

SVO



NAIC
NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Technical Amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the “P&P Manual”) regarding Subsidiary, Controlled and Affiliated (SCA) and Related Party Bond or Preferred Stock Investments

DATE: January 16, 2024

Summary – In December 2022, the Task Force adopted amendments to the Subsidiary, Controlled and Affiliated (“SCA”) and Related Party Bond or Preferred Stock Investments section of the P&P Manual, to more clearly define SCA investments and include related party investments. Within the definition of an SCA and related party bond, reference was made to paragraph 4.a. in *SSAP No. 43R – Loan-Backed and Structured Securities* to define which structured or loan-backed investments would qualify as an SCA or related party bond. Subsequent to the adoption of the P&P Manual Amendment, *SSAP No. 43R – Loan-Backed and Structured Securities* was amended so the paragraph reference in the P&P Manual is no longer accurate. Additionally, with the implementation of the Principals Based Bond Definition by the Statutory Accounting Principles (E) Working Group the name of *SSAP No. 43R* will be changing from “Loan-Backed and Structured Securities” to “Asset-Backed Securities” on January 1, 2025.

Recommendation – To avoid the need for further P&P Manual updates due to potential future amendments to *SSAP No. 43R*, the SVO proposes a technical amendment to (i) remove the paragraph-specific reference to *SSAP No. 43R* and (ii) to include a note that, as of January 1, 2025, the P&P Manual references will be updated without any further action necessary by the Task Force to reflect *SSAP No. 43R*’s new name, “*SSAP No. 43 - Asset-Backed Securities*”.

Proposed Amendment - The proposed text changes to P&P Manual are shown below with additions in red underline, deletions in ~~red strikethrough~~ as it would appear in the 2024 P&P Manual format.



PART THREE
SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION OF NAIC
DESIGNATIONS



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. 43R~~ – *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.

*NOTE: As of January 1, 2025, when the name of SSAP No. 43R changes to “SSAP No. 43 - Asset-Backed Securities”, the name in this paragraph and any other references to SSAP No. 43R in this Manual will be changed accordingly.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-05-02 VOSTF Interim Meeting/02-SCA References to SSAPs/2024-003.01_VOSTF_TechAmend_SVO_RelatePartiesv2.docx