MEMORANDUM

TO: Kevin Fry, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Bob Carcano, Senior Counsel, NAIC Investment Analysis Office

CC: Charles Therriault, Director, NAIC Securities Valuation Office
Eric Kolchinsky, Director, NAIC Structured Securities Group

DATE: January 31, 2018

RE: Proposal to Add Comprehensive Instructions for Fund Investments to the P&P Manual

1. Introduction – During the 2017 Summer National Meeting, the Securities Valuation Office (SVO) and Financial Regulatory Services (FRS) expressed concern that some insurers may not understand that with two exceptions, NAIC rules do not currently contemplate the assignment of NAIC designations to investments in fund shares.[1] In its response to the staff proposal, the American Council of Life Insurers (ACLI) agreed that the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) should reflect that Schedule BA private funds are eligible to be assigned NAIC designations and proposed an amendment to make this clear.[2] In its response, the Valuation of Securities (E) Task Force directed NAIC staff on Sept. 27, 2017, to prepare a comprehensive proposal to ensure all funds that hold underlying fixed income assets as portfolio assets are treated consistently irrespective of the NAIC Schedule on which the asset is reported.[3] This memorandum responds to the Task Force's directive.

2. Background

a. The Task Force has long recognized that a properly structured bond portfolio held by a fund could produce fixed income cash flows. The Task Force created processes to identify such funds to assign them more favorable regulatory treatment. The principle was first applied to money market mutual funds (MMMFs) that held short-term U.S. Treasuries. Consider: If the portfolio consists entirely of the same type of bonds of a single high-credit quality issuer, the U.S. Treasuries, all other things being equal, the fund can only produce cash flows like those of the bond and at the issuer's credit quality. If you *look through the fund* to the financial dynamic of its portfolio, the portfolio cash flow to the insurer should have the same *predictability, periodicity* and credit quality as when a non-fund entity directly holds the individual bonds of that issuer in its portfolio. For this initial use, involving the U.S. Treasury as obligor and a portfolio consisting of widely held and well-understood U.S. obligations, the Task Force concluded it did not require the SVO to apply an analytical methodology. The Task Force instead identified specific fund and portfolio characteristics that would produce the desired predictability, periodicity and credit quality, and created a procedure by which the SVO would verify that conditions for more favorable regulatory treatment were met. The above logic and related verification procedure was extended[4] to funds that held U.S. direct and full faith and credit obligations; up to this point, the regulatory focus was only short-term obligations of the U.S.

b. A further extension involved portfolios holding any combination of short-term obligations insured or guaranteed by U.S. agencies and instrumentalities and short-term highly rated obligations of corporate issuers (Class 1 List). The focus was now on three different types of entities that issued different type of bonds and required different portfolio investment

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strategies and policies. The difference in the portfolio's composition would logically require a change in how *look-through* was conducted. At a minimum, one now has to measure whether the portfolio cash flow that reaches the insurer has the *predictability and periodicity* of bonds generally instead of a single issuer. The short-term nature of these obligations and perhaps more importantly reliance that the informational content of credit ratings was consistent with the regulatory need may have contributed to the decision to create another SVO-administered verification procedure.

c. The last extension involved exchange-traded fund (ETF) portfolios that track bonds. An ETF fund does not hold all of the bonds on the index—only those its managers feel account for the performance of the index. More recently, actively managed ETFs have been created. ETF portfolios can hold: domestic or foreign bonds or loans or a mixture; treasuries, corporate, municipal, sovereign or other securities; and long- or short-term portfolios. They can pursue different strategies (income, variable income, fallen angels, oil and gas, debtor in possession) and target any range of credit risk. The Task Force recognized that a verification procedure would not provide an adequate look-through for ETFs, so it instead directed: "… the SVO (to) determine whether the component securities have the characteristics of debt or of preferred stock instruments and whether the ETF structure permits a *look-through* analysis of its portfolio securities on a daily basis … ." *Look-through* is not defined, and no analytical process was provided. It seemed to be understood that the SVO would conduct a modified version of look-through. Initially, the SVO: 1) evaluated the fund's investment objective (how many and what quality of bonds it held); 2)confirmed that no equity was held; 3) ascertained the bond's credit ratings; and 4) applied a weighted average methodology to obtain an NAIC designation for the portfolio's cash flow.

d. The SVO's conception of *look-through assessment* has evolved as ETF and private equity fund offerings became evolved in complexity. Today, *look-through* is a mostly qualitative assessment focused on the interaction between investment objectives, investment policies and investment strategies; portfolio composition; and the exclusion of equity. A *credit risk assessment* component determines the credit risk of each portfolio component and the credit risk of the portfolio's cash flow using a weighted average risk factor methodology. More recently, the SVO has been refining a *speculative risk analysis* component focused on use of leverage and the impact leverage has on the fund's ability to deliver the cash flows suggested by the look-through and credit risks assessments. Please note that this proposal encompasses Schedule BA private funds, which antedate the events described above but whose assessment may have, historically speaking, influenced the development of the look-through approach described above.

3. Outline of Proposed Amendment – The SVO proposes a new Part Three, Section 8 to house all guidance for fund investments. Existing verification procedures for the money market and bond funds would be retained, as would existing instructions for ETFs and Schedule BA private funds. The proposal would expand fixed income treatment to qualifying funds issued by *any investment company type* registered with and regulated by the U.S. Securities and Exchange Commission (SEC). A detailed analytical methodology provides transparency on the criteria to be used to determine if a fund can be appropriately characterized as a "fixed-income-like" asset eligible for assignment of an NAIC designation.

