

SUBSIDIARY, CONTROLLED AND AFFILIATED (SCA) AND RELATED PARTY BOND OR PREFERRED STOCK INVESTMENTS

NOTE: See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity, as well as “Specific Populations of Securities Not Eligible for Filing Exemption” in “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” above.

Filing Instructions

255. **Common Stock** – An investment in the form of common stock issued by an insurance or non-insurance subsidiary, controlled or affiliated (SCA) entity of the reporting insurance company or an investment in the form of a preferred stock issued by an insurance subsidiary, controlled or affiliated company of the reporting insurance company **is required to be filed with the NAIC Financial Regulatory Services Division** in the manner and form and with the documentation provided for in the Appendix to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
256. **Bonds** – An investment (except for those investments that fit the examples detailed in the “SCA and Related Party Filing Exempt Investments” section below), in the form of a bond (i) *issued* by an insurance or noninsurance SCA or related party of the reporting insurance company, or (ii) issued as part of a structure which would, pursuant to paragraph 4.a. of *SSAP No. 43 – Loan-Backed and Structured Securities*, qualify as a related party investment due to the reporting insurance company’s credit risk exposure to the SCA or related party (“SCA and related party bond”), is filed with the SVO. To file an SCA and related party bond investment, the reporting insurance company files an Audited Financial Statement for the subsidiary, a copy of the corporate resolution authorizing the issuance of the debt, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary and, if the subsidiary is an insurance company, the subsidiary’s most recent NAIC Financial Statement Blank, together with the reporting insurance company’s NAIC Financial Statement Blank, internal investment committee memorandum for the investment and loan documentation appropriate to the transaction.

257. **Preferred Stock** – An investment (except for those investments that fit the examples detailed in the “SCA and Related Party Filing Exempt Investments” section below), in the form of a preferred stock (i) *issued* by a noninsurance SCA or related party of the reporting insurance company, or (ii) issued as part of a structure which would, pursuant to paragraph 4.a. of *SSAP No. 43 – Loan-Backed and Structured Securities*, qualify as a related party investment due to the reporting insurance company’s credit risk exposure to the SCA or related party (“SCA and related party preferred stock”), is filed with the SVO. To file an SCA and related party preferred stock issued by a non-insurer, the reporting insurance company files an Audited Financial Statement for the issuer of the preferred stock, a copy of the corporate resolution authorizing the issuance of the preferred stock, written evidence that the transaction has been approved by the state of domicile or that no such approval is necessary, together with details of the terms of the preferred stock, as well as the NAIC Financial Statement Blank for the reporting insurance company.

NOTE: Please see the section on preferred stock in this Part for additional analytical procedures applicable to that asset class.

258. **SCA and Related Party Filing Exempt Investments** – Certain investments might contain SCA or related party relationships without any direct or indirect credit risk exposure to such SCAs or related parties. For example, an investment could be (i) issued by an SCA or related party special purpose entity (SPE) which itself is not an obligor or party to whom the insurance reporting entity has direct or indirect credit risk exposure, or (ii) issued as part of a structure in which the originator, sponsor, manager, servicer, or other influential transaction party, is an affiliate or related party of the reporting insurance company but the investment does not have direct or indirect credit risk exposure to SCAs or related parties of the insurer. Such investments are eligible for filing exemption unless otherwise ineligible pursuant to guidance in this Manual unrelated to SCA or related party status. However, such investments may be in scope of *SSAP No. 25—Affiliates and Other Related Parties* and subject to reporting as an affiliate or related party transaction in the appropriate investment schedules. For the avoidance of doubt, nothing in this section prohibits a state insurance regulator, in accordance with Part One of this Manual, from requiring its domiciled insurance company to file an otherwise filing exempt investment with the SVO for analysis and/or assignment of an NAIC Designation, thereby making it ineligible for future filing exemption.

Purpose

259. This section applies to credit assessment of any SCA and related party investment in the form of a debt instrument purchased (or otherwise acquired) from an insurance or non-insurance entity (SCA and related party bond) and preferred stock issued by an insurance or non-insurance entity (SCA and related party preferred stock) where the insurer has credit risk exposure to the SCA or related party. This procedure is used to determine whether an SCA and related party bond or SCA and related party preferred stock transaction is eligible for reporting as an Investment Security pursuant to this Manual. The determination of “Investment Security” and credit assessment provided by the SVO shall not be construed to reflect assessments specific to SCA and related party transactions contained in *SSAP No. 25—Affiliates and Other Related Parties*. As such, an SVO-assigned NAIC Designation for SCA and related party transactions:

- Does not reflect collectability based on independent payment ability of a parent reporting entity.
- Does not reflect whether the transaction was conducted at arm’s-length.
- Does not reflect whether the transaction is considered “economic” under SSAP No. 25.

Notification Procedure

260. Prior to applying the procedures required below, the SVO shall:

- Confirm that the SCA relationship has been reported to the NAIC Financial Reporting Services Division, if required.
- If the SCA common and preferred stock transaction was reported (or if not required to be reported), the SVO shall:
 - Inform the state insurance department of the reporting insurance company’s state of domicile that the SCA bond or preferred stock has been filed with the SVO.
 - Evaluate whether the SCA bond or preferred stock transaction is circular within the meaning of that phrase as discussed in this Manual.
 - In the case of SCA preferred stock, determine the SCA preferred stock issuer’s senior unsecured debt designation and obtain the appropriate designation level for the preferred stock by applying the methodology specified in this Manual.

261. Although an NAIC Designation does not provide assurances regarding arm's-length or economic, if the SVO becomes aware of any information that indicates further review is warranted, the SVO shall contact the reporting entity to discuss, with subsequent notification (by the reporting entity or SVO) to the domiciliary state regulator, as needed. Pursuant to SSAP No. 25, affiliate transactions that are not arm's-length and/or economic are subject to additional accounting and reporting guidelines and each reporting entity is required to be knowledgeable about its domiciliary state regulatory requirements for approval of these transactions.

Definitions

262. The following definitions/concepts are from SSAP No. 25:

- **Arm's-Length** – An arm's-length transaction is defined as a transaction in which willing parties—each being reasonably aware of all relevant facts and neither under compulsion to buy, sell or loan—would be willing to participate.
- **Economic** – An economic transaction is defined as an arm's-length transaction which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof; i.e., “permanence.” The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed. An economic transaction must represent a bona fide business purpose demonstrable in measurable terms. A transaction which results in the mere inflation of surplus without any other demonstrable and measurable betterment is not an economic transaction. The statutory accounting shall follow the substance, not the form of the transaction.

