STRUCTURED
FINANCE
ASSOCIATION

April 29, 2022

S&P Global Ratings
55 Water Street
New York, New York 10041
[sent via online submission]

Re: **Response to S&P Global Ratings' Request for Comment: Insurer Risk-Based Capital Adequacy**

To whom it may concern,

The Structured Finance Association[1] ("SFA") appreciates the opportunity provided by S&P Global Ratings (S&P) to comment on its proposed methodology for insurer risk-based capital adequacy ("proposed methodology") published on December 6, 2021. SFA strongly supports the importance of the independence and objectivity of S&P and other rating agencies' credit opinions, and the critical role they play in the capital markets. For this reason, we do not take lightly the decision to request that a rating agency reconsiders any portion of its methodology. However, in the case of S&P's proposed methodology, SFA members have serious concerns with key elements to the proposal and the considerably adverse ramifications those elements could have on insurance companies, the capital markets, and important sectors of the economy.

As S&P knows very well – SFA is a trade association composed of industry participants representing the entire securitization market ecosystem, SFA's views on the proposed methodology have been developed with input from across our membership – issuers, insurance companies, other investors (such as asset managers, banks, etc.), rating agencies[2,3], data analytic firms and other market participants. **While our members often have conflicting views and interests, they unanimously agree that the proposed methodology, in its current form, has embedded fatal flaws.**

[1] SFA is the leading securitization trade association in the U.S. representing over 370 member companies from all sectors of the securitization market. Our core mission is to support a robust and liquid securitization market and help its members and public policymakers grow credit availability and the real economy in a responsible manner. SFA provides an inclusive forum for securitization professionals to collaborate and, as industry leaders, drive necessary changes, advocate for the securitization community, share best practices and innovative ideas, and offers professional development for industry members through conferences and other programs. For more information, visit www.structuredfinance.org.
[2] While S&P is a member of SFA, representatives of S&P (including the S&P's representative to SFA's board of directors) were not part of the process whereby the views in this letter were developed. SFA bylaws prohibit firms from participating in developing comments and views on proposals published by their own firm. Similar to other market participants and associations, SFA held several calls between SFA staff and members of S&P ratings business in an attempt to understand the analytical framework, assumptions, and data behind the mapping and notching components of the Proposed Methodology.
[3] While the largest five rating agencies are members of SFA, not all participated as part of SFA's process.

SFA members are specifically troubled by a few key aspects of the proposed methodology that are inconsistent with empirical evidence and lack any meaningful transparency into the analytical framework and assumptions in support of those aspects of the proposed methodology.

- the mapping criteria and downward notching assumptions across all rated and unrated investments,
- the use of a single set of capital factors for structured products that does not recognize the relative credit strength of senior structured securities – particularly those rated below AA, and
- the radically punitive change in approach to determine capital for RMBS transactions issued prior to the Global Financial Crisis ("legacy RMBS").

The proposed methodology assesses the credit quality of investments rated by other rating agencies, as well as those that are unrated, considerably below the level that our members find justifiable based upon available data. As rating agency competition has increased, these investments rated by other rating agencies have come to constitute large swaths of the portfolios held by insurance companies and other capital market investors. Market data evaluated by our members indicate that there is no discernably material distinction between securities rated by S&P and otherwise comparable securities rated by Moody's, Fitch, KBRA or DBRS.

As detailed below, S&P's notching assumptions would result in critical consequences for insurance companies and other capital markets stakeholders, and correspondingly disrupt vital sources of funding for consumers and businesses that drive our nation's economy. Another potential fallout of such an approach may be policy decisions that would be detrimental to the well-functioning structure of the rating agency process in our capital market.

While we believe that these outcomes are not the intent of S&P's proposed methodology, we do believe that they are likely consequences, and for these reasons we strongly urge S&P to adjust these aspects of the proposed methodology. We would also submit that for any final methodology that S&P adopts, there must be more transparency and historical data that sufficiently justifies the approach.