The SVO proposes restricting more favorable regulatory treatment to funds assigned NAIC designations by the SVO, thereby excluding the use of NAIC credit rating provider (CRP) credit ratings in this activity. A decision to accord more favorable regulatory treatment to an investment is a regulatory decision. NAIC CRPs are not engaged in making regulatory decisions based on statutory accounting, reporting and other regulatory guidance. NAIC CRP credit ratings will continue to be used as a component in the verification, look-through or credit assessment procedures the SVO would apply under the proposed methodology.

Referrals to the Capital Adequacy (E) Task Force and to the Blanks (E) Working Group to request changes in support of the proposals have not been included at this time but will be presented when at an appropriate time. A referral to the Statutory Accounting Principles (E) Working Group is also recommended to ensure coordination, if and as necessary, because the Working Group may consider expanding the scope of *Statement of Statutory Accounting Principles* (*SSAP) No. 30—Unaffiliated Common Stock* to encompass funds issued by investment companies other than open-end management companies. The proposed Part Three Section 8 is shown below. Attachment One identifies existing P&P Manual text that

would be deleted if the proposals contained in this memorandum are adopted. Legal memoranda discuss relevant aspects of fund operations.

4. Proposed Amendment to the P&P Manual – The following proposed amendment is recommended.

Part Three Credit Assessment
Section 8 - Investments in Funds Eligible for Fixed Income-Like Treatment

a. Purpose – This Section 8 establishes a comprehensive framework to be used by the SVO to identify fund investments that can be appropriately characterized as a "fixed-income-like" asset eligible for assignment of an NAIC Designation. This Section 8 also provides instructions for inclusion of eligible funds on an appropriate NAIC List or NAIC compilation process; criteria and methodology for assignment of NAIC Designations and identifies the regulatory treatment to be accorded.

b. Condition to Eligibility – The "fixed-income–like" regulatory treatment accorded under this Section 8 only applies to funds that the SVO has verified meet eligibility criteria established by the VOS/TF and been assigned NAIC Designations or reviewed under the verification procedures and added to an NAIC List or other NAIC compilation process as hereafter discussed in this Section 8. The use of NAIC CRP credit ratings under the filing exempt process discussed in Part Three, Section 1 (b) of this Manual shall not be an acceptable basis to apply for and receive the regulatory treatment specified in this Section 8. A private fund reported on Schedule BA, acquired prior to January 1, 2019 and reported with an NAIC Designation produced under filing exemption, can continue to be reported on the basis of a credit rating until sold or disposed of, provided the insurer also reports the investment on the Fund GI (General Interrogatory). Funds that do not qualify for the exceptions identified in this Section 8 would continue to be reported as common stock on Schedule D-2-2 or as other invested assets on Schedule BA without NAIC Designations.

Note: In all cases where it is necessary for the reader to understand statutory accounting guidance or concepts, please refer to the NAIC *Accounting Practices and Procedures Manual*.

c. Application – An insurance company interested in establishing whether a fund meets eligibility requirements or the sponsor of a fund interested in identifying its fund to insurance companies, may request that the SVO evaluate whether the fund is eligible for inclusion on one of the NAIC Lists described in sub-paragraph d and f below.

d. Directive – The VOS/TF directs that the SVO establish and maintain: the various NAIC Lists of fund investments or compilation processes hereinafter identified; administrative procedures to receive applications of insurance companies and of fund sponsors; procedures to disseminate the Lists to insurance companies and state insurance regulators and analytical criteria and methodology to evaluate fund eligibility. The SVO shall evaluate:

i. Money market mutual funds issued by open end management companies registered with the United States Securities and Exchange Commission (US SEC) under the Investment Company Act of 1940 (the Act) that hold only direct obligations of the US government and or in securities backed by the full faith and credit of the US (as more fully described below) to determine eligibility for inclusion on the NAIC U.S. Direct Obligations/Full Faith and Credit Exempt List.

ii. Bond mutual funds issued by open end management companies registered with the US SEC under the Act that hold only US government securities or securities of agencies and instrumentalities of the US government (more fully described below) to determine if they are eligible for inclusion on the NAIC Bond Mutual Fund List.

iii. Exchange Traded Funds (ETFs) registered with the US SEC and operating under Exemptive Orders under the Act that predominantly hold bonds (or preferred stock) (as more fully described below) to determine if they are eligible

for inclusion on the SVO-Identified Bond ETF list (reported on Schedule D-1) (or SVO-Identified Preferred Stock List (reported on Schedule D-2-1)).

iv. Mutual funds issued by any type of investment company registered with the US SEC under the Act, (as more fully described below) to determine if they are eligible for inclusion on the NAIC Fixed Income Like SEC Registered Funds List.

v. Private equity funds, defined below, reported on Schedule BA of the NAIC Financial Statement that are engaged in bond or preferred stock fixed income strategies, that predominantly hold bonds or preferred stock, to determine whether the private funds shall be approved for inclusion in the SVO List of Securities via the compilation procedure discussed in Part One, Section 3 (k).

e. NAIC Fund Lists

i. The NAIC U.S. Direct Obligations/Full Faith and Credit Exempt Money Market Funds List

Regulatory Treatment of Eligible Funds - A money market mutual fund on the U.S. Direct Obligations/Full Faith and Credit Exempt List is reported as a cash equivalent on Schedule E - Part 2 on the "Exempt Money Market Mutual Funds – as Identified by the SVO" line. These "exempt" money market mutual funds are reported at fair value and incur a zero percent (0%) risk-based-capital (RBC) charge. Other money market mutual funds are also reported as cash equivalents on Schedule E-Part 2 on the "All Other Money Market Mutual Funds" line. The "all other" money market mutual funds are also reported at fair value but incur an RBC charge similar to other cash equivalents.