Procedure for Credit Assessment of Filed SCA Transaction

263. The procedure specified in this section applies to bonds and preferred stock whose terms, structure, complexity and purpose are like those in transactions between unaffiliated parties filed with the SVO so that credit risk assessment methodologies applied to transactions between unaffiliated parties can be meaningfully applied to transactions between affiliated parties.

264. A determination that a bond or a preferred stock submitted for an assessment under this section is not like a transaction between unaffiliated parties and/or that analytical methodologies applied to transactions between unaffiliated parties cannot be meaningfully applied to the filed transaction shall be in the sole discretion of the SVO.

265. An insurer apprised of the SVO's determination may request a conference call with the SVO to evaluate whether focused disclosure and documentation pertaining to the terms, structure, complexity and purpose of the transaction may enable the SVO to develop a credit assessment methodology specific to the transaction. If the insurer and the SVO agree that a transaction specific credit assessment approach can be developed, administrative details pertaining to the conduct of the assessment shall be as negotiated between the SVO and the insurer.
266. Instead of filing a transaction under this section, an insurer may choose to file an RTAS submission (discussed in this Manual) to solicit an opinion and rationale from the SVO whether or not an SCA and related party transaction would be considered to be like those between unaffiliated entities or ask its domiciliary state regulator to consider requesting that the SVO assist the department in the determination of an NAIC Designation for the transaction under the Regulatory Transactions procedure discussed in this Manual.

INVESTMENTS IN FUNDS

NOTE: See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity, as well as “Specific Populations of Securities Not Eligible for Filing Exemption” in “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” above.

Purpose

267. This section established a comprehensive framework to be used by the SVO to identify fund investments that can be appropriately characterized as a “fixed-income-like” asset eligible for assignment of an NAIC Designation. This section also provides instructions for inclusion of eligible funds on an appropriate NAIC List or NAIC compilation process; criteria and methodology for assignment of NAIC Designations and identifies regulatory treatment to be accorded.

Conditions to Eligibility

268. The “fixed-income-like” regulatory treatment accorded under this Section 8 only applies to funds that the SVO has verified meet eligibility criteria established by the VOS/TF and been assigned NAIC Designations or reviewed under the verification procedures and added to an NAIC List or other NAIC compilation process as hereafter discussed in this Manual. The use of NAIC CRP credit ratings under the filing exempt process discussed in this Manual shall not be an acceptable basis to apply for and receive the regulatory treatment specified in this section. A private fund reported on Schedule BA, acquired prior to January 1, 2019, and reported with an NAIC Designation produced under filing exemption, can continue to be reported on that basis if it receives a public credit rating with annual surveillance from a CRP until sold or disposed of, provided the insurer also reports the investment on the Fund GI (General Interrogatory). Funds that do not qualify for the exceptions identified in this section would continue to be reported as common stock on Schedule D, Part 2, Section 2 or as other invested assets on Schedule BA without NAIC Designations.

NOTE: In all cases where it is necessary for the reader to understand statutory accounting guidance or concepts, please refer to the NAIC *Accounting Practices and Procedures Manual*.

Application

269. An insurance company interested in establishing whether a fund meets eligibility requirements or the sponsor of a fund interested in identifying its fund to insurance companies, may request that the SVO evaluate whether the fund is eligible for inclusion on one of the NAIC Lists described in this Manual.

Directive

270. The VOS/TF directs that the SVO establish and maintain the various NAIC Lists of fund investments or compilation processes hereinafter identified; administrative procedures to receive applications of insurance companies and of fund sponsors; procedures to disseminate the Lists to insurance companies and state insurance regulators and analytical criteria and methodology to evaluate fund eligibility. The SVO shall evaluate:

- Money market mutual funds issued by open end management companies registered with the U.S. Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 (the Act) that hold only direct obligations of the U.S. government and/or in securities backed by the full faith and credit of the U.S. (as more fully described in Part Two) to determine eligibility for inclusion on the NAIC U.S. Direct Obligations/Full Faith and Credit Exempt List.
- Bond mutual funds issued by open end management companies registered with the SEC under the Act that hold only U.S. government securities or securities of agencies and instrumentalities of the U.S. government (more fully described in Part Two) to determine if they are eligible for inclusion on the NAIC Bond Mutual Fund List.
- Exchange Traded Funds (ETFs) registered with the SEC that predominantly hold bonds (or preferred stock) (as more fully described below) to determine if they are eligible for inclusion on the SVO-Identified Bond ETF List (reported on Schedule D, Part 1) [or SVO-Identified Preferred Stock List (reported on Schedule D, Part 2, Section 1)].
- Mutual funds issued by any type of investment company registered with the SEC under the Act (as more fully described below) to determine if they are eligible for inclusion on the NAIC Fixed Income Like SEC Registered Funds List.
- Private equity funds, defined below, reported on Schedule BA of the NAIC Financial Statement that are engaged in bond or preferred stock fixed income strategies, that predominantly hold bonds or preferred stock, to determine whether the private funds shall be approved for inclusion in the SVO List of Securities via the compilation procedure discussed in this Manual.

NAIC FUND LISTS

THE NAIC U.S. GOVERNMENT MONEY MARKET FUND LIST

Regulatory Treatment of Eligible Funds

271. A money market mutual fund on the NAIC U.S. Government Money Market Fund List is reported as a cash equivalent on Schedule E, Part 2 on the “Exempt Money Market Mutual Funds – as Identified by the SVO” line. These “exempt” money market mutual funds are reported at fair value and incur a zero percent (0%) risk-based-capital (RBC) charge. Other money market mutual funds are also reported as cash equivalents on Schedule E, Part 2 on the “All Other Money Market Mutual Funds” line. The “all other” money market mutual funds are also reported at fair value but incur an RBC charge similar to other cash equivalents.

Required Documentation

272. An insurance company or the sponsor of a money market mutual fund requests an SVO evaluation that a money market mutual fund is eligible to be listed on the NAIC U.S. Government Money Market Fund List by submitting the following documentation to the SVO:

- The money market mutual fund application form.
- Authorization letter requesting review of the fund for the purpose of being added to the List.
- The most recent fund:
 - Prospectus;
 - Statement of Additional Information (SAI); and
 - Annual, and if available, the semi-annual report.
- Rating letter from an NAIC CRP dated in the year of the filing.

Eligibility Criteria

273. A money market mutual fund is eligible for inclusion on the NAIC U.S. Government Money Market Fund List if the fund meets the following conditions:

- The fund maintains a money market mutual fund rating of AAAm from Standard & Poor’s or Aaa-mf from Moody’s Investor Services or an equivalent money market mutual fund rating from any NAIC CRP.
- The fund maintains a stable net asset value per share of \$1.00.

- The fund allows a maximum of seven-day redemption of proceeds.
- The fund invests 100% of its total assets in securities that are direct obligations of the U.S. Government and/or in securities that are backed by the full faith and credit of the U.S. Government or collateralized repurchase agreements comprised of such obligations at all times.

Verification Procedure

274. Upon receipt of the documentation, the SVO examines the prospectus, schedule of fund portfolio holdings and related materials to verify that the fund meets the established criteria.

THE SVO-IDENTIFIED BOND ETF LIST AND THE SVO-IDENTIFIED PREFERRED STOCK ETF LIST

Description

275. ETFs issue creation units to initial investors in exchange for a specified portfolio of bonds. The initial investor can hold the creation units or sell the ETF shares that constitute the creation unit on the exchange on which the ETF is registered. Other investors may purchase ETF shares; including to reconstitute and redeem a creation unit. Shares of ETF are not redeemable to the fund but are traded on registered exchanges at a price set by the market. Shares of ETFs are expected to trade at or near par because of arbitrage related to the value of the portfolio or of the ETF shares. For inclusion on the SVO-Identified ETF lists, the ETF must hold a portfolio of bonds, preferred stock or a combination of bonds and preferred stock that tracks a specified bond index (a passive investment); or it must hold a portfolio of bonds, preferred stock or a combination of bonds and preferred stock that it actively manages pursuant to a specified investment objective.

Regulatory Treatment of Eligible Funds

276. An ETF on the SVO-Identified Bond ETF List is in scope of *SSAP No. 26R—Bonds*, and reported on Schedule D, Part 1 – Long-Term Bonds as an SVO-Identified Fund on the “Exchange Traded Funds – As Identified by the SVO” line. These investments are reported at fair value unless the investment qualifies for and the reporting entity elects systematic value.
277. An ETF on the SVO-Identified Preferred Stock ETF List is in scope of *SSAP No. 32—Preferred Stock* and reported on Schedule D, Part 2, Section 1. The SVO may include ETFs that hold a portfolio of bonds and preferred stock on the SVO-Identified Preferred Stock ETF List. These investments are reported at either amortized cost or fair value based on assigned NAIC Designation.

278. An ETF not on the SVO-Identified Bond ETF List or the SVO-Identified Preferred Stock ETF List is in the scope of *SSAP No. 30R—Unaffiliated Common Stock* and reported on Schedule D, Part 2, Section 2. These investments are reported at fair value although reporting at net asset value is permitted if there is no readily determinable fair value.

NOTE: Details on systematic value (including qualifications and calculation components) are captured in SSAP No. 26R.

Conditions

279. An insurance company may utilize the reporting and statutory accounting processes described above if:

- The SVO has placed the name of the ETF on the SVO-Identified Bond ETF List or on the SVO-Identified Preferred Stock ETF List in this Manual.
- The insurance company has purchased shares of an ETF on one of the two Lists.
- The insurance company has filed the shares of the ETF investment with the SVO for assignment of an official NAIC Designation.
- The SVO has assigned an NAIC Designation to the ETF and published it in AVS+.

Required Documentation, Analytical Procedures and Eligibility Criteria

280. Please refer to subsection below.

NAIC FIXED INCOME-LIKE SEC REGISTERED FUNDS LIST

Description

281. This section encompasses SEC registered funds issued by any type of investment-company registered with the SEC under the Investment Company Act of 1940 that sponsors a fund that will predominantly hold bonds or preferred stock. This listing excludes money market mutual funds as those securities are subject to different accounting treatment.) Different type of investment companies can be considered to have business models that operate differently as to redemption of shares, the life of the fund, whether the portfolio is held to maturity or traded over the life of the fund. The four types of investment companies are summarized below:

- **Open End Management Company (OEMC)** – An OEMC sell redeemable shares, directly or through a broker, on a continuous basis at the fund's approximate net asset value (NAV) per share and invests the proceeds in highly liquid bonds. Investors redeem shares of an OEMC fund by selling them back to the fund or to a broker. OEMC's may include exchange-traded funds.

- **Closed End Fund (CEFC)** – A CEFC lists its shares on a stock exchange or trades in the over-the-counter market. The assets of a CEFC are professionally managed in accordance with the fund’s investment objectives and policies. The market price of a CEFC share is determined by supply and demand in the marketplace. Because a CEFC does not maintain cash reserves or sell securities to meet redemptions, it can invest in less-liquid portfolio securities. A CEFC has a stated termination date.
- **Unit Investment Trust (UIT)** – A UIT issues a fixed number of securities called “units” in a public offering and uses the proceeds to buy a diversified professionally selected portfolio of securities. UITs have a preset termination date tied to its portfolio investments and investment goals. The portfolio is held for the life of the UIT; but is not actively managed or traded. Although UITs are required by law to redeem outstanding units, the UIT sponsor usually maintains a secondary market so investors can sell units back and other investors can buy units. UIT’s may include exchange-traded funds.
- **Exchange-Traded Fund (ETF)** – An ETF is an investment company that is registered under the Investment Company Act of 1940 either as an OEMC or as a UIT. An ETF combines the valuation feature of an OEMC or UIT, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value.

Regulatory Treatment of Eligible Funds

282. An SEC registered fund on the NAIC Fixed Income-Like SEC Registered Funds List is in the scope of SSAP No. 30R—Unaffiliated Common Stock and reported on Schedule D, Part 2, Section 2 with an NAIC Designation.

Conditions

283. An insurance company may utilize the reporting and statutory accounting processes described above if:
- The SVO has placed the name of the fund on the NAIC Fixed Income-Like SEC Registered Fund List;
 - The insurance company has purchased shares of the fund on the List;
 - The insurance company has filed the investment with the SVO for assignment of an official NAIC Designation; and
 - The SVO has assigned an NAIC Designation to the fund and published it in AVS+.

