

- **SCA and Related Party Bond and Preferred Stock Investments** – SCA and related party bond and preferred stock investments are comprised of two types of transactions: (1) SCA and related party bond and SCA and related party preferred stock investments (each, as defined in this Part) that have direct or indirect credit risk exposure to the SCA or related party, whether as issuer or otherwise, which are not filing exempt; and (2) SCA and related party investments that do not have any direct or indirect credit risk exposure to the SCA or related party, whether as issuer or otherwise, which are filing exempt. Transactions under (1) are transactions between insurance company SCAs (as defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*) or other related parties (as defined in *SSAP No. 25 – Affiliates and Other Related Parties*) that are subject to special regulatory considerations identified in *SSAP No. 25- Affiliates and Other Related Parties*. This Manual specifies that such SCA and related party bond and preferred stock investments are not eligible for filing exemption and can only be assigned an NAIC Designation if the SVO has first concluded that the transaction is like those the SVO typically assesses for credit risk. See the SCA and Related Party section in this Part for further information about how the SVO determines whether an SCA and Related Party investment will be assigned an NAIC Designation and how a state insurance regulator can require an insurance company to file an otherwise filing exempt structure containing an SCA or related party with the SVO.
- **Catastrophe-Linked Bonds** – Catastrophe-Linked Bonds are deemed to be filing exempt but only if the NAIC CRP has assigned a credit rating based on the type of methodology specified in this Manual.
- **Shares of Funds** – This Manual provides for certain mutual funds, Bond Funds and Exchange Traded Funds be submitted to the SVO for a determination that they meet characteristics identified by the VOS/TF for more appropriate regulatory treatment.
- **Regulatory Transaction** – The term Regulatory Transaction is broadly defined in this Manual as a transaction engineered to address a regulatory concern one or more insurers have or may have that should or must be submitted to a state insurance department for approval and that has as a component a security or other instrument which on a stand-alone version may be eligible for assignment of an NAIC Designation by the SVO. The SVO is prohibited from assigning an NAIC Designation to a Regulatory Transaction except in relation to a special assignment conducted for a state insurance department under the Regulatory Transaction procedure discussed in this Manual. Also, insurers are prohibited from claiming a Regulatory Transaction as a filing exemption.

- **Credit Tenant Loan (CTL)** – A CTL is a mortgage loan, in scope of SSAP No. 37, 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. This Manual identifies four categories of CTLs as eligible for reporting on Schedule D conditioned on an SVO determination that the transaction meets the criteria specified by the VOS/TF for Schedule D treatment. A transaction that purports to be a Credit Tenant Loan, including one that is assigned a credit rating by an NAIC CRP, is not eligible for Schedule D reporting unless the SVO confirms that the transaction is eligible for Schedule D reporting and assigns the transaction an NAIC Designation. A security which resembles a CTL but is not in scope of SSAP No. 37 – Mortgage Loans, can be filed with the SVO for an NAIC Designation and, if appropriate, the SVO can apply the CTL, guidelines in this Part to its review.
- **Replication (Synthetic Asset) Transactions (RSAT)** – RSATs structured in accordance with any of the definitions of an Approved RSAT are presumed to be an Approved RSAT but should be submitted to the SVO. RSATs structured to contain elements of risk other than those normally associated with the Defined RSAT descriptions and transactions involving assets that would not normally qualify for an NAIC Designation are not eligible for the Approved RSAT safe harbor and must be submitted to the SVO.
- **Mortgage Referenced Security** – Part Four of this Manual defines a Mortgage Referenced Security and provides that it is not eligible for filing exemption in this Manual but is subject to assessment by SSG.
- **Structured Notes** – A Structured Note is in Scope of *SSAP No. 86 – Derivatives*. The term Structured Note is described in *SSAP No. 26R – Bonds*. A security meeting this description is explicitly excluded from being in scope of SSAP No. 26R.