Required Documentation - An insurance company or the sponsor of a money market mutual fund requests an SVO evaluation that a money market mutual fund is eligible to be listed on the U.S. Direct Obligations/Full Faith and Credit Exempt List by submitting the following documentation to the SVO:

(A) The money market mutual fund application form;

(B) Authorization letter requesting review of the fund for the purpose of being added to the List;

(C) The most recent fund:

- Prospectus;
- Statement of Additional Information (SAI);
- Annual, and if available, the semi-annual report; and

(D) Rating letter from an NAIC CRP dated in the year of the filing.

Eligibility Criteria - A money market mutual fund is eligible for inclusion on the U.S. Direct Obligations/Full Faith and Credit Exempt List if the fund meets the following conditions:

(A) The fund maintains a money market mutual fund rating of AAAm from Standard & Poor's or Aaa-mf from Moody's Investor Services or an equivalent money market mutual fund rating from any NAIC CRP.

(B) The fund maintains a stable net asset value per share of $1.00.

(C) The fund allows a maximum of seven-day redemption of proceeds.

(D) The fund invests 100% of its total assets in securities that are direct obligations of the United States Government and/or in securities that are backed by the full faith and credit of the United States Government or collateralized repurchase agreements comprised of such obligations at all times. Refer to Section 2(e) below for a list of securities considered to be direct obligations of the United States Government and entities that are entitled to the full faith and credit of the United States Government.

Verification Procedure – Upon receipt of the documentation, the SVO examines the prospectus, schedule of fund portfolio holdings and related materials to verify that the fund meets the established criteria.

ii. The NAIC Bond Mutual Fund List

Regulatory Treatment of Eligible Funds - A bond mutual fund on the NAIC Bond Mutual Fund List is in scope of *SSAP No. 26R—Bonds*, reported with an NAIC 1 designation on Schedule D-1- Long-Term Bonds on the "SVO Identified Funds – Bond Mutual Funds" line. The insurance company reports an NAIC 1 Designation in accordance with Annual Statement Instructions. These investments are reported at fair value unless the investment qualifies for and the reporting entity elects systematic value.

Required Documentation - An insurance company or the sponsor of a bond mutual fund requests an SVO evaluation that a bond mutual ~~money market~~ fund is eligible for inclusion on the Bond Mutual Fund List by submitting the following documentation to the SVO:

(A) The bond fund application form;

(B) Authorization letter requesting review of the fund for the purpose of inclusion on the Bond Mutual Fund List;

(C) The most recent fund:

- Prospectus;
- Statement of Additional Information (SAI);
- Annual, and if available, the semi-annual report; and

(D) Rating letter from an NAIC CRP dated in the year of the filing.

Eligibility Criteria - A bond mutual fund is eligible for inclusion on the Bond List if the fund meets the following conditions:

(A) The fund shall maintain the highest credit quality rating given by an NAIC CRP.

(B) The fund shall maintain at least the highest market risk rating given by an NAIC CRP to a fund that invests in class 1 bonds that are issued or guaranteed as to payment of principal and interest by agencies and instrumentalities of the U.S. Government, including loan-backed bonds and collateralized mortgage obligations, and collateralized repurchase agreements comprised of those obligations.

(C) The fund shall allow a maximum of seven-day redemption of proceeds.

(D) The fund shall invest 100% of its total assets in the U.S. Government securities listed in Section 2(e) of this Part below, class 1 bonds that are issued or guaranteed as to payment of principal and interest by agencies and instrumentalities of the U.S. Government, including loan-backed bonds and collateralized mortgage obligations, and collateralized repurchase agreements comprised of those obligations at all times.

(E) The fund shall declare a dividend of its net investment income each day prior to calculating its net asset value per share.

(F) The fund shall not invest in any derivative instruments, as that term is defined in the NAIC Accounting Practices and Procedures Manual.

(G) The fund shall not invest in any bonds that receive some or all of the interest portion of the underlying collateral and little or no principal, or in any bonds with coupons which reset periodically based on an index and which vary inversely with changes in the index.

(H) The fund shall not invest in the following types of securities: (a) leveraged or deleveraged notes that pay a multiple or fraction of an index or indices; (b) notes that pay principal or interest linked to foreign currencies, non-U.S. dollar interest rates, equity or commodities indices or any other index that is not composed of U.S. dollar denominated fixed-income instruments; or (c) notes that pay principal or interest linked to more than one index.

Verification Procedure – Upon receipt of the documentation, the SVO examines the prospectus, schedule of fund portfolio holdings and related materials to verify that the fund meets the established criteria.

iii. The SVO-Identified Bond ETF List and the SVO-Identified Preferred Stock ETF List

Description – At this time, ETFs operate under an Exemptive Order granted by the US SEC that provides relief from the application of provisions of the Investment Company Act of 1940 that would otherwise apply. ETFs issue creation units to initial investors in exchange for a specified portfolio of bonds. The initial investor can hold the creation units or sell the ETF shares that constitute the creation unit on the exchange on which the ETF is registered. Other investors may purchase ETF shares; including to reconstitute and redeem a creation unit. Shares of ETF are not redeemable to the fund but are traded on registered exchanges at a price set by the market. Shares of ETFs are expected to trade at or near par because of arbitrage related to the value of the portfolio or of the ETF shares. For inclusion on the SVO-Identified bond ETF list, the ETF must hold a portfolio of bonds (or preferred stock) that tracks a specified bond index (a passive investment) or it a portfolio of bonds (or of preferred stock) that it actively manages pursuant to a specified investment objective.

Regulatory Treatment of Eligible Funds

An ETF on the SVO-Identified Bond ETF List is in scope of SSAP No. 26R—Bonds, and reported on Schedule D-1- Long Term Bonds as an SVO Identified Fund on the "Exchange Traded Funds – As Identified by the SVO" line. These investments are reported at fair value unless the investment qualifies for and the reporting entity elects systematic value.