Required Documentation, Analytical Procedures and Eligibility Criteria

284. Please refer to subsection below.

NAIC LIST OF SCHEDULE BA NON-REGISTERED PRIVATE FUNDS WITH UNDERLYING ASSETS HAVING CHARACTERISTICS OF BONDS OR PREFERRED STOCK
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Description

285. A private equity fund is typically organized as a closed end investment vehicle and as a limited partnership or a limited liability company; usually under the law of the State of Delaware. A private equity fund is exempt from registration with the SEC under the Investment Companies Act of 1940 and offers securities in the form of interests in the fund under an exemption from registration of those securities under the U.S. Securities Act of 1933. Private equity funds are managed by a general partner or a manager and have a finite life. The investor in a private equity fund subscribes a capital commitment under which it is contractually obligated only to contribute the subscribed capital commitment to the fund as and when needed by the fund to make fund investments.

NOTE: This category of NAIC funds would also include a private fund sponsored by an insurance company a group of insurance companies or other sponsor for internal company or group investment management purposes where the fund is organized and structured as a joint venture, partnership or limited liability company to *predominantly hold* bonds (or loans) or preferred stock designated by the SVO or bonds (or loans) or preferred stock which receive a public rating with annual surveillance from an NAIC CRP.

Regulatory Treatment of Non-Registered Private Funds

286. The NAIC *Accounting Practices and Procedures Manual* provides that joint ventures, partnerships and limited liability company are in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, depending upon the level of control, and includes private funds in these ownership structures.

287. The NAIC Annual Statement Instructions provide that an investment in a private fund in the form of a joint venture, partnership or limited liability company qualifies for fixed or floating rate fixed income treatment if it's underlying investments are comprised predominantly of fixed or floating rate debt securities or bank loans. Investments in joint venture, partnership or limited liability companies are reported under the Fixed Income Category on Schedule BA if designated by the SVO or are otherwise reported on Schedule BA without an NAIC Designation in the "Other" subcategory.

Required Documentation, Analytical Procedures and Eligibility Criteria

288. Please refer to subsection below.

REQUIRED DOCUMENTATION, ANALYTICAL PROCEDURES AND ELIGIBILITY CRITERIA

Objective

289. The objective of the SVO's review is to assess whether for NAIC regulatory purposes discussed above, the fund's portfolio will generate predictable and periodic cash flows so similar to a bond (or a preferred stock) that it should be assigned an NAIC Designation and obtain applicable risk-based capital charges.

Definitions

290. **Bond** – For fund investment purposes, Bond means debt securities defined or encompassed within *SSAP No. 26R–Bonds* and *SSAP No. 43R–Loan-Backed and Structured Securities*.

291. **Credit Risk Assessment** – A calculation of the credit risk of a fund's underlying investment portfolio using a weighted average rating factor methodology (WARF). The WARF factor for each portfolio security (issue/security specific) is determined by first translating its NAIC CRP rating into an NAIC Designation. For securities that are unrated but have an NAIC Designation, the Designation is used. The WARF factor for that NAIC Designation is then market value-weighted. The weighted factor for each investment is summed to determine the fund's credit rating which is then translated into the equivalent NAIC Designation. For funds which use any *derivatives instrument* or *derivatives transaction*, the WARF analysis may incorporate each derivative counterparty and the credit risk assessment may include a determination of *derivatives exposure*.

292. **Derivatives Exposure** – means the sum of the gross notional amounts of the fund's *derivatives transactions*, described in clause (1) of the definition, below, of the term "*derivatives transaction*"; in the case of short sale borrowings, the value of the assets sold short; and, in the case of reverse repurchase agreements or similar financing transactions, the fund's *derivatives exposure* also includes, for each transaction, the proceeds received but not yet repaid or returned, or for which the associated liability has not been extinguished, in connection with the transaction. Consistent with Securities Exchange Commission Rule 18f-4 under the Investment Company Act of 1940, in determining derivatives exposure a fund may convert the notional amount of interest rate derivatives to 10-year bond equivalents and delta adjust the notional amounts of options contracts and exclude any closed-out positions if those positions were closed out with the same counterparty and result in no credit or market exposure to the fund.

293. **Derivatives Transaction** – means: (1) any swap, security-based swap, futures contract, forward contract, option, any combination of the foregoing, or any similar instrument (“*derivatives instrument*”), under which a fund is or may be required to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination, whether as margin or settlement payment or otherwise; (2) any short sale borrowing; and (3) any repurchase agreement under which the fund sells securities and simultaneously agrees to repurchase the same or substantially the same securities at a stated price on a specified date, or similar financing transaction, irrespective of accounting treatment.
294. **Fixed Income Like** – An SVO determination that a fund will generate predictable and periodic cash flows in a manner broadly similar to a situation where the holdings of bonds or of preferred stock of a known credit quality were held individually. A fund’s use of derivatives shall be deemed fixed income like if it meets the guidelines in this section.
295. **Fundamental Policy** – A policy adopted by a fund that requires shareholder approval to change or a policy to provide at least 60 days’ notice to fund shareholders of an intended change of a stated policy. The subject of the policy is that under normal circumstances the fund will invest at least 80% of its net assets plus any leverage for investment purposes in the type of bonds indicated by its name in compliance with Section 13 (a) of the Investment Company Act of 1940 and/or Rule 35d-1 of the 1940 Act. If the fund’s prospectus does not state that this investment objective is a fundamental policy for the fund, the SVO will assume it is not.
296. **Look-through Assessment** – A qualitative and quantitative evaluation of the fund, encompassing the following criteria:
- Verify that the fund’s portfolio, in the case of a bond fund or, preferred stock, in the case of a preferred stock fund *predominantly holds* bonds or preferred stock.
 - Confirm that the fund has adopted its investment objective as part of its *fundamental policy* and that other policies are consistent with fixed income investment.
 - Review the fund’s stated investment objective to ensure it is consistent with a fixed income investment, and evaluate the fund’s investment policies and investment strategies for consistency with the investment objective and the fund’s portfolio.
 - Evaluate the extent to which the composition of the fund’s portfolio can vary under normal market conditions given the fund’s policies and investment strategies and the extent to which the composition of the fund’s portfolio may vary under abnormal market conditions and the extent to which changes in composition of the fund’s portfolio in abnormal market conditions may persist given the fund’s leverage profile or other relevant factors.

Note: A fund that invests in another fund will need to have that other underlying fund approved by the SVO and maintained on the appropriate fund list, if not already done.

297. **Predominantly Hold** – The fund will hold *at least* 80% of its assets in bonds if the fund is a bond fund or at least 80% of its assets in preferred stock if the fund is a preferred stock fund, *in normal market conditions* and will deviate from this policy only temporarily to respond to abnormal market conditions. In the case of an ETF, predominantly hold also means that the fund will track a specified bond or preferred stock index, if passively managed, or refers to the bond or preferred stock portfolio the fund will actually hold, if actively managed—under normal market conditions. The *derivatives exposure* of *derivatives transactions* (exclusive of *excluded derivatives transactions*, as defined in “Speculative Characteristics Analysis”), and the market value of all other assets will be used when determining whether a fund predominantly holds bonds or preferred stock, as applicable, according to this clause.
298. **Speculative Characteristics Analysis** – Means: an assessment of the fund’s use of *derivatives transactions*, to examine the impact they may have on the fund’s portfolio cash flow as assessed under the *credit risk assessment* under normal and abnormal market conditions, the resulting *derivatives exposure* not to exceed 10% of the fund’s net assets in normal market conditions, excluding, for this purpose, currency or interest rate derivatives that hedge currency or interest rate risks associated with one or more specific (i) equity or fixed-income investments held by the fund (which must be foreign-currency-denominated in the case of currency derivatives), or (ii) the fund’s borrowings, provided that the currency or interest rate derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the value of the hedged investments (or the par value thereof, in the case of fixed-income investments, or the principal amount, in the case of borrowing) by more than 10 percent (each, an “*excluded derivatives transaction*”).

NOTE: For the avoidance of doubt, Funds on the NAIC U.S. Government Money Market Fund List are not permitted to use any *derivatives transaction* or other *derivatives instrument*.

Methodology*

299. The SVO shall:
- Conduct a *look-through assessment*
 - Conduct a *credit-risk assessment* to determine the credit risk of the fund’s cash flows.
 - Conduct a *speculative characteristics analysis*.
 - Determine whether the fund’s cash flow can or cannot be appropriately characterized as *fixed income like* for regulatory purposes.

- If the SVO determines that the fund's cash flow can be appropriately characterized as fixed income for regulatory purposes, it assigns an NAIC Designation to reflect the credit risk associated with the fund's cash flow and includes the name of the fund on the appropriate NAIC List.**
- If the SVO determines that the fund's cash flow cannot be appropriately characterized as fixed income for regulatory purposes it shall communicate the determination to the insurance company or fund sponsor in writing.

* **NOTE:** *Italicized text* indicates that the term used is a defined term. Please refer to the definition of the term for a description of SVO criteria associated with the methodology component being described.

** **NOTE:** The NAIC Designation does not address the fund's ability to meet payment obligations because the insurer/shareholder does not own the bonds in the portfolio; the NAIC Designation instead conveys the credit risk/quality of the fixed income like cash flow generated by the ETF.

Documentation

300. An insurance company or the sponsor of a bond or preferred stock fund that request that the SVO conduct the look through and credit assessment submits the following required documentation to the SVO:

- A completed RTAS Application (Information about the RTAS process is contained here: www.naic.org/documents/svo_rtas_app.pdf). A fund with *derivatives transactions* or other *derivative instruments* may be considered a Highly Customized Transaction if the SVO determines it necessary to review a derivative's operative legal documentation.
- For all funds subject to look-through and credit risk assessment and to speculative characteristics analysis: the Prospectus and Statement of Additional Information (SAI) for the fund.
- For funds which use *derivative transactions* or other *derivative instruments*, the applicable operative legal documentation, if requested by the SVO.
- In the case of an ETF, copies of the Application, Notice and Order associated with the fund sponsor's request for Exemptive Relief from the SEC or a link to the SEC's EDGAR where the SVO can obtain the documents, if applicable.
- In the case of a private equity fund, the Private Placement Memorandum, Limited Partnership Agreement or Limited Liability Company Agreement, the Subscription Agreement and the Form D, if one has been filed.

- Schedules of the fund's portfolio securities and assets with a description of the security, the CUSIP or other security identifier and NRSRO credit ratings for the last four quarters of the fund's existence. For funds which use *derivative transactions* or other *derivative instruments*, the schedule shall include for each derivative:
 - The derivative type (e.g. ISDA swap, purchase call option, written put option, short sale borrowing, reverse repurchase agreement);
 - Is or may the fund be required, pursuant to the derivative, to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination, whether as margin or settlement payment or otherwise;
 - Is the derivative a *derivatives transaction* (as defined above), an *excluded derivatives transaction* (as defined in "Speculative Characteristics Analysis") or neither;
 - The counterparty credit rating;
 - (i) The *derivative exposure* or market value, as applicable, both as a dollar amount and converted to a percentage of the fund's net assets in normal market conditions, and (ii) a summary of how the amount is calculated (e.g. gross notional amount, convert the notional amount of interest rate derivative to 10-year bond equivalent, delta adjust the notional amount of option contract, market value, value of assets sold short, proceeds received but not yet paid or returned).

NOTE: The documentation provided must enable the SVO to conduct the analysis described below. Applicants are free to provide any supplemental material they believe will assist the SVO to:

- Verify that the fund has adopted a *fundamental (stated) policy to predominantly hold bonds* (or preferred stock).
- Evaluate the fund's use of leverage in relation to the management of portfolio risk and in relation to other purposes relevant to the *speculative characteristics analysis*.
- Understand the fund's policy and approaches to coverage of obligations arising from the use of leverage, in relation to SEC guidance on the subject.
- A description of likely changes in the fund's composition under normal market conditions given the fund's investment objective and the strategies to be employed to attain it.

REGULATORY TRANSACTIONS

NOTE: See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity, as well as “Specific Populations of Securities Not Eligible for Filing Exemption” in “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” above.

Defined

301. **Regulatory Transaction** means a security or other instrument in a transaction submitted to one or more state insurance departments for review and approval under the regulatory framework of the state or states. The term Regulatory Transaction is more broadly defined as a transaction engineered to address a regulatory concern one or more insurers have or may have that should 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 an Investment Security, as defined in this Manual, that is eligible for assignment of an NAIC Designation.