- **Ground Lease Financing Transactions** – A Ground Lease Financing (GLF) transaction typically has two components: (a) a ground lease for a long period (e.g., 99 years) between a ground lessor who owns the land and a ground lessee who attains a leasehold for the purpose of developing the land; and (b) the subleasing of space or operation of a business such as a hotel, warehouse, intermodal facility, etc., in an existing or to-be-constructed building to one or more tenants (space tenants) under shorter (e.g., 5–15 year) leases (space leases) or to the operator of a business such as a hotel, warehouse, intermodal facility, etc., under a franchise agreement or other arrangement. GLF transactions, in scope of SSAP No. 37 – Mortgage Loans, are not eligible for filing exemption. The GLF section in this Part provides further guidance on how the SVO analyzes GLF transactions for purposes of determining Schedule D eligibility and whether the SVO can assign an NAIC Designation. A security which resembles a GLF transaction but is not in scope of SSAP No. 37 – Mortgage Loans, can be filed with the SVO for an NAIC Designation and, if appropriate, the SVO can apply the GLF guidelines in this Part to its review.
 - **Principal Protected Securities (PPS)** - Transactions meeting the criteria of a PPS as specified in this Manual may possess Other Non-Payment Risks and must be submitted to the SVO for review under its Subscript S authority. *(NOTE: This change is effective as of Jan. 1, 2021. PPS acquired prior to Jan. 1, 2021 must be filed with the SVO by Jul. 1, 2021.)*
 - **Residual tranches or interests** - As defined in SSAP 43R – *Loan Backed and Structured Securities*, residual tranches or interests shall be reported on Schedule BA - Other Long-Term Invested Assets, without an NAIC Designation and are therefore not eligible for filing exemption.
5. 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.

Identification of FE Securities

6. The SVO identifies FE securities as part of its quarterly compilation of the SVO List of Securities. SVO staff then applies the procedures discussed 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 AVS+. AVS+ contains the official NAIC Designations for any given security. Insurers 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.

Direction and Procedure

7. 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.
8. 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 VOS/TF.

PL SECURITIES

Effective Date of Verification Procedure for PL Securities

9. Effective January 1, 2022, for each PL security received by the SVO either through a copy of a private rating letter or in a CRP credit rating feed (except for “deferred submission PLR securities” and “waived submission PLR securities,” each as defined below), insurance companies shall be responsible for providing the SVO a copy of the related private rating letter rationale report from the applicable NAIC CRP until such time as industry representative and the SVO shall have established reliable procedures for obtaining the necessary information on credit ratings directly from the NAIC CRPs. For deferred submission PLR securities the effective date for submission of the private rating letter rationale report is January 1, 2024 and for waived submission PLR securities, the private rating letter rationale report need not be submitted to the SVO so long as an insurance company is prevented from doing so due to confidentiality or contractual reasons.
10. 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.

11. 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).
12. For (a) PL Securities issued from January 1, 2018 to December 31, 2021 subject to a confidentiality agreement executed prior to January 1, 2022, which confidentiality agreement remains in force, for which an insurance company cannot provide a copy of a private rating letter rationale report to the SVO due to confidentiality or other contractual reasons ("waived submission PLR securities"), the insurer may report such securities on such securities' General Interrogatory (i.e., a **PLGI** security), and (b) PL Securities issued after January 1, 2022, for which an insurance company cannot provide a copy of a private rating letter rationale report to the SVO due to confidentiality or other contractual reasons ("deferred submission PLR securities") the insurer may report such securities on such securities' General Interrogatory (i.e., a **PLGI** security) until and including December 31, 2023, after which time, if the insurance company still cannot provide a copy of a private rating letter rationale report for whatever reason, the securities can be reported with an **NAIC 5GI** Designation and an NAIC Designation Category of **NAIC 5.B GI** in accordance with the guidance specified below.

Definitions

13. For purposes of this section:
 - 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.

- The phrase “private rating letter rationale report” means an analytical review of the privately rated security explaining the transaction structure, methodology relied upon, and, as appropriate, analysis of the credit, legal and operational risks and mitigants supporting the assigned NAIC CRP rating, in a 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. A private rating letter rationale report should mirror the work product that a CRP would produce for a similar publicly rated security.

Conditions to Filing Exemption for PL Securities Issued on or After January 1, 2018

14. **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, the insurer verifies the rated status of the **PL** security to the SVO, the insurer or NAIC CRP provides the SVO with the private rating letter rationale report (except for delayed submission PLR securities and waived submission PLR securities), and the SVO deems the privately rated security eligible to receive an NAIC Designation with NAIC CRP Credit Rating.
15. 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; or the insurer or NAIC CRP cannot provide the private rating letter rationale report (except for delayed submission PLR securities and waived submission PLR securities); or the SVO deems the privately rated security ineligible to receive an NAIC Designation with a NAIC CRP Credit Rating, the **PL** security is not filing exempt.
16. An insurer that owns a **PL** security that is not filing exempt shall either: (a) file the security with the necessary documentation with the SVO for an analytically determined NAIC Designation; or (b) self-assign an **NAIC 5GI** and an NAIC Designation Category of **NAIC 5.B GI** to the security and report using the Interrogatory procedure; in either case within 120 days of purchase.

Conditions to Filing Exemption for PL Securities Issued Prior to January 1, 2018

17. **PL** securities issued prior to January 1, 2018 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 Rating and are reflected in the financial statements and risk-based capital calculation commensurate with that rating

Procedure

18. 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, review the private rating letter rationale report, 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.

SVO to Administer Verification Procedures

19. It shall be the responsibility of the NAIC to create and maintain for the SVO, electronic facilities to accept: (a) electronic data-feeds provided by NAIC CRPs containing and specifically identifying the **PL** securities rated by that NAIC CRP, the credit rating assigned to the **PL** securities and the supportive private rating letter rationale report; or (b) PDF files of private rating letters provided by insurers to the SVO containing the NAIC CRP credit rating for the **PL** security and a copy of the supporting private rating letter rationale report.

The PL Process

20. It shall be the responsibility of the SVO to identify **PL** securities in the AVS+ system for insurance companies to use when reporting **PL** securities to the NAIC as part of the NAIC's Financial Statement Blank reporting process. The SVO identifies **PL** securities when it conducts the quarterly compilation of the SVO List of Securities.

Producing NAIC Designations for PL Securities

21. 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 Conditions to Filing Exemption for PL Securities and the supporting private rating letter rationale report, if the SVO has not received it directly from the CRP, within the initial filing deadline for newly acquired securities or securities in transition (as explained in “SVO Analytical Department Symbols” in Part Two of this Manual) and each calendar year thereafter (so long as such rationale update would normally be produced by the CRP for a comparable publicly rated security) along with any changes in PL Securities rating. In instances where the **PL** security is included in the applicable NAIC CRP Rating feed(s), the SVO shall follow the procedure for Filing Exempt (FE) securities only after the SVO receives both the private rating letter and private letter rationale report either directly or through a NAIC CRP Rating feed(s), and the SVO deems the privately rated security eligible to receive an NAIC Designation with an NAIC CRP Credit Rating.
- In instances where a private letter and private rating letter rationale report is filed, the SVO shall evaluate the private letter and private rating letter rationale report to determine whether the security has been assigned an Eligible NAIC CRP Rating and if the privately rated security is eligible to receive an NAIC Designation with a NAIC CRP Credit Rating. Similar to public securities where a rating is received directly from the CRP via electronic feeds, there is a similar assumption for the PL security, that the rating meets the definition of an Eligible NAIC CRP Rating as a normal part of the CRP rating process, absent evidence to the contrary in the rating letter or private rating letter rationale report (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 and if the SVO deems the privately rated security eligible to receive an NAIC Designation with a NAIC CRP Credit Rating, it assigns an NAIC Designation in accordance with the policy and procedure specified in this Manual. 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.

22. 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; or
- Is a type of security that is ineligible to receive an NAIC Designation with a NAIC CRP Credit 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 or assign an **NAIC 5GI** Designation and an NAIC Designation Category of **NAIC 5.B GI** to the security in the related Interrogatory.

If the SVO deems a security ineligible to receive an NAIC Designation per the instructions in this Manual because (a) the security is ineligible for Filing Exception according to “Specific Populations of Securities Not Eligible for Filing Exemption” in this Part or (b) the security is of a type outside the scope of *SSAP No. 26R - Bonds, SSAP No. 32- Preferred Stock, or SSAP No. 43R – Loan Backed and Structured Securities* then, for such a security, the SVO will provide a brief explanation in VISION, accessible to all VISION account holders, of why the security will not be provided an NAIC Designation.