I. Importance of Rating Agencies and Insurance Companies to the Capital Markets

a. *Diverse, Multiple Rating Agency Opinions Are Vital to Markets*

Rating agencies are a vital part of the financial markets, and SFA members highly value the independent views of rating agencies, as they provide:

(1) greater transparency to the marketplace through the dissemination of a wide array of information and tools for investors to use in their evaluation of investment decisions, and

(2) a common means for issuers and investors to compare risk, through a consistent rating scale.

As with each investor, each rating agency, can and does differ in how it analyzes and assesses credit risks. Diversified information and viewpoints support the investor in making its own informed investment decisions. We agree with S&P when it expressed that:

> *"[h]aving multiple assessments based on different methodologies, conveyed in a transparent fashion, provides more information to investors and other market participants. Standardization would deprive investors and market participants of a diversity of approaches and information and in our view would hinder analytic advancement."*[4]

For this reason, SFA has advocated for[5]—and will continue to advocate for—a competitive, market-based landscape among rating agencies. Rating agency competition and independence allow issuers to improve the marketability of their offerings while satisfying investors' need for information and a consistent global rating scale to promote liquidity.

However, for the competitive landscape among rating agencies to work as it should, market participants must have the ability to compare, analyze, and validate the assumptions and factors within a given methodology. Without sufficient transparency and clarity, market participants cannot independently verify and validate the assumptions and results of a given methodology.

b. Insurance Companies Invest Extensive Resources into the Economy

By investing over $7.5 trillion of policyholder premiums, insurance companies are a major contributor to the U.S. economy and provide vital liquidity to various segments of the financial markets. These investments support businesses, local governments and households with insurance companies collectively holding over $2.6 trillion in corporate bonds, $926 billion in corporate stocks, $515 billion in municipal bonds – and over $1.1 trillion of the roughly $14 trillion total of current structured finance investments. Any disruption to this sizeable source of liquidity and capital could directly and negatively impact funding to the underlying businesses and consumers.

II. Comments to the Proposed Methodology

a. S&P's Mapping and Notching Approach

It is our understanding that under the proposed methodology the investments held by an insurance company, other than those rated by S&P, will be notched down from the corresponding risk assigned by another rating agencies or the Securities Valuation Office of the NAIC (the "SVO"). Specifically, the proposed methodology employs three different scenarios where—because S&P has not rated an asset—the proposed methodology would utilize notching to assign risk ratings.

[4] https://www.sec.gov/comments/4-622/4622-14.pdf

[5] https://structuredfinance.org/resource-details/sfa-response-to-fimsac-recommendations-to-mitigate-conflicts-of-interest-in-credit-ratings/

(1) The first is where an asset is not rated by S&P but is rated by one or both of Fitch and/or Moody's (i.e., the mapped rating agencies[6]).

(2) The second is where an asset is not rated by S&P or Moody's or Fitch, but is rated by another rating agency or the SVO (i.e., unmapped rating agencies).

(3) The third is where an asset is not rated by any rating agency or the SVO (unrated investments).

In instances where both mapped rating agencies rate an asset, S&P would take the lower of the two mapped ratings and adjust it downward by up to two notches. In instances where it is rated by only one of the mapped rating agencies, S&P would lower the rating by up to three notches. In all other instances, the asset would receive a notched rating of CCC, which is junk bond status.

SFA understands that mapping other rating agencies' credit assessments could be a well-reasoned component to evaluating credit risk on a sizeable portfolio comprised of an extensive number of diverse investments – such as those held by insurance companies. However, as with all risk assessments, for the mapping criteria to be sound they must be determined through an unbiased, analytically rigorous approach based on objective quantitative and qualitative information. Further, the analysis underlying the mapping must be shared with the market so the investing community can independently assess its adequacy. Otherwise, the analysis could result in a questionable, inaccurate or misleading credit assessment for investments in a portion, or the entirety of, certain financial sectors and asset classes, or for investments assigned a risk assessment by another rating agency or regulatory body.

