Definition – Credit Ratings Eligible for Translation to NAIC Designations”) in Part Two (the definition excludes the use of NAIC CRP credit ratings assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset, as specified in this Manual); and “Filing Exemption Status of CLO, RMBS and CMBS” in Part Four (excluding CLO, RMBS and CMBS from the use of credit ratings for NAIC regulatory processes).

FE SECURITIES

Filing Exemption

3. Bonds, within the scope of SSAP No. 26R and SSAP No. 43R (excluding CLO, RMBS and CMBS subject to financial modeling) and Preferred Stock within scope of SSAP No. 32, that have been assigned an Eligible NAIC CRP Rating, as described in this Manual, are exempt from filing with the SVO (FE securities) with the exception of Bonds and/or Preferred Stock explicitly excluded below.

Specific Populations of Securities Not Eligible for Filing Exemption

4. The filing exemption procedure does not apply to: