

July 25, 2024

Charles Therriault, Director, NAIC Securities Valuation Office
Denise Genao, Senior Administrative Assistant, NAIC Securities Valuation Office
National Association of Insurance Commissioners

Re: Revised Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “P&P Manual”) Authorizing the Procedures for the SVO’s Discretion Over NAIC Designations Assigned Through the Filing Exemption Process

Dear Mr. Therriault and Ms. Genao,

The Structured Finance Association (SFA) appreciates the opportunity to provide feedback to the memorandum from the NAIC Securities Valuation Office (SVO) and NAIC Structured Securities Group (SSG) regarding the above-referenced matter, dated June 4, 2024, and exposed for comment on June 18, 2024 (the “Amendment”).

In gathering feedback to respond to the Amendment, SFA engaged with various market participants, including insurance companies, asset managers, credit rating agencies, and law firms, that may be impacted by the latest proposed changes to the P&P Manual.

SFA and its membership believe the latest revisions in the Amendment are a positive development that resolve many of the questions raised by the previously exposed revisions in the memo dated November 3, 2023. We compliment the NAIC for thoughtfully considering feedback from the securitization and structured finance industry as it finalizes revisions to the P&P Manual.

One question raised by our members relates to the point at which insurers are afforded the option to invite third parties into the proposed “Process For Excluding An Eligible NAIC CRP Rating From Filing Exemption For A Specific Security” (the “Proposed Discretion Process” or “Proposal”). As currently written, third parties, including Credit Rating Providers (“CRPs”), can only present the basis for their credit ratings pursuant to paragraph 174 of the Proposed Discretion Process. As outlined in the current Proposal, introducing CRPs at this later stage does not afford an opportunity for CRPs to provide insight into their credit analysis at a point in the Proposed Discretion Process when doing so would be most beneficial to the SVO’s ultimate decision.

While the removal of credit ratings from the Filing Exemption Process would most directly impact insurers in the form of higher capital charges, CRPs also face material reputational risk should their ratings be called into question during the Proposed Discretion Process. As such, SFA and its members believe insurers should have the option to invite third parties into the Proposed Discretion Process earlier, either at the “information request” stage outlined in paragraph 167, or at the

“additional information” stage outlined in paragraph 168. We see two additional benefits to this request:

1. Certain parties, especially CRPs whose ratings are the subject of the IAO assessment, are well positioned to provide additional insight into their credit analysis in comparison to the IAO’s own credit analysis.
2. Allowing insurers to invite third parties into the Proposed Discretion Process earlier will provide the Credit Committee and Investment Analysis Office (IAO) additional time to evaluate any information they do receive and better reflect on their own credit analysis.

SFA and its members believe that the Amendment improves the Proposed Discretion Process and resolves several questions raised by the earlier proposed revisions. However, we believe it would be beneficial to provide a mechanism to allow insurers to invite third parties into the Proposed Discretion Process sooner. In particular, CRPs are best positioned to support the process by providing the insurance company holder with information as requested, subject to applicable legal and regulatory restrictions. Inviting them into the Proposed Discretion Process sooner would provide the SVO and Credit Committee with additional time to evaluate such information and enhance their own credit process.

We again thank the NAIC for the opportunity to share these views and look forward to continuing our engagement with the NAIC on this topic.

Sincerely,

A solid black rectangular redaction box covering the signature area.

Frank Tallerico, Director, Structured Finance Association