As we describe in more detail below, SFA believes that the notching utilized by S&P raises substantial concerns resulting from all of the above-mentioned risks.

b. Lack of Transparency into S&P Mapping Criteria

SFA has found that the current proposed methodology provides severely insufficient transparency on what quantitative and qualitative factors are considered and how they are applied in its mapping criteria. For example, it applies different notching criteria based on whether a security is rated by mapped or unmapped rating agency.

As the implicit penalty for an unmapped rating is greater than that of a mapped rating, however, the process whereby S&P decides on whether and how to map its ratings to another rating agency suffers from a lack of transparency. It is unclear what is needed for S&P to perform a mapping, or on what basis it decides to map its ratings to another rating agency. The limited transparency into this aspect further clouds efforts to understand the rationale for the notching that takes place. **We urge S&P to provide additional insight into the process of how mapping has taken place so far, as well as plans to do so in the future.**

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[6] Mapping is the process of establishing a correspondence table that can be used to statistically map assets rated by another rating agency to the S&P Global ratings scale. For more information on S&P mapping within structured finance, see https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/8563856.

Unlike typical rating criteria from S&P, there is no disclosure provided on such potential considerations as:

- What data is used to assess each rating agency's performance by sectors?
- What is the minimum historical data (number of data points, minimum duration of time, other factors) needed for S&P to consider it sufficient to map?
- Are there any qualitative factors considered in the mapping criteria? If so, what?
- When, and how often, will S&P monitor and reassess the adequacy of the existing mapping?
- What other criteria, methods and data are used to assess the credit risk of an investment when the criteria needed to map a rating agency is deemed insufficient?
- What discretion, if any, do the rating analysts have to consider and apply beyond the prescribed notching?

Specific to structured finance, the related mapping criteria state they "apply only to corporate assets, which include loans to financial institutions but exclude small business administration program loans and small and midsize enterprise loans." Given that over 70% of asset-backed securities (ABS) are backed by consumer loans and leases, SFA members seek transparency on how the mapping was applied to consumer ABS.

Further, the proposed methodology does not present any data that purports to justify the level of notching utilized. This lack of transparency hinders the markets' ability to independently assess its results – and is a meaningful part of the reason SFA members and other market participants have expressed considerable confusion and frustration with the mapping aspect of the proposed methodology. As detailed in the next section, **SFA members and market participants have found the mapping results lack an analytical framework and provide for highly distorted credit risk differentiation across ratings sectors, assumptions and economies – in addition to being unjustified and unwarranted**.

c. SFA Members Find Mapping Conclusions Inconsistent with Empirical Evidence

Without sufficient supporting data provided by S&P, SFA and our members have sought to review, analyze, and compare information and data that reflect the quality of a rating agency's opinions. We did not find that the data supported the notching outlined in the proposed methodology. In fact, we reached considerably different outcomes where investments consistently rated by both mapped and unmapped rating agencies demonstrate a highly correlated quality of credit performance when compared to those of S&P.

Member analysis demonstrates a high correlation (with correlation coefficients above 0.700) between the rating agencies active in the structured finance market and does not support the notching in the proposed methodology. In fact, analysis demonstrates that the notching of all unmapped ratings to the CCC level is no less than draconian for investment grade rated assets and still unduly conservative for "BB" and "B" rated investments.

Additionally, any market pricing differential that exists between S&P and mapped or unmapped rating agencies does not support the degree of notching in the proposed methodology. For example, the senior most tranche of a recent subprime auto ABS deal drew a AA- from KBRA, the sole credit rating agency on the deal. This tranche priced at 220 bp over the benchmark. In the same offering, the lowest rated tranche, which carries a BB- rating, priced at a spread of 650 bp. The 430 bp spread premium in this example is meant to offset the level of risk associated with the lower rated tranche — such as an initial credit enhancement level of 32% for the BB- rated bond versus 60.70% for the AA- rated bond. Applying the proposed methodology, S&P would treat the senior AA- bond in this transaction as a junk bond despite the bond's credit enhancement level and ability to withstand a cumulative net loss rate of 62.49%, which is 2.41x above the base case.