An ETF on the SVO-Identified Preferred Stock ETF List is in scope of *SSAP No. 32—Preferred Stock* and reported on Schedule D-2-1. These investments are reported at either amortized cost or fair value based on assigned NAIC designation.

An ETF not on the SVO-Identified Bond ETF List or the SVO-Identified Preferred Stock ETF List is in the scope of SSAP No. 30 – Unaffiliated Common Stock and reported on Schedule D-2-2. These investments are reported at fair value although reporting at net asset value is permitted if there is no readily determinable fair value.

Note: Details on systematic value (including qualifications and calculation components) are captured in SSAP No. 26R.

Conditions – An insurance company may utilize the reporting and statutory accounting processes described above if:

(A) The SVO has placed the name of the ETF on the SVO-Identified Bond ETF List or on the SVO-Identified Preferred Stock ETF List in (XYZ) of this Manual;

Comment [RC1]: Need location reference.

(B) The insurance company has purchased shares of an ETF on one of the two Lists;

(C) The insurance company has filed the shares of the ETF investment with the SVO for assignment of an official NAIC Designation, and

(D) The SVO has assigned an NAIC Designation to the ETF and published it in the AVS + Plus.

Required Documentation, Analytical Procedures and Eligibility Criteria – Please refer to sub-section f below.

iv. NAIC Fixed Income-Like SEC Registered Funds List

Description – This sub-section encompasses SEC registered funds issued by any type of investment-company registered with the US SEC under the Investment Company Act of 1940 that sponsors a fund that will predominantly hold bonds or preferred stock. This listing excludes money market mutual funds ~~and ETFs~~ as those securities are subject to different accounting treatment.) Different type of investment companies can be considered to have business models that operate differently as to redemption of shares, the life of the fund, whether the portfolio is held to maturity or traded over the life of the fund. The four ~~three~~ types of investment companies are summarized below.

A. Open End Management Company (OEMC) – An OEMC sell redeemable shares, directly or through a broker, on a continuous basis at the fund's approximate net asset value (NAV) per share and invests the proceeds in highly liquid bonds. Investors redeem shares of an OEMC fund by selling them back to the fund or to a broker. OEMC's may include exchange-traded funds.

B. Closed End Fund (CEFC) – A CEFC lists its shares on a stock exchange or trades in the over-the-counter market. The assets of a CEFC are professionally managed in accordance with the fund's investment objectives and policies. The market price of a CEFC share is determined by supply and demand in the marketplace. Because a CEFC does not maintain cash reserves or sell securities to meet redemptions, it can invest in less-liquid portfolio securities. A CEFC has a stated termination date.

C. Unit Investment Trusts (UIT) – A UIT issues a fixed number of securities called "units" in a public offering and uses the proceeds to buy a diversified professionally selected portfolio of securities. UITs have a preset termination date tied to its portfolio investments and investment goals. The portfolio is held for the life of the UIT; but is not actively managed or traded. Although UITs are required by law to redeem outstanding units, the UIT sponsor usually maintains a secondary market so investors can sell units back and other investors can buy units. UIT's may include exchange-traded funds.

D. Exchange-Traded Funds (ETF) – An Exchange-Traded Fund is an investment company that is registered under the Investment Company Act of 1940 either as an OEMC or as a UIT. An ETF combines the valuation feature of an OEMC or UIT, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feather of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value.

Regulatory Treatment of Eligible Funds –

Conditions – An insurance company may utilize the reporting and statutory accounting processes described above if:

(A) The SVO has placed the name of the fund on the NAIC Fixed Income-Like SEC Registered Fund List;

(B) The insurance company has purchased shares of the fund on the List;

(C) The insurance company has filed the investment with the SVO for assignment of an official NAIC Designation, and

(D) The SVO has assigned an NAIC Designation to the fund and published it in the AVS Plus.

Required Documentation, Analytical Procedures and Eligibility Criteria – Please see sub-section f ii below.

v. NAIC List of Schedule BA Non-Registered Private Funds with Underlying Assets Having Characteristics of Bonds or Preferred Stock

Description – A private equity fund is typically organized as a closed end investment vehicle and as a limited partnership or a limited liability company; usually under the law of the State of Delaware. A private equity fund is exempt from registration with the US SEC under the Investment Companies Act of 1940 and offers securities in the form of interests in the fund under an exemption from registration of those securities under the US Securities Act of 1933. Private equity funds are managed by a general partner or a manager and have a finite life. The investor in a private equity fund subscribes a capital commitment under which it is contractually obligated only to contribute the subscribed capital commitment to the fund as and when needed by the fund to make fund investments.

Note: This category of NAIC funds would also include a private fund sponsored by an insurance company a ~~or a~~ group of insurance companies or other sponsor for internal company or group investment management purposes where the fund is organized and structured as a joint venture, partnership or limited liability company to *predominantly hold* ~~SVO~~ bonds (or loans) or preferred stock designated by the SVO or bonds (or loans) or preferred stock which receive a public rating with annual surveillance from an NAIC CRP ~~rated bonds or preferred stock~~.

Regulatory Treatment of Non-Registered Private Funds

The NAIC Accounting Practices and Procedures Manual (AP&P) provides that joint ventures, partnerships and l~~L~~imited l~~L~~iability c~~C~~ompany ~~("LLC") or Limited Partnership ("LP") investments~~ are in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or SSAP No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities, depending upon the level of control, and includes private funds in these ownership structures. ~~but does not address private funds.~~

NAIC Annual Statement Instructions provide that an investment in a private fund in the form of a ~~n~~ joint venture, partnership or limited liability company~~LLC or LP~~ qualifies for fixed or floating rate fixed income treatment if it's underlying investments are comprised predominantly of fixed or floating rate debt securities or bank loans. Investments in joint venture, partnership or limited liability companies ~~LLC or LP private fund investments~~ are reported under the Fixed Income Category on Schedule BA if designated by the SVO or are otherwise reported on Schedule BA without an NAIC Designation in the "Other" subcategory.