23. An **NAIC 5GI** Designation and an NAIC Designation Category of **NAIC 5.B GI** may also be used in connection with the designation of **PL** securities rated by an NAIC CRP (i.e., for private letter ratings issued on or after January 1, 2018) when the documentation is not available for the SVO to assign an NAIC Designation. For purposes of this section, the documentation is not available for the SVO to assign an NAIC Designation if (a) 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, (b) for private letter ratings issued on or after January 1, 2022, an insurance company does not provide a copy of a private rating letter rationale report to the SVO for which there are no confidentiality or contractual limitations or (c) for deferred submission PLR securities, if the insurance company does not submit the private rating letter rationale report to the SVO on or after January 1, 2024.

LIST OF NAIC CREDIT RATING PROVIDERS

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

- **Moody's Investors Service, Inc.** 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.
- **S&P Global 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.
- **Fitch Ratings, Inc.** – 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 Rating Services, Inc. (A.M. Best)** – For credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- **DBRS, Inc. (DBRS Morningstar)** – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- **Kroll Bond Rating Agency, LLC.** – 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 Ratings Co.** – 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: The information shown above for each NRSRO was obtained from the SEC's website: www.sec.gov/ocr on February 2, 2021 and confirmed against each NRSRO's annual Form NRSRO certification.

NOTE: 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 (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.

CRP Credit Rating Equivalent to NAIC Designations and NAIC Designation Categories

25. 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 this Manual unless exempted from filing.

(Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (PE) Securities and Private Letter (PL) Rating Securities")										
NAIC Designation	NAIC Designation Modifier	NAIC Designation Category	Moody's Investors Service, Inc.	S&P Global Ratings	Fitch Ratings, Inc.	DBRS, Inc. Morningstar	A.M. Best Rating Services, Inc.	Kroll Bond Rating Agency, LLC	Egan-Jones Ratings Co.	HR Ratings de Mexico, S.A. de C.V.
1	A	1.A	Aaa	AAA	AAApr, AAA	AAA, Pfd-1 (high)	aaa	AAA	AAA	HR AAA (G)
1	B	1.B	Aa1	AA+	AA+	AA (high), Pfd-1	aa+	AA+	AA+	HR AA+ (G)
1	C	1.C	Aa2	AA	AA	AA, Pfd-1 (low)	aa	AA	AA	HR AA (G)
1	D	1.D	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	HR AA- (G)
1	E	1.E	A1	A+	A+	A (high)	a+	A+	A+	HR A+ (G)
1	F	1.F	A2	A	A	A	a	A	A	HR A (G)
1	G	1.G	A3	A-	A-	A (low)	a-	A-	A-	HR A- (G)
2	A	2.A	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high)	bbb+	BBB+	BBB+	HR BBB+ (G)
2	B	2.B	Baa2	BBB	BBB	BBB, Pfd-2	bbb	BBB	BBB	HR BBB (G)
2	C	2.C	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	HR BBB- (G)
3	A	3.A	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	HR BB+ (G)
3	B	3.B	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	HR BB (G)
3	C	3.C	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	HR BB- (G)
4	A	4.A	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	HR B+ (G)
4	B	4.B	B2	B	B	B, Pfd-4	b	B	B	HR B (G)
4	C	4.C	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	HR B- (G)
5	A	5.A	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	HR C+ (G)
5	B	5.B	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	HR C (G)
5	C	5.C	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	HR C- (G)
6	6	6	Ca	CC	CC	CC (high)	cc	CC	CC	HR D (G)
6	6	6	C	C	C	CC	c	C	C	
6	6	6		D	DDD	CC (low)	d	D	D	
6	6	6			DD	C (high)				
6	6	6			D	C				
6	6	6				C (low)				
6	6	6				D				

Note: * This is a listing of only the "generic" Credit Rating Provider (CRP) rating symbols. CRPs use a variety of symbols, including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (<https://www.naic.org/svo.htm>) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations. The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities incorporated into the NAIC's AVS+ product.

(Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities")											
Credit Rating Providers (*)											
				Moody's Investors Service, Inc.	S&P Global Ratings	Fitch Ratings, Inc.	DBRS, Inc. (DBRS Morningstar)	A.M. Best Rating Services, Inc.	Kroll Bond Rating Agency, LLC	Egan-Jones Ratings Co.	HR Ratings de Mexico, S.A. de C.V.
				Commercial Paper and Short Term Counterparty Ratings	Commercial Paper	Commercial Paper	Commercial Paper	Commercial Paper and Short Term Debt	Commercial Paper and Short Term Debt	Commercial Paper	N/A
1	A	1.A			A-1+	F1+	R1 (high)	AMB-1+	K1+	A1+	
1	B	1.B									
1	C	1.C		P1							
1	D	1.D			A-1	F1	R-1 (middle)	AMB-1	K1	A1	
1	E	1.E									
1	F	1.F									
1	G	1.G					R-1 (low)			A	
2	A	2.A		P2	A-2	F2	R-2 (high)		K2	A2	
2	B	2.B					R-2 (middle)	AMB-2			
2	C	2.C		P3	A-3	F3	R-2 (low)			A3	
3	A	3.A									
3	B	3.B					R-3	AMB-3	K3		
3	C	3.C									
4	A	4.A									
4	B	4.B			B	B			B	B	
4	C	4.C									
5	A	5.A									
5	B	5.B		NP	C	C	R-4		C	C	
5	C	5.C									
6		6			SD	D	R-5	AMB-4	D	D	
6		6			D		D				

Note: * This is a listing of only the "generic" Credit Rating Provider (CRP) rating symbols. CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (<https://www.naic.org/svo.htm>) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations. The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities incorporated into the NAIC's AVS+ product.

LIMITATIONS ON USE OF NAIC CRP RATINGS**NAIC Designation is Capped to Highest NAIC CRP Rating**

26. 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 below, and except that the SVO may assign the NAIC Designation it deems appropriate to:

- Municipal bonds.
- Military housing bonds or securities.

Split Ratings

27. For filing exempt securities, the NAIC Designation assigned will be the NAIC Designation equivalent that results from the application of the filing exemption process. This rule will also apply to replication transactions defined in and other instances where NAIC CRP ratings are used by the SVO.

Unrated Transaction of Issuer with NAIC CRP-Rated Debt

28. 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.

GENERAL CORPORATE AND MUNICIPAL METHODOLOGY FOR INDEPENDENT CREDIT QUALITY ASSESSMENT

NOTE: See “Special Instructions” (discussing Short-Term Investments, Circular Transactions, Mandatory Convertible Securities, Unrated Hybrid Securities and Sub-Paragraph D Companies) in Part One for policies that impact assignment of NAIC Designations.

29. Corporate bonds defined as the Obligations² 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.
30. Consistent with the SVO’s authority to use reasonable analytical discretion in its assessments, the SVO may utilize methodologies or request additional documents and information from insurance companies, if the SVO deems it appropriate and necessary to conduct its analysis for any investment that it reviews.

Independent Assessment

31. 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.

FINANCIAL ANALYSIS

Audited Financial Statement Required

32. 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, submitted by the insurance company..

² **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, bank loans made by a financial institution (issued directly by a reporting entity or acquired through a participation, syndication or assignment (each, as defined in *SSAP No. 26R – Bonds*)), 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.

33. 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.
34. The SVO may request and consider interim financial statements, if the SVO deems the information necessary for its analysis or to maintain a previously assigned NAIC Designation and NAIC Designation Category.
35. However, the SVO may assign an NAIC Designation based on less than three years of financial information in circumstances where the issue'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.
36. 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.

Calculation of Ratios

37. 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.

Parent-Subsidiary Situations

38. 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: (a) are limited solely to owning the issuing subsidiary; and (b) the issuing subsidiary constitutes at least 97% of the parent's pre-tax income and assets on a consolidated basis

Qualitative Analysis; Senior Unsecured Credit

39. 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.

Terms of the Security; Final Designation

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

- Covenants;
- Structure;
- Collateral;
- Third-party financial support, or other credit enhancements; and
- Any other credit-related factor specific to the security under review.

LEGAL ANALYSIS

Legal Review

41. The SVO shall review legal agreement(s) related to the transaction (e.g. prospectus, indenture, loan agreement, note purchase agreement, guarantee or equivalent legal documents) along with any amendments, waivers, compliance certifications and opinions of counsel it deems necessary for its analysis.