If performance or pricing data exists that would support the degree of notching contemplated in the proposed methodology, SFA and our members have not been able to replicate it.

SFA members also found that the proposed methodology's use of blanket, one-size-fits all risk "notching" assumptions – including where significant segments of an insurance portfolio would be unreasonably assigned a credit quality commensurate with junk risk, regardless of whether each underlying non-S&P rating is currently triple-A, double-A, single-A, etc. and has a correspondingly broad range of credit enhancement – is wholly unjustified.

Baseline: S&P Rated Deal

Class	Subprime Auto ABS Rating (S&P/DBRS)	C/E		Proposed Capital Charge
A	AAA/AAA	53.20%		0.15%
B	AA/AA(H)	39.05%		0.46%
C	A/A	24.10%	Baseline: S&P Rate	1.72%
D	BBB/BBB	13.00%		3.26%
E	BB-/BB	5.00%		12.30%

Moody's + DBRS Rated Investment Grade Bonds *plus* DBRS rated BB)

Class	Subprime Auto ABS Rating (Moody's/DBRS)	C/E	Notching	Proposed Capital Charge
A	Aaa/AAA	51.25%	-3	0.46%
B	Aa1/AA	41.50%	-3	1.72%
C	A1/A	27.50%	-3	3.26%
D	Baa3/BBB	21.50%	-3	12.30%
E	NR/BB	9.00%	CCC	100.00%

Moody's + KBRA Rated Investment Grade Bonds *plus* KBRA rated BB

Class	Rating (Moody's/KBRA)	Subprime Auto ABS C/E	Notching	Proposed Capital Charge
A	Aa2/AA	41.50%	-3	1.72%
B	A1/A	33.50%	-3	3.26%
C	Baa3/BBB	23.25%	-3	12.30%
D	NR/BB+	16.50%	CCC	100.00%

Moody's + DBRS rated Senior Bond *plus* DBRS rated Subordinates

Class	Rating (Moody's/DBRS)	CRE CLO C/E	Notching	Proposed Capital Charge
A	Aaa/AAA	46.00%	-3	0.46%
A-S	NR/AAA	33.25%	CCC	100%
B	NR/AA(L)	28.25%	CCC	100%
C	NR/A(L)	22.25%	CCC	100%
D	NR/BBB	16.88%	CCC	100%
E	NR/BBB(L)	15.75%	CCC	100%

Moody's + Fitch + DBRS senior rated Senior Bond plus DBRS rated Subordinates

Class	Rating (Moody's/KBRA)	CRE CLO C/E	Notching	Proposed Capital Charge
A	Aaa/AAA/AAA	42.25%	-2	0.46%
A-S	NR/AAA	30.50%	CCC	100%
B	NR/AA(L)	26.50%	CCC	100%
C	NR/A(L)	21.75%	CCC	100%
D	NR/BBB	16.25%	CCC	100%
E	NR/BBB(L)	14.75%	CCC	100%

Moody's + KBRA rated Senior Bond *plus* KBRA rated Subordinates

Class	Rating (Moody's/KBRA)	CRE CLO C/E	Notching	Proposed Capital Charge
A	Aaa/AAA	44.00%	-3	0.46%
B	NR/AA-	36.00%	CCC	100%
C	NR/A-	28.88%	CCC	100%
D	NR/BBB	22.75%	CCC	100%
E	NR/BBB-	20.50%	CCC	100%
F	NR/BB-	17.50%	CCC	100%
G	NR/B-	14.38%	CCC	100%

SFA does note that while it is not specified in the proposed methodology, S&P shared that its ratings analysts are granted some limited discretion in their credit assessment of an insurance company's investment portfolio to increase the otherwise imputed notching rating by one notch. While we appreciate the existence of some flexibility from the stated notching in the mapping criteria, we believe it remains insufficient to reflect the true correlation between S&P's ratings performance versus the other rating agencies. Thus, after an extensive review of the available data, and in the absence of any supporting data from S&P, we are left to conclude that the use of notching in the proposed methodology is not reflective of the underlying credit fundamentals.