Required Documentation, Analytical Procedures and Eligibility Criteria – Please see sub-section f ii below.

f. Analytical Criteria and Methodology

Objective – The objective of the SVO's review is to assess whether for NAIC regulatory purposes discussed in Section 8 a. above, the fund's portfolio will generate predictable and periodic cash flows so similar to a bond (or a preferred stock) that it should be assigned an NAIC Designation and obtain applicable risk-based capital charges. ~~.~~

Definitions

For fund investment purposes *Bond* means debt securities defined or encompassed within *Statement of Statutory Accounting Principles No. 26R–Bonds* and *Statement of Statutory Accounting Principles No. 43R–Loan-Backed and Structured*

Securities. ~~representing a creditor relationship that provide a fixed schedule of payments and includes: direct obligations or full faith and credit obligations of the US; securities issued by US agencies, US government sponsored enterprises; public and private corporate entities, limited liability companies, bonds issued by states and their municipalities whether general obligation or revenue and bank loans. The term bond excludes structured finance securities (whether issued in tranches or backed by loans) and all mortgage loans.~~

Credit risk assessment means a calculation of the credit risk of a fund's underlying investment portfolio using a weighted average rating factor methodology (WARF). The WARF factor for each portfolio security (issue/security specific) is determined by first translating its NAIC CRP rating into an NAIC Designation. For securities that are unrated but have an NAIC Designation, the Designation is used. The WARF factor for that NAIC Designation is then market value-weighted. The weighted factor for each investment is summed to determine the fund's credit rating which is then translated into the equivalent NAIC Designation.

Financial commitment transactions means and refers to reverse repurchase agreements, short sale borrowing, any firm or standby commitment or similar agreement as these terms are defined and as they may be subsequently amended by the US as part of proposed rule 18-f-4.

Fixed income like means an SVO determination that a fund will generate predictable and periodic cash flows in a manner broadly similar to a situation where the holdings of bonds or of preferred stock of a known credit quality were held individually.

Fundamental policy means a policy adopted by a fund that requires shareholder approval to change or a policy to provide at least 60 days' notice to fund shareholders of an intended change of a stated policy. The subject of the policy is that under normal circumstances the fund will invest at least 80% of its net assets plus any leverage for investment purposes in the type of bonds indicated by its name in compliance with Section 13 (a) of the Investment Company Act of 1940 and or Rule 35d-1 of the 1940 Act. If the fund's prospectus does not state that this investment objective is a fundamental policy for the fund, the SVO will assume it is not.

Look-through assessment means a qualitative and quantitative evaluation of the fund, encompassing the following criteria:

- Verify that the fund's portfolio, in the case of a bond fund or, preferred stock, in the case of a preferred stock fund *predominantly hold*s bonds or preferred stock;

- Confirm that the fund has adopted its investment objective as part of its *fundamental policy* and that other policies are consistent with fixed income investment;

- Review the fund's stated investment objective to ensure it is consistent with a fixed income investment, and evaluate the fund's investment policies and investment strategies for consistency with the investment objective and the fund's portfolio;

- Evaluate the extent to which the composition of the fund's portfolio can vary under normal market conditions given the fund's policies and investment strategies and the extent to which the composition of the fund's portfolio may vary under abnormal market conditions and the extent to which changes in composition of the fund's portfolio in abnormal market. conditions may persist given the fund's leverage profile or other relevant factors;

Predominantly hold means that the fund will hold *at least* 80 percent of its assets in bonds if the fund is a bond fund or at least 80 percent of its assets in preferred stock if the fund is a preferred stock fund, *in normal market conditions* and will deviate from this policy only temporarily to respond to abnormal market conditions. In the case of an ETF, predominantly hold means that the fund will track a specified bond or preferred stock index, if passively managed, or refers to the bond or preferred stock portfolio the fund will actually hold, if actively managed - under normal market conditions;

Speculative characteristics analysis means: 1) an assessment of the fund's use of leverage including but not limited to its use of derivatives, financial commitment transactions and borrowings, to examine the impact the fund's use of leverage may have on the fund's portfolio cash flow as assessed under the *credit risk assessment* under normal and abnormal market conditions and 2) a review and evaluation of the fund's policy and approaches to covering leverage obligations in relation to current and potential future guidance on the issue provided by the US SEC. As used herein potential future guidance refers to proposed Rule 18-f-4; i.e., "*US SEC's Use of Derivatives by Registered Investment Companies and Business Development Companies, ICA Release No. 31933 (December 11. 2015) [17 CFR Parts 270 and 274] Proposed Rule 18-f-4*." Note

Examples of speculative characteristics may include the need to sell assets to meet leverage obligations at a loss; instability in the cash flow introduced by the use of leverage; the need to employ alternative portfolio management strategies as a result of the need to meet payment obligations; the extent to which changes in the composition of the fund's portfolio in response to abnormal market conditions may persist given the fund's leverage profile or other relevant factors. The purpose of an analysis of speculative characteristics is to determine whether the fund's cash flow is inconsistent with a fixed income like determination.

Methodology * - The SVO shall:

- Conduct a *look-through assessment*
- Conduct a *credit-risk assessment* to determine the credit risk of the fund's cash flows;
- Conduct a *speculative characteristics analysis*;
- Determine whether the fund's cash flow can or cannot be appropriately characterized as fixed income like for regulatory purposes;
- If the SVO determines that the fund's cash flow can be appropriately characterized as fixed income for regulatory purposes, it assigns an NAIC Designation to reflect the credit risk associated with the fund's cash flow and includes the name of the fund on the appropriate NAIC List.****** If the SVO determines that the fund's cash flow cannot be appropriately characterized as fixed income for regulatory purposes it shall communicate the determination to the insurance company or fund sponsor in writing.