Status of Regulatory Transactions

302. A Regulatory Transaction is not eligible for:
- Assignment of an NAIC Designation by the SVO;
 - The filing exemption process for publicly rated securities;
 - The private letter rating component of the filing exemption or for use of the PLGI designation symbol;
 - Self-assignment by an insurer of the administrative symbol Z under the 120-rule;
 - Self-reporting by an insurer on the general interrogatory for securities eligible for filing exemption but for which no NAIC CRP credit rating is available (i.e., 5.B GI) and
 - Inclusion in the SVO List of Investment Securities or any other NAIC electronic system or processes maintained for operations for the VOS/TF.

Intent

303. This section provides guidance to the SVO and the SSG on how to manage requests for assistance made by a state insurance department as authorized in this Manual. Insurance companies shall not report a Regulatory Transaction as a Filing Exempt security, and the NAIC staff shall not assign an NAIC Designation to the security component of a Regulatory Transaction or to the Regulatory Transaction or add them to the Filing Exempt Securities Process of the SVO List of Investment Securities. See the instructions on Regulatory Transactions contained in the compilation instructions in this Manual. This does not preclude the SVO from working directly with a state insurance department and issuing an opinion to the department consistent with the instructions outlined in this Manual.

The Security Component of a Regulatory Transaction

304. However, as discussed above, the security component of the broadly defined Regulatory Transaction—i.e, a transaction engineered to address a regulatory concern one or more insurers have or may have that should be submitted to a state insurance department for approval—may be an Investment Security that may be eligible for designation under filing exemption or by the SVO on a stand-alone basis. For example:

- An insurance company entered into a coinsurance reinsurance transactions that requires regulatory approval and as part of that transaction, received an IBM bond. The IBM bond, when owned by an insurance company as a stand-alone investment, would be considered eligible for Filing Exemption but the whole regulatory transaction would not be eligible for Filing Exemption. In this example, the IBM bond is assumed to be an Investment Security, as defined in this Manual.
- An IBM bond that was eligible for Filing Exemptions was sold/transferred from an insurance company to an affiliated insurance company that requires regulatory approval. Such an IBM bond would still be considered eligible for Filing Exemptions when owned by an insurance company as a stand-alone investment. In this example, the IBM bond is assumed to be an Investment Security, as defined in this Manual. Any other parts of the transaction requiring regulatory approvals, if any, would not be eligible for Filing Exemption.

Procedure: Assessment of the Security Component of a Regulatory Transaction

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

306. The SVO or SSG is authorized to conduct an analytical assessment on behalf of any state insurance department that requests such assistance. If the state insurance department of the insurer's state of domicile requests such assistance, the SVO shall engage in the requested analytical assessments of the security component of the Regulatory Transaction. In its assessment, the SVO would make use of NAIC analytical benchmarks, such as those used to produce NAIC Designations, valuation or classification assessments, and such determinations may be given by the SVO or SSG to the state insurance department.
307. Determinations made by the SVO or SSG given to a state insurance department in connection with assessment of the security component of a Regulatory Transaction shall be referred to as an SVO Analytic Value (defined below) to prevent confusion in the reporting by an insurer of the Regulatory Transaction or the security component of a Regulatory Transaction to the domiciliary state insurance department and the reporting of a stand-alone Investment Security under the general procedures applicable to them.
308. SVO or SSG determinations given in connection with the assessment of a Regulatory Transaction given to the state insurance department may be adopted by the state insurance department as part of that state's internal determination of the regulatory issues presented by the Regulatory Transaction. However, SVO assessments for security component of a Regulatory Transaction will not be entered into NAIC computer systems reserved for Investment Securities or added to the SVO List of Investment Securities as defined in this Manual. The insurance department may give the SVO Analytical Value to the insurer and instruct the insurer to use the SVO Analytical Value to report the security component of the Regulatory Transaction to the state, as more fully discussed below.

Reporting Regulatory Transactions on Investment Schedules

309. A security component of a Regulatory Transaction is reported on an investment schedule. The security component of a Regulatory Transaction reported on Schedule D, Part 1, must be reported with one of the two codes described below, unless it would otherwise qualify as an Investment Security eligible for designation under filing exemption or by the SVO on a stand-alone basis absent the broadly defined Regulatory Transaction (as discussed above). The codes track the security component. Other investment schedules do not require that an NAIC Designation be reported. (For example, Schedule BA items are not required to be reported with an NAIC Designation.) The codes apply ONLY to the security component of the Regulatory Transaction. Each of the two codes identifies a different reporting paradigm and requires the reporting entity to report an SVO Analytical Value, defined below.

Definition of SVO Analytical Value

310. An SVO Analytical Value produced by the SVO is an expression of the credit quality of the security component of a Regulatory Transaction which is expressed with the numerical symbols 1 through 6 in the case of a Regulatory Transaction within the reporting paradigm associated with the RTS code and can be expressed with the grade indicated by the letters A through G for Analytical Value of 1, and three delineations each for the Analytical Value 2, 3, 4 and 5 indicated by the letters A, B and C, and one delineation for Analytical Value 6. In the case of the security component of a Regulatory Transaction within the reporting paradigm associated with the RT code the SVO has not developed the SVO Analytical Value but in that case the Value is expressed with the numerical symbol 6.

Codes and Their Meaning

311. **RTS** is reported for the security component of a Regulatory Transaction for which:

- A state insurance department requested SVO assistance in assessing the credit quality of the security component of the Regulatory Transaction; and
- The SVO provided an SVO Analytical Value for the security to the department; and
- The department thereafter directed its insurer to report the SVO Analytical Value.

For the security component of a Regulatory Transaction within the RTS reporting paradigm, the reporting entity reports the analytical value it received from the department, which is the same one the SVO provided to the department. The SVO Analytical Value associated with the RTS code is expressed as a numerical symbol from 1 through 6; e.g., 4RTS. The RTS SVO Analytical Value may be used in conjunction with the SVO Analytical Department Symbols and instructions defined in this manual and assigned by the SVO associated with IF, YE and Z (but only for RTS securities issued within 120 days of the reporting period end date); e.g., 1.G RTSYE, 4.B RTSIF, 3.A RTSZ, as detailed in the Annual Statement Instructions.