Using the data provided by the rating agencies in Form NRSRO[7], we analyzed the 10-year default rate for securities that would be impacted by the notching in the proposed methodology. Other stakeholders have made this point as well[8].

RMBS 10-year Default

	S&P	Moody's	Fitch	DBRS
AAA	1.4%	0.0%	0.7%	0.0%
A	4.3%	1.0%	2.7%	0.0%
BBB	6.0%	2.0%	6.3%	1.0%

CMBS 10-year Default

	S&P	Moody's	Fitch	DBRS
AAA	0.0%	0.0%	0.1%	0.0%
A	4.2%	3.0%	5.2%	0.0%
BBB	8.1%	6.0%	7.0%	0.0%

CLO 10-year Transition

	S&P	Moody's	Fitch	DBRS
AAA	0.0%	0.0%	0.0%	0.0%
A	0.4%	0.0%	0.0%	0.0%
BBB	0.4%	0.0%	0.0%	0.0%

[7] KBRA assigned its first ratings in 2011. Since that time it has assigned approximately 25,000 ratings and effectuated 65,000 actions per its KBRA's Global Rating Transition Study: 2011-2021 published on February 24, 2022 that is available on its web-site (https://www.kbra.com/documents/report/63363/kbra-s-global-rating-transition-study-2011-2021). Through 12/31/2021, 6 Structured Finance Securities have defaulted, 1 of which was investment grade (BBB-), with the remainder being high yield.

[8] Morgan Stanley, *CMBSignals: Lifting the Veil on S&P's Proposal,* March 4, 2022; Barclay's Credit Research, S&P's Capital Model Causes Quite a Stir, February 25, 2022.

ABS 10-year Transition

	S&P	Moody's	Fitch	DBRS
AAA	0.0%	0.0%	0.1%	0.0%
A	0.0%	1.0%	0.0%	0.0%
BBB	0.2%	0.0%	1.3%	0.0%

Other SFP 10-year Transition

	S&P	Moody's	Fitch	DBRS
AAA	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%
BBB	3.1%	0.0%	0.0%	0.0%

Since we have limited information on the mapping approach, we can only guess how the notching assumptions were reached. Therefore, out of an abundance of caution, we advise S&P to consider any unintended flaws that could exist in such an approach. For example, if a meaningful factor in the mapping approach is the number of occurrences when S&P rates the same investment as another rating agency, we ask S&P to consider the impact to the results in a circumstance when the number of S&P-rated deals declines within a sector, and whether the model would inadvertently result in higher notching for the mapped and unmapped rating agencies. Indeed, this method may be a misguided approach to assessing the credit risk of *investments* in an insurance company's portfolio.

d. Assessing Credit Risk of Unrated Investments

Similar to the unmapped rating agencies, the proposed methodology for assigning risk to unrated investments is applying a blanket, one-size-fits-all downgrade of all unrated investments to CCC, or "junk" status. Given that the underlying credit profile of unrated investments could vary greatly, from risk consistent with a AAA level all the way to speculative CCC, SFA considers this automatic notching as lacking any differentiation of credit risk. Instead, it appears the proposed methodology wrongly assumes the most conservative assessment possible – that all unrated investments provide no value toward the insurance company's claim paying ability. The obvious problem with this approach is it creates unnecessary, unjustified costs to insurance companies that select to purchase an investment without a rating.

We appreciate that the unrated portion of many insurance companies' investment portfolio may be relatively small, and therefore in those cases this automatic notching approach may not impact the insurance companies' corporate S&P ratings. However, how will S&P assign a fair credit risk assessment if it isn't a small portion of the insurance portfolio; or if that portion of the insurance portfolio would make a difference between the insurance company's rating levels?