OTHER ANALYSIS

Other Information

42. The SVO may review and consider any other public or private information (including insurance company internal credit analysis memoranda) provided by the insurance company or obtained through its own research, that it considers relevant or necessary to analyze the transaction and consistent with its Use of Generally Accepted Techniques or Methodologies.

CREDIT SUBSTITUTION

Filing Requirements

43. Executed copy of the third party's 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.
44. 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.
45. 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 definitions of Credit Substitution Instrument below.

Definitions

46. The following terms have the meaning shown below:
- **Credit Substitution Methodology** – 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 agreements.

- **Credit Substitution Instruments** – 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** – 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** – 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** – 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** – 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** – 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.

Outline of Credit Substitution Methodology

47. 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.
48. The analyst:
 - 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.

- 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.
- Identifies 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.
- 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.
- Determines whether the use of credit substitution as an analytical technique is appropriate.
- Evaluates legal enforceability of the Credit Substitution Instrument. The analyst uses the information from the preceding steps of the methodology and evaluates it 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:

- 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).
- 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.
- The third party may not terminate or amend the support unless and until the obligation owed to the insurance company has been fully performed.
- 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.

49. 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.
- 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.

FOREIGN SECURITIES

Foreign Sovereign Government and Supranational Entities

50. 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 and investment committee memorandum.

51. 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, or the issuing supranational entity, as applicable, as reflected in the Sovereign NAIC Designation Equivalent list. This section should not be read as prohibiting the presentation of transactions structured to eliminate foreign sovereign risk.
52. 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 in Part One, 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. This determination shall carry an **F** suffix. In no case shall the NAIC Designation exceed the sovereign rating of the issuer's country of origin, or the issuing supranational entity, as applicable, as reflected in the Sovereign NAIC Designation Equivalent list. 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.
53. The SVO shall maintain and publish a list of Sovereign NAIC Designation Equivalents on its webpage (<https://www.naic.org/svo.htm>) and may include on that list the NAIC Designation equivalent for supranational entities submitted to it for review by insurers if, in its sole discretion, it is able to determine an appropriate NAIC Designation equivalent.

STRUCTURED SECURITIES OR TRANSACTIONS BACKED BY CREDIT ENHANCEMENT

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

54. **Initial Filing Requirements** – A structured security filed under this section must be filed with 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.
55. **Subsequent Reporting Requirement** – A structured security filed under this section must be filed together with evidence of the current NAIC CRP rating for the guarantor.

56. **Analytical Procedure** – The analytical procedures in this section 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 section, 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.
57. 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.

Structured Securities Backed by NAIC CRP-Rated Financial Assets

58. **Initial Filing Requirements** – A structured security filed under this section must be filed with 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.
59. **Subsequent Reporting Requirement** – A structured security filed under this section must be filed together with evidence of the current NAIC CRP rating assigned to each pool obligor.
60. **Analytical Procedure** – This section applies to investment instruments backed by the scheduled payment stream from: (a) NAIC CRP-rated or NAIC Designated underlying obligations; (b) issued by NAIC CRP-rated entities; or (c) 100% unconditionally guaranteed by NAIC CRP-rated entities, even if none of the assets themselves are rated by an NAIC CRP.

61. As used in this section, 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 section, 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
62. 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.

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

63. **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 this Manual.
64. A structured security filed under this section must be filed with 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.
65. **Subsequent Filing Requirement** – A structured security filed under this section must be filed together with evidence of the current NAIC CRP rating assigned to the pool insurer.
66. **Analytical Procedure** – This section 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.

67. 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.
68. As used in this section, 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.
69. 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.
70. 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.

<p style="text-align: center;">VALUATION AND CREDIT ASSESSMENT OF DEFAULTED SECURITIES AND ANALYTICAL CONVENTIONS</p>

General Instructions

71. 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.

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

72. 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.

73. 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.
74. 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.

Procedure for Obtaining a Post-Default Credit Assessment

75. Contemporaneously with the filing contemplated 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*.

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

76. 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.

Required Documents for Credit Assessment

77. For purposes of the valuation discussed above, the insurance company should submit the following documentation to the SVO within 120 days of closing.
78. 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

79. 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

80. 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.

Analytical Conventions

Issuer Liquidation

81. 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.