An SVO Analytical Value is **ONLY** assigned if the SVO determines the security component of the Regulatory Transaction would not qualify as an Investment Security eligible for designation under filing exemption or by the SVO if engaged on a stand-alone basis. An SVO Analytical Value is not a preliminary or an official NAIC Designation and cannot be entered into NAIC systems maintained to support the operations of the VOS/TF either by the SVO or anyone else.

312. **RT** is reported for the security component of a Regulatory Transaction for which:
- A state insurance department did not request assistance from the SVO in assessing the credit quality of the security component of the Regulatory Transaction; or
 - The department requested the assistance of the SVO but the SVO determined the security component of the Regulatory Transaction was not an Investment Security if engaged in on a stand-alone basis; or
 - The SVO was unable to provide an SVO Analytical Value for the security component of the Regulatory Transaction.

For the security component of Regulatory Transactions within the RT reporting paradigm, the reporting entity always self-assigns and reports the SVO Analytical Value 6; e.g., 6RT.

MUNICIPAL BONDS

General Obligation Bonds

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

Revenue Bonds

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

Industrial Development Revenue Bonds; Pollution Control Bonds

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

Escrowed and Pre-Refunded Bonds

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

Credit Enhanced Municipal Transactions

317. A credit enhanced municipal transaction is one in which the application for an NAIC Designation is to be based on one of the following: (a) the credit rating of a nationally recognized municipal bond insurer that has issued a financial guarantee or otherwise insured the bond; (b) on a financial guarantee issued by an insurance company; (c) on a Letter of Credit issued by a bank; or (d) on another acceptable form of credit enhancement.

318. In determining an NAIC Designation for the transaction, the SVO shall ascertain the extent to which the legal documents ensure that the credit strength of the insurer or bank flows through unimpeded to the security holder. The SVO shall examine whether the payment obligation of the insurer or bank assures full and timely payment of all amounts due to the reporting insurance company.
319. Factors relevant to this analysis include irrevocability of the insurer's or bank's obligation to pay the effect of debtor insolvency on payments made by the debtor and/or the third party to the insurance company lender and the third party's credit rating.
320. The analyst may review:
- Corporate resolutions of the issuer.
 - The guarantee or other agreements binding the third party to pay for the debt of the debtor.
 - The indenture or other similar document governing the remedies.
 - Opinions of counsel regarding enforceability of the obligation of the third party.
 - The payment stream under applicable insolvency laws or other regulatory regime.
 - Any other documentation that may be considered necessary.

Special Situations

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

Quantitative Analysis

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

Use of Unaudited Financial Statements

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

Terms of the Security; Final Designation

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

- Collateral.
- Legality of the exercise of taxing authority in general bond obligations, or legal validity and enforceability of the pledge of cash flow.
- Economic feasibility, including demand for the services for which the issuance is made or project is being built.
- Project risks and risk mitigation.
- Priority and legal position of the lender's right to payment of the issuer's general fund (for general obligations bonds) or reserve or trust fund accounts (for revenue bonds).

PRINCIPAL PROTECTED SECURITIES

Definition

325. Principal Protected Securities (PPSs) typically have both a principal protected component and a performance component whose payments originate from, or are determined by, non-fixed income like sources and, therefore, pose the risk of non-fixed income like cashflows. PPS do not include the exclusions listed below in this section.

326. The following transaction examples are included for demonstrative purposes only, to highlight the intent behind the principle-based PPS definition and the core regulatory concern (that there are Other Non-payments Risks associated with PPSs beyond the contractually promised payments that may not be reflected in a CRP rating) but are not intended to encompass all possible PPS variants. Each of these examples meets the definition of a PPS. Any design that circumvents the definition, and related examples, through technical means but which in substance achieves the same ends or poses the same risk, shall be deemed a PPS.

Example Transactions

327. *Example 1* - PPS includes any security that repackages one or more underlying investments and for which contractually promised payments according to a fixed schedule are satisfied by proceeds from an underlying bond(s) (including principal and, if applicable, interest, make whole payments and fees thereon) that if purchased by an insurance company on a stand-alone basis would be eligible for Filing Exemption, but for which:

- (i)
 - a. the repackaged security structure enables potential returns from the underlying investments in addition to the contractually promised cash flows paid to such repackaged security according to a fixed schedule;

OR

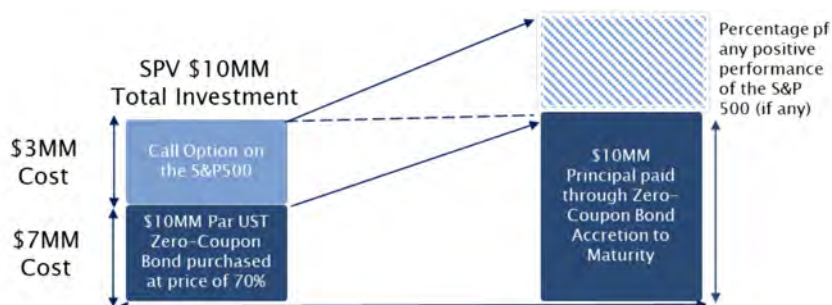
- b. the contractual interest rate paid by the PPS is zero, below market or, in any case, equal to or below the comparable risk-free rate;

AND

- (ii) the insurer would obtain a more favorable Risk Based Capital charge or regulatory treatment for the PPS through Filing Exemption than it would were it to separately file the underlying investments in accordance with the policies in this Manual..

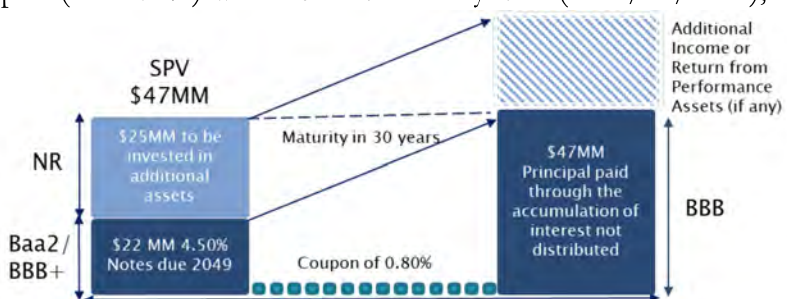
328. *Example 2* - In this example there are only two components: 1) a \$10 million par United States Treasury (UST) zero-coupon bond sold at discount (ex. \$70) from par (\$100)

that will pay par (\$100) at maturity and 2) a return linked to any positive performance of call options on the S&P 500 Index (if the S&P 500 Index has a negative performance, investors will only receive an amount equal to their initial investment). The CRP rating would be AAA/AA+ or an NAIC 1.A, based solely on the risk of the UST security; whereas, the Weighted Average Ratings Factors (WARF) applied by the SVO would result in an NAIC 4.B when it includes the exposure to the call options on the S&P 500 Index.