*** Note**: *Italicized text* indicates that the term used is a defined term. Please refer to the definition of the term for a description of SVO criteria associated with the methodology component being described.

**** Note**: The NAIC Designation does not address the fund's ability to meet payment obligations because the insurer/shareholder does not own the bonds in the portfolio; the NAIC Designation instead conveys the credit risk/quality of the fixed income like cash flow generated by the ETF.

Documentation - An insurance company or the sponsor of a bond or preferred stock fund that request that the SVO conduct the look through and credit assessment submits the following required documentation to the SVO:

- A completed RTAS Application (Information about the RTAS process is contained here: http://www.naic.org/documents/svo_rtas_app.pdf;
- For all funds subject to look-through and credit risk assessment and to speculative characteristics analysis: the Prospectus and Statement of Additional Information (SAI) for the fund;

In the case of an ETF, copies of the Application, Notice and Order associated with the fund sponsor's request for Exemptive Relief from the US SEC or a link to the US SEC's EDGAR where the SVO can obtain the documents;

In the case of a private equity fund, the Private Placement Memorandum, Limited Partnership Agreement or Limited Liability Company Agreement, the Subscription Agreement and the Form D, if one has been filed,

Note: The documentation provided must enable the SVO to conduct the analysis described below. Applicants are free to provide any supplemental material they believe will assist the SVO to:

A. Verify that the fund has adopted a *fundamental (stated) policy* to *predominantly hold bonds* (or preferred stock);

B. Evaluate the fund's use of leverage in relation to the management of portfolio risk and in relation to other purposes relevant to the *speculative characteristics analysis*;

C. Understand the fund's policy and approaches to coverage of obligations arising from the use of leverage, in relation to US SEC guidance on the subject;

- Schedules of the fund's portfolio securities and assets with a description of the security, the CUSIP or other security identifier and NRSRO credit ratings for the last four quarters of the fund's existence.

- A description of likely changes in the fund's composition under normal market conditions given the fund's investment objective and the strategies to be employed to attain it.

Attachment One
Text in the P&P Manual Pertaining to Funds Proposed for Deletion if Proposal is Adopted

Part Two

Section 10. - Reporting Conventions And Required Documents

(vi) Mutual Funds

Any money market fund wishing to establish that it meets the conditions for listing on the U.S. Direct Obligations/Full Faith and Credit Exempt List, and any bond mutual fund wishing to establish that it meets the conditions for listing on the Bond List, must submit a completed submission package to the SVO with the following documentation:

(A) The appropriate money market or bond mutual fund application form;

(B) Authorization letter requesting review of the fund for approved list purposes;

(C) Prospectus of the fund;

(D) Statement of Additional Information (SAI);

(E) Most recent annual report of the fund, and, if more recent, the latest semi-annual report; and

(F) Rating letter from an NAIC CRP dated in the year of the filing.

Reporting insurance companies that invest in mutual funds on the U.S. Direct Obligations/Full Faith and Credit Exempt List, or Bond List need not file an SAR with the SVO. Mutual funds not rated by an NAIC CRP, and/or those that do not meet the above-listed documentation requirements, will not be considered for listing.

(vii) Exchange Traded Funds

(A) No Purchase / No Initial Report

An insurance company must make an Initial Report in connection with shares of an Exchange Traded Fund (ETF) only when it has purchased the shares of an ETF. If the insurance company has not purchased shares of the ETF when it files the application for RTAS --- Regulatory Treatment Analysis Service, then the insurance company is not obligated to file an Initial Report with the SVO at that time.

(B) Purchase Prior to or Contemporaneously with RTAS -- Emerging Investment Vehicle Service Application

If the insurance company has purchased shares of the ETF when it files the RTAS -- Emerging Investment Vehicle Service Application, the insurance company should file an Initial Report with the SVO at the same time as it files the RTAS -- Emerging Investment Vehicle Service Application.

An Initial Report of shares of an ETF in these circumstances consists of the Corporate Bond ATF Form and a statement that the insurance company has submitted an RTAS -- Emerging Investment Vehicle Service Application to the SVO for the shares of the ETF.

(C) Purchases Subsequent to Listing of ETF on ETF List

If an insurance company purchases shares of the ETF after the SVO has placed the name of the ETF on Part Six, Section 2(i) or (j) of this Manual, then the insurance company should ascertain whether another insurance company has reported purchase of the ETF to the SVO. If no other insurance company has previously reported the purchase of shares to the SVO, then the

insurance company should file an Initial Report as discussed above in Section 10(a) of this Part. See Section 2(d) of this Part above for a description of how to determine if another insurance company has already reported the purchase of the shares of the ETF.

Section 11. Subsequent Reporting

(v) Mutual Funds

Subsequent reporting for money market funds on the U.S. Direct Obligations/Full Faith and Credit Exempt List, or for bond mutual funds on the Bond List, consists of an annual submission of the following information due prior to April 30 of each year:

(A) The appropriate money market or bond mutual fund application form;

(B) Prospectus and Statement of Additional Information of the fund;

(C) Most recent annual report of the fund and, if more recent, the latest semi-annual report; and

(D) Rating letter from an NAIC CRP dated in the year of the filing.

Failure to provide the information required may result in removal of the money market fund or bond mutual fund from the list.

(vi) Exchange Traded Funds

Subsequent Reporting is not required for shares of an Exchange Traded Fund (ETF), provided the ETF is then listed on the ETF Bond or Preferred Stock List. If the ETF is no longer listed on the ETF Bond or Preferred Stock List, the insurance company shall provide the SVO a copy of the most recent prospectus for the ETF.

