

Letter to the NAIC VOSTF regarding SVO filing exemption discretion with respect to credit ratings

Dear Ms. Mears, Mr., and members of the Valuation of Securities (E) Task Force (“VOSTF”):

We appreciate the opportunity to comment on your proposal regarding the NAIC Securities Valuation Office (“SVO”) filing exemption (FE) discretion with respect to Credit Rating Provider (“CRP”) ratings.¹ We support your mission of enhancing risk assessment for statutory solvency purposes, and believe transparency and governance around the FE discretion is paramount for an efficient and orderly insurance investment marketplace. We would like to focus our comments and offer solutions on the three areas below.

First, it is both practical and necessary to have a well-defined framework for selecting securities to be designated as under review (i.e., UR securities) by the NAIC’s Investment Analysis Office (“IAO”). We recognize that certain CRP ratings may be misaligned for regulatory purposes and would suggest designing a transparent framework to identify those securities. That would allow the NAIC to focus its time and resources more efficiently while providing much needed transparency. Our proposed solution is to establish criteria to better identify securities that may warrant review by the IAO, consistent with our suggestions stated in our comment letter submitted on February 13, 2023.²

Second, transparency around SVO’s security analysis is essential. CRP rating methodologies are publicly available, supported by significant expertise and resources and well understood by market participants. This has contributed to an efficient and orderly marketplace. The industry hopes the SVO would also share detailed guidance on its methodology by asset class. To the extent, the SVO deems its revised designation on a security being materially lower than the FE designation by three or more notches, it would be beneficial for the market to understand:

- SVO’s referenced rating methodology;
- SVO’s analysis and rationale;
- Key differences between the reference rating methodology and SVO’s analysis; and
- How will a DR security, where SVO FE discretion has applied, be surveilled? For example, will the IAO periodically update/revise a DR designation to reflect actual performance?³

Third, the followings may help address concerns around rating suitability for FE purposes:

- Enhancing due diligence on CRPs. It would be more efficient to improve NAIC’s overarching due diligence framework on CRPs, as opposed to dedicating significant resources to reviewing thousands of securities individually rated by them.
- Focusing on insurers that carry outsized investment risk relative to their capital. We recognize a primary objective is to protect policyholders through the solvency of their insurers. Therefore, it would be more efficient to focus resources on those insurers with the most significant solvency risk in accordance with regulatory guidance on capital and liquidity and so on.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

¹ Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office Authorizing the Procedures for the SVO’s Discretion Over NAIC Designations Assigned Through the Filing Exemption Process, November 3, 2023. <https://content.naic.org/sites/default/files/inline-files/2023-005.15%20P%26P%20SVO%20Discretion%20-%20Revised%20v4.pdf>

² NAIC Valuation of Securities Taskforce, 2023 Spring National, March 2023. https://content.naic.org/sites/default/files/national_meeting/2023%20VOSTF%20Spring%20NM%20Materials%20v2.pdf

³ According to the November 3, 2023 amendment listed in footnote 1, (1) “DR means that one or more otherwise Eligible NAIC CRP Credit Ratings have been removed from the filing exemption process when determining the NAIC Designation through the IAO discretion procedures.” (2) “UR means the NAIC Designation assigned pursuant to the filing exemption process is under review by the NAIC’s Investment Analysis Office.”

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