In contrast to S&P's one-size-fits-all blanket approach towards unrated transactions, the National Association of Insurance Commissioners noted in a letter[9] to Congress that it takes the following approach to unrated transactions:

> *"NAIC Securities Valuation Office staff do conduct a detailed analysis to evaluate the risk and develop an appropriate NAIC designation for use by state insurance regulators. This, coupled with investment oversight laws, give state regulators comfort to allow or disallow such investments and ensure they are backed by sufficient capital for claims paying purposes."*

NAIC further explains that it undertakes this approach with regards to unrated transactions because:

> *"This is a critical regulatory function that allows the insurance sector to invest its substantial resources in a diverse cross section of the U.S. economy while prioritizing the strength of insurers to pay claims."*

In short, while the NAIC often relies upon ratings from rating agencies to determine credit risk, it explicitly repudiates the approach taken by S&P to automatically assign a CCC rating to any unrated bond. The NAIC further notes that the approach undertaken by S&P could disrupt a critical source of diversification and investment for the U.S. insurance sector. **SFA agrees with that concern, and likewise urges S&P to adjust the proposed methodology to provide for a robust and appropriate assessment of the unrated portion of the insurance portfolio.**

e. Treatment of Legacy RMBS and Senior Structured Securities

The current S&P methodology for assessing capital for legacy RMBS holdings correctly addresses the fact that this is a unique investment sector that went through a significant dislocation and that insurers are able to hold these assets with low risk of loss when they carry them at sufficiently discounted prices on their balance sheets. The current methodology does that by ignoring the ratings on these bonds, and instead comparing S&P's recovery expectations on the bonds to an insurer's carrying value. This has allowed insurance companies to prudently invest in this space without creating disproportionate capital requirements.

S&P's proposed methodology would require that legacy RMBS holdings carry a capital factor based on its current rating – after any notching. Because of the dislocation that the legacy RMBS sector went through, these bonds typically have very low ratings that would require the assessment of punitive capital factors, completely ignoring the strong loss mitigation provided by deeply discounted carrying values. Given the prevalence of low ratings in legacy RMBS bonds, moving to an indiscriminate ratings-based approach will result in a dramatic increase in the capital required to hold these investments that is wholly inconsistent with their actual risk of economic loss. Moving to a ratings approach for legacy RMBS would be akin to changing the rules in the middle of the game for insurers and would potentially introduce significant distortions in a segment that still represents close to one third of the non-Agency RMBS market.

[9] https://content.naic.org/article/naic-shares-letters-congress-regarding-sp-globals-proposed-capital-model

The proposed methodology also introduces a single set of capital factors for structured securities. These factors are considerably higher for structured securities rated below AA versus similarly rated corporate securities. While a negative differentiation may be merited for certain subordinate structured securities, using the same factors for senior securities rated below AA ignores their far superior credit strength versus subordinate bonds.

Aside from assessing a capital factor that is inconsistent with the resilient loss profile of senior structured securities rated below AA, the proposed methodology may introduce the wrong investment incentives for insurance companies. Faced with capital constraints, an insurer may be enticed to invest in higher-yielding subordinate securities over similarly rated senior securities given the punitive factors for securities rated below AA in the proposed methodology.

III. Unintended Broader Market Implications

SFA believes the mapping and notching component of the proposed methodology would adversely impact insurance companies and other industry participants across capital markets. We also believe that the proposed methodology raises significant downstream effects that could have far-reaching negative impacts.

a. Harm to the Competitive Landscape

As we detailed above, mapping the assigned ratings of other rating agencies, regulators or insurance companies must be conducted in a transparent, sound, and well-reasoned manner given it effectively renders a judgment on (1) the credit risk of a broad swaths of investments and (2) the quality of another entity's ability to assess risk. The rendering of such judgements comes into sharper contrast when—as in the proposed methodology—it results in a severe downgrade to the asset's otherwise assigned ratings (i.e., going from investment-grade status to junk bond status). While S&P's mapping and notching do not constitute issuing a formal rating, they undeniably represent a judgment being rendered by a long-standing, well-respected institution. Because notching can be such a powerful tool, it may even give rise to the perception that it is being used to drive business decisions to increase market share or unfairly harm competitors. **Having S&P utilize and appropriately disclose an unbiased, analytically rigorous mapping method based on objective quantitative and qualitative information will instill confidence in the market that S&P will continue to issue ratings that are independent and free from influence resulting from conflicts of interest.**