Part Three Credit Assessment

Section 5. - Reporting Certain Schedule BA Assets with Underlying Characteristics of Bonds or Preferred Stock

(b) Fixed Income and Preferred Stock Like Schedule BA Assets Defined

The NAIC Financial Statement Blank provides that long-term invested assets that are not clearly or normally includable in any other invested asset schedule are to be reported on Schedule BA of the NAIC Financial Statement Blank. Pursuant to applicable Annual Statement Instructions, a reporting entity determines if a Schedule BA fixed or variable interest rate asset has the underlying characteristics of a bond or other fixed income instrument or that a joint venture, partnership or limited liability company interest has the underlying characteristics of a fixed income instrument. A Schedule BA fixed or variable rate asset has the underlying characteristics of a bond or other fixed income instrument if it has a stated maturity and a fixed or floating coupon rate. A joint venture, partnership or limited liability company has the underlying characteristics of a fixed income instrument if it predominantly holds debt (or loans) and receives a public rating with annual surveillance from a CRP, or is designated by the NAIC through the application of a Weighted Average Rating Factor ("WARF") methodology that takes into account the NAIC designation and/or the CRP assigned to the underlying investments. Such assets are defined as having the underlying characteristics of a fixed income instrument. The Annual Statement Instructions provide that a Schedule BA asset with the underlying characteristics of a bond or other fixed income instrument not filed with the SVO must be designated as class six for purposes of calculating an AVR and RBC. In furtherance of the regulatory objectives embodied in the Annual Statement Instructions, this Part provides a procedure through which a reporting entity shall file a Schedule BA asset with the SVO to obtain an NAIC Designation other than NAIC 6 in order to obtain a more favorable AVR. The SVO is hereby charged with responsibility for assigning an NAIC Designation in the circumstances described above, in accordance with subparagraph (e) of this Section.

Comment [RC2]: The highlighted text ONLY is proposed for deletion. This was the text adopted by the TF on its Oct. 2017 call. The text is proposed for deletion because the concepts it contains are expressed in the proposed comprehensive amendment. Please note that the proposal would also modify existing rules to exclude determinations that a BA private fund is fixed income like from the use of credit ratings.

Part Six SVO Verification Activities in Support of Certain Regulatory Processes

Section 2. Mutual Funds and Exchange Traded Funds

a) SVO Administration

As set forth in Part Two, Section 9(e) of this Manual, the SVO is charged with verifying whether a money market fund is eligible to be listed on the U.S. Direct Obligations/Full Faith and Credit Exempt List or the Class 1 List, and whether a bond mutual fund is eligible to be listed on the Bond List. Eligibility requirements for the aforementioned lists are described below and apply notwithstanding the definition of the term "short-term investment" set forth elsewhere in this Manual.

b) Mutual Fund Lists

(i) U.S. Direct Obligations/Full Faith and Credit Exempt List

A money market fund is eligible for listing on the U.S. Direct Obligations/Full Faith and Credit Exempt List if the fund meets the following conditions:

(A) The fund maintains a money market fund rating of AAAm from Standard & Poor's or Aaa-mf from Moody's Investor Services or an equivalent money market fund rating from any NAIC CRP.
(B) The fund maintains a stable net asset value per share of $1.00.
(C) The fund allows a maximum of seven-day redemption of proceeds.
(D) The fund invests 100% of its total assets in securities that are direct obligations of the United States Government and/or in securities that are backed by the full faith and credit of the United States Government or collateralized repurchase agreements comprised of such obligations at all times. Refer to Section 2(e) below for a list of securities considered to be direct obligations of the United States Government and entities that are entitled to the full faith and credit of the United States Government.

(ii) Bond Fund List

A bond mutual fund is eligible for listing on the Bond List if the fund meets the following conditions:

(A) The fund shall maintain the highest credit quality rating given by an NAIC CRP.
(B) The fund shall maintain at least the highest market risk rating given by an NAIC CRP to a fund that invests in class 1 bonds that are issued or guaranteed as to payment of principal and interest by agencies and instrumentalities of the U.S. Government, including loan-backed bonds and collateralized mortgage obligations, and collateralized repurchase agreements comprised of those obligations.
(C) The fund shall allow a maximum of seven-day redemption of proceeds.
(D) The fund shall invest 100% of its total assets in the U.S. Government securities listed in Section 2(e) of this Part below, class 1 bonds that are issued or guaranteed as to payment of principal and interest by agencies and instrumentalities of the U.S. Government, including loan-backed bonds and collateralized mortgage obligations, and collateralized repurchase agreements comprised of those obligations at all times.
(E) The fund shall declare a dividend of its net investment income each day prior to calculating its net asset value per share.
(F) The fund shall not invest in any derivative instruments, as that term is defined in the NAIC Accounting Practices and Procedures Manual.
(G) The fund shall not invest in any bonds that receive some or all of the interest portion of the underlying collateral and little or no principal, or in any bonds with coupons which reset periodically based on an index and which vary inversely with changes in the index.
(H) The fund shall not invest in the following types of securities: (a) leveraged or deleveraged notes that pay a multiple or fraction of an index or indices, (b) notes that pay principal or interest linked to foreign currencies, non-U.S.

dollar interest rates, equity or commodities indices or any other index that is not composed of U.S. dollar denominated fixed-income instruments, or (c) notes that pay principal or interest linked to more than one index.

c) Approval of Listing

If the SVO determines that a money market fund has met the eligibility requirements for the U.S. Direct Obligations/Full Faith and Credit Exempt List, or that a bond mutual fund has met the eligibility requirements for the Bond List, the SVO will confirm such eligibility to the person who applied for the confirmation, in writing.

d) Exchange Traded Funds

(i) Regulatory Presumption

Exchange Traded Funds ("ETFs" or "ETF") are similar to mutual funds but they also differ from mutual funds in important ways. This section creates a presumption that shares of an ETF owned by an insurance company are to be reported as common stock. The presumption may be overcome if the ETF meets the conditions specified in sub-paragraph (d) (ii) below.

