

RECENT CHANGES TO THE P&P MANUAL

NOTE: This section identifies amendments to the Manual adopted by the Valuation of Securities (E) Task Force in 2021. The amendments are presented in the chronological order in which they were adopted by the VOS/TF. The guidance in amendments adopted by the Task Force in any given year are applicable for the reporting period that year-end. The date on which an amendment was adopted is shown to facilitate research in the NAIC *Proceedings* on the topic or issues which the amendment touched on. The NAIC *Proceedings* contain the minutes (which document action taken) and the reports or other documents (that present the technical issues) considered during the policy deliberations of NAIC Committees, Task Forces and Working Groups. Amendments to this Manual are published within days of their adoption on this SVO website maintained for the Task Force (www.naic.org/cmt_e_vos.htm) and are retained on that website until they are incorporated into and published (as of December 31 of the given year) for use during the year-end reporting process.

- **Adopted updates to clarify the meaning of Repurchase Agreement in the Derivatives Transaction definition for Funds in Part Three** – According to the SEC definition in the Rule 18f-4 adopting release, “In a reverse repurchase agreement, a fund transfers a security to another party in return for a percentage of the value of the security. At an agreed-upon future date, the fund repurchases the transferred security by paying an amount equal to the proceeds of the initial sale transaction plus interest.” However, according to SSAP No. 103R - Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, “Reverse repurchase agreements are defined as agreements under which a reporting entity purchases securities and simultaneously agrees to resell the same or substantially the same securities at a stated price on a specified date.” The SSAP No. 103R reverse repurchase agreement definition is the opposite of the SEC definition in the Rule 18f-4 adopting release. According to SSAP No. 103, “Repurchase agreements are defined as agreements under which a reporting entity sells securities and simultaneously agrees to repurchase the same or substantially the same securities at a stated price on a specified date.” The SAPP No. 103R definition of repurchase agreement matches the SEC definition of reverse repurchase agreement, in which the fund is obligated to make a repurchase payment at a later date. To maintain consistency between this Manual and SSAP No. 103R and eliminate any misconception that a fund cannot be the purchaser of securities/lender of cash, the SVO update the definition for a reverse repurchase agreement the NAIC Fund Lists section of the Manual.

The Valuation of Securities (E) Task Force adopted this amendment on Jul. 13, 2023

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- **Adopted update Notice of Credit Deterioration for the List of Qualified U.S. Financial Institutions** – The SVO maintains the List of Qualified U.S. Financial Institutions (“QUSFI”) which indicates the financial institutions eligible to issue letters of credit (“LOCs”) which, pursuant to Section 3 of the Credit for Reinsurance Model Law (“Model #785”), can be used to reduce an insurers liability when ceding reinsurance to certain assuming insurers. To qualify as a QUSFI the LOC issuing financial institution needs to meet the criteria listed in Section 4 of Model #785, which includes a requirement that the financial institution “Has been determined by either the commissioner or the Securities Valuation Office of the National Association of Insurance Commissioners to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner.” The SVO has encountered situations in which a financial institution on the QUSFI list was not downgraded below the minimum permitted ratings of BBB-/Baa3 in the QUSFI guidelines in Part Two of the Purposes and Procedures Manual prior to regulatory action being taken by their primary regulator(s), such as closure of the bank by the relevant state regulator and appointment of the Federal Deposit Insurance Corp. as receiver. The amendment authorizes the SVO to remove a financial institution from the List of Qualified U.S. Financial Institutions if actions are either announced or taken by their primary regulator(s).

The Valuation of Securities (E) Task Force adopted this amendment via e-mail vote on Apr. 19, 2023

- **Adopted a non-substantive technical amendment clarifying the corresponding NAIC Designation Category for NAIC 5GI** – At the 2021 Fall National Meeting the Task Force adopted a non-substantive technical amendment to the PL Securities section in Part Three of this Manual which clarified that an NAIC 5GI Designation is the equivalent of an NAIC 5.B Designation Category. The SVO identified other places in the Manual where the 5.B GI Designation Category is not currently specified that were corrected by this non-substantive technical amendment.

The Valuation of Securities (E) Task Force adopted this amendment on Feb. 21, 2023

PREVIOUSLY ADOPTED AMENDMENTS TO THE P&P MANUAL EFFECTIVE IN 2024

The following amendments were adopted by the VOS/TF in 2023 to be effective for 2024.

- **Adopted an amendment including Collateralized Loan Obligations (CLO) as a Financially Model Security in Part Four** – A collateralized loan obligation (CLO) is type of structured security backed by a pool of debt, typically corporate loans with low credit ratings. An insurer that purchases every tranche of a CLO holds the exact same investment risk as if it had directly purchased the entire pool of loans backing the CLO. The aggregate risk-based capital (RBC) factor for owning all of the CLO tranches should be the same as that required for owning all of the underlying loan collateral. If it is less, it means there is risk-based capital (RBC) arbitrage. As noted in the Investment Analysis Office’s (IAO) memo of May 25, 2022, “Risk Assessment of Structured Securities – CLOs”, it is currently possible to materially (and artificially) reduce C1 capital requirements just by securitizing a pool of assets. The Task Force assigned the Structured Securities Group (SSG) the responsibility of financially modeling CLO investments and evaluating all tranche level losses across all debt and equity tranches under a series of calibrated and weighted collateral stress scenarios to assign NAIC Designations that create equivalency between securitization and direct holdings, thereby eliminating RBC arbitrage. This amendment is effective beginning with year-end 2024.

The Valuation of Securities (E) Task Force adopted this amendment on Feb. 21, 2023