Number of Outstanding Credit Ratings as of December 31, 2020 by Rating Category[10]

NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings
AMB	N/R	7,251	985	5	N/R	8,241
DBRS	11,214	192	4,327	23,482	22,556	61,771
EJR	10,119	975	9,339	N/R	N/R	20,433
Fitch	33,440	3,198	20,318	34,108	177,665	268,729
HR	796	N/R	396	N/R	469	1,661
JCR	950	86	2,971	N/R	348	4,355
KBRA	1,326	132	224	14,470	141	16,293
MIS	34,540	2,557	32,738	47,411	560,892	678,138
S&P	50,798	6,846	55,758	36,821	927,144	1,077,367
Total	**143,183**	**21,237**	**127,056**	**156,297**	**1,689,215**	**2,136,988**

b. Drive Investment Away from Select Sectors Including Structured Finance

Overly conservative, unsupported risk assessments on the investment portfolios of insurance companies can lower the expected default rates for the resultant insurance companies' corporate ratings, which embeds inefficiencies in the allocation of capital in financial markets. These inefficiencies lead directly to unnecessary and unjustified increases in funding cost to sectors of the capital markets which will result in negative impacts on the economy. Likewise, as insurance companies seek to maintain their S&P corporate ratings, they could be disincentivized to allocate capital to certain investment types, thereby impacting consumers and businesses by reducing an important investor base currently available to them.

c. Incentive for Riskier Holdings

The proposed methodology's severe degree of notching theoretically incentivizes perverse investment decision. For instance, a bond rated triple-A by an unmapped rating agency would, under the rationale of the proposed methodology, be considered a higher risk than a bond that S&P had rated as single-B. All else being equal, and given the choice between those two, insurance companies would be incentivized to hold the single-B bond, since the imputed capital charge would be less.

[10] N/R indicates that the NRSRO was not registered in the applicable rating category as of the reporting date. Percentages have been rounded to the nearest one-hundredth of one percent. *Source: NRSRO annual certifications for the 2019 and 2020 calendar years, Item 7A on Form NRSRO as compiled by the SEC.*

d. Unnecessary Impacts in Policy Realm

The proposed methodology currently exists within a regulatory landscape that SFA believes functions well to serve all market participants. Dodd-Frank reforms and comprehensive actions undertaken by the SEC and rating agencies have helped to increase supervisory oversight, transparency, and management of potential conflicts of interest. However, we cannot take this landscape for granted, nor can we ignore the potential risks posed by market participants questioning the independence and objectivity of the proposed mapping approach.

IV. Conclusion

As noted throughout this response, SFA members found that performance data is inconsistent with the notching assumptions in the proposed methodology. Moreover, the lack of transparency increases the potential of adverse ramifications including limiting insurance companies' ability to diversify their investment holdings and constraining their ability to participate in components of the economy, such as structured finance, that fund key sectors of consumer and business funding markets.

The sum of these actions raises legitimate concerns that could threaten the existing market and regulatory landscape. The proposed methodology could unintentionally call into question the efficacy of the rating system. It invites potential policy and regulatory responses that may be unintentionally detrimental to the financial markets. **Thus, we urge S&P to revisit the notching component of this criteria, the treatment of legacy RMBS and senior structured securities rated below AA. We urge S&P to provide high-quality transparent analysis and information – consistent with a cornerstone of S&P's long-standing, highly-regarded reputation, and the requisite for financial markets – if they are to efficiently allocate capital and create liquidity, and thus allow the country's households and businesses to grow and invest responsibly.**

We appreciate the opportunity to comment, as well as the dialogue we have had with S&P throughout this process. We and our members look forward to continuing our dialogue with you on this important topic.

Best,

Kristi Leo

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