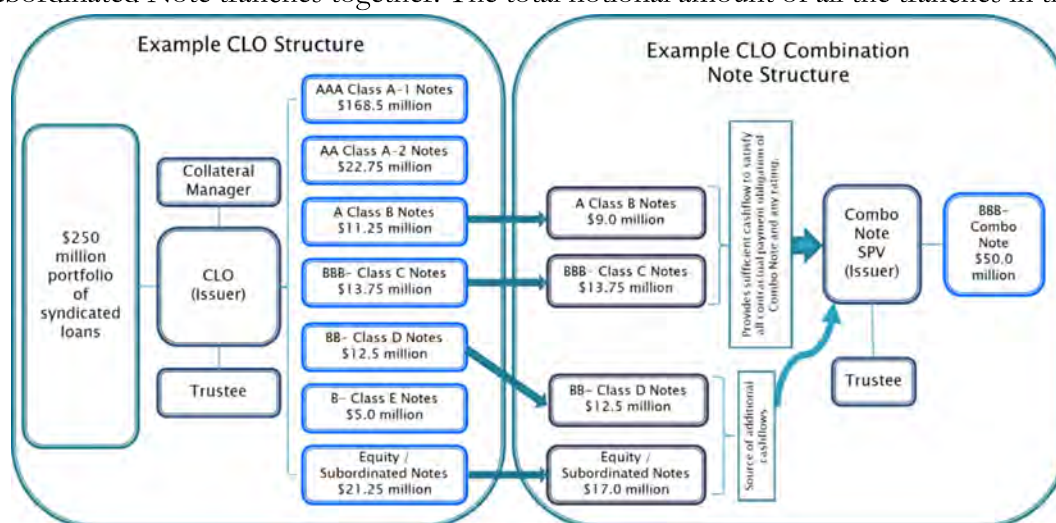


329. *Example 3* - In this example there are multiple components: 1) a \$22 million corporate bond paying a fixed coupon (ex. 4.50%) with a stated maturity date (ex. 9/30/2049), 2) the corporate bond has two CRP ratings (Moody's Baa2, S&P BBB+), 3) the Special Purpose Vehicle (SPV) also invests \$25 million in additional undisclosed and

unrated assets, 4) the SPV pays a below market semi-annual coupon of 0.80%, 5) the excess coupon difference (4.50% - 0.80% = 3.70%) is used to accumulate into the required principal to pay at maturity, and 6) a CRP rated the PPS a BBB or NAIC 2.B. , Again, the PPS rating is based solely on the corporate bonds that represent less than 50% of the total investment in this example, whereas, the WARF methodology would result in an NAIC 4.C when the exposure to all of the underlying investments are included.



330. *Example 4* - This example is a repackaging of collateralized loan obligation (CLO) notes into a CLO Combination Note (Combo Note). The initial CLO holds \$250 million of syndicated loans and issues \$255 million of notes (the CRP rating for each tranche is listed before the Class, ranging from AAA to B-) and Equity / Subordinated Notes. The Combo Note is formed in this example by re-packaging the Class B, C, D, and Equity / Subordinated Note tranches together. The total notional amount of all the tranches in the



Combo Note is \$52.25 million. The Combo Note raises proceeds by issuing a single \$50 million notional tranche of debt through an SPV. The cashflows from the Class B and C notes are sufficient to repay the \$50 million Combo Note principal and interest, if any; which, may constitute a reclassification of the Class B and C tranche interest to repay principal on the Combo Note. Payments from the underlying investments in the Class D and Equity / Subordinated Note tranches provide returns to the repackaged security in addition to the contractually promised cash flows according to a fixed schedule that are based upon the payments from the Class B and Class C Notes. The Combo Note receives a BBB- rating or NAIC 2.C on the notional of \$50 million based upon payments from the Class B and C tranches even though \$29.5 million or 57% of the underlying investments are rated BB- or unrated, whereas, the WARF would result in an NAIC 4.B when the exposure to all of the underlying investments are included.

331. *Example 5* – In this example, a financial institution issues notes pursuant to which it is obligated to make (i) fixed quarterly coupon payments which are less than the comparable risk-free rate, (ii) performance payments linked to the performance of referenced equity and futures indices and the net asset value of a basket of undisclosed securities, and (iii) a principal payment at maturity. This example differs from the others in that the issuer is an operating entity and not an SPV with underlying assets. Even though the payment of all amounts is the obligation of the issuing financial institution, the size of the performance payments, if any, is wholly dependent on the performance of non-fixed income like reference assets.

Exclusions

332. For the avoidance of doubt, PPSs shall not include defeased or pre-refunded securities which have separate instructions in this Manual; broadly syndicated securitizations, such as collateralized loan obligations (CLOs) (including middle market CLOs) and asset backed securities (ABS), except as described in the examples in this section; or CLO or ABS issuances held for purposes of risk retention as required by a governing law or regulation.

Filing Requirements

333. Investments in PPSs must be submitted to the SVO for review because they may possess Other Non-Payment Risks that the SVO must assess under its Subscript S authority. If the SVO determines in its judgement that there are not any Other Non-Payment Risks, the SVO will permit the security to benefit from Filing Exemption, if it is otherwise eligible.

334. In addition to *Filing Process and Required Documents* outlined in Part Two of this manual, the following additional information is required for PPSs:

- Disclosure of any Subsidiary, Controlled or Affiliated relationship between the PPS or any of the underlying investments and the insurer; including, how the underlying investments were acquired.
- Prior four quarterly financial statements, if produced, trustee or collateral agent reports from the entity issuing the PPS sufficient to identify: security specific details of each underlying investment (security identifier, descriptive information, all Eligible NAIC CRP Credit Ratings (if any), par value, market value, and explanation as to how the market value was determined).

PART FOUR
THE NAIC STRUCTURED SECURITIES GROUP