(ii) ETFs Eligible for Classification Analysis

An ETF is eligible for classification analysis under the procedure specified in Part One, Section 3(b) (ii) and (iii) of this Manual, if it operates pursuant to the terms of an exemptive order granted by the SEC (the "SEC Order") that requires the:

(A) ETF not advertise or market itself as an open-end fund or as a mutual fund,
(B) ETF sponsor not register a future ETF with the SEC (that would rely on the requested relief) unless the sponsors have requested and received with respect to such future ETF either an SEC Order from the Commission or a no-action letter from the Division of Investment Management of the Commission that contains the condition stated in paragraph (A) above, and
(C) ETF be listed on a national securities exchange for as long as it operates in reliance on the SEC Order, provided, however, that:
1) Any request submitted to the SVO for classification analysis of an ETF that is believed to meet these conditions, shall be submitted through the Regulatory Treatment Analysis Service Application process (the "Application") described collectively in Part Four, Section 3 and Part Two, Section 9(g) of this Manual.
2) The insurance company shall submit copies of the prospectus or other document describing the ETF, the application of the fund sponsor requesting regulatory exemptions and identifying the agreed upon conditions (the "SEC Application") and the corresponding final SEC Order, to the SVO.
3) The SVO shall have verified that the SEC Application and SEC Order include the conditions stated above.

(iii) Determining whether an Eligible ETF has Debt or Preferred-Stock Characteristics

Subject to the right of the SVO to reject an EIV-Regulatory Treatment Analysis Service Application, the SVO is authorized to conduct classification analysis of any ETF that meets the conditions specified in sub-paragraph (d) (ii) of this Part. In its analysis, the SVO shall determine whether the component securities held in the ETF portfolio have the characteristics of debt or of preferred stock instruments and whether the ETF structure permits a "look-through" analysis of its portfolio securities on a daily basis.

If the SVO concludes that the ETF should be classified as a debt instrument, it shall place the name of the ETF on the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List) in Section 2 (i) of this Part.

If the SVO concludes that the ETF should be classified as a preferred-stock, it shall place the name of the ETF on the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred-Stock (the ETF Preferred-Stock List) in Section 2 (ii) of this Part.

(iv) The ETF List

Any ETF on the ETF Bond List may be reported as a bond on Schedule D without the need for an insurer to file a further EIV-Regulatory Treatment Analysis Service Application.

Any ETF on the ETF Preferred-Stock List may be reported as preferred-stock on Schedule D without the need for an insurer to file a further EIV-Regulatory Treatment Analysis Service Application.

Any insurance company interested in an ETF that is not currently listed on either the ETF Bond List or the ETF Preferred Stock List may follow the procedure discussed above to determine if the ETF is eligible for listing on one or the other ETF List.

(v) Relationship between the Regulatory Treatment Analysis Service Application Process and Initial and Subsequent Reporting of ETFs

The EIV-Regulatory Treatment Analysis Service Application process is used solely to determine whether the ETF is eligible to be reported as a debt or preferred-stock instrument. Accordingly, the Regulatory Treatment Analysis Service Application process is not a substitute for the procedures that govern the initial or subsequent filing of insurer owned securities with the SVO.

An Initial Report of the purchase of shares of an ETF is made in accordance with the instructions contained in Part Two, Section 10(c)(viii) of this Manual. A Subsequent Report of the purchase of shares of an ETF is made in accordance with the instructions contained in Part Two, Section 11(e)(vi) of this Manual.

e) List of Money Market Funds Filed with the SVO (U.S. Direct Obligations/Full Faith and Credit Exempt List)

COMPLEX_NAME	FUND_NAME	CUSIP

*** Funds which were previously on the list but which have not paid the required $250.00 annual maintenance fee have been removed from the list. Funds which no longer meet the eligibility requirements have been removed from the list.**

**** Due to timing differences in the production of the Purposes and Procedures Manual please consult the monthly Mutual Funds List publication to further confirm changes to the Funds list that may include additions and/or deletions.**

f) List of Bond Mutual Funds Filed with the SVO (Bond Funds)

COMPLEX NAME	FUND NAME	CUSIP

*** Funds which were previously on the list but which have not paid the required $250.00 annual maintenance fee have been removed from the list. Funds which no longer meet the eligibility requirements have been removed from the list.**

**** Due to timing differences in the production of the Purposes and Procedures Manual please consult the monthly Mutual Funds List publication to further confirm changes to the Funds list that may include additions and/or deletions.**

g) List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond

An insurance company that purchases an ETF whose name was added by the SVO to either the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond or to the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock, must file the ETF with the SVO to obtain a final NAIC Designation for reporting purposes.

The Regulatory Treatment Analysis Services ("RTAS") process used to evaluate ETFs under Part Six, Section 2(d) only results in the assignment of a preliminary NAIC Designations to the ETF.

Preliminary NAIC Designations are indications of the likely SVO response if the ETF were purchased by an insurer and reported to the SVO for regulatory purposes and therefore cannot be used to report the ETF to the NAIC or state insurance regulators.

Please refer to Part Four, Section 3 of this Manual for text discussing the RTAS process and to Section 3 (a) (ix) of that Part for a detailed discussion of the preliminary status of NAIC Designations assigned under the RTAS process.

Exchange Traded Funds – Bonds

ETF NAME	CUSIP

h) List of Exchange Traded Funds Eligible for Reporting as Schedule D Preferred-Stock

An insurance company that purchases an ETF whose name was added by the SVO to either the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond or to the List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock, must file the ETF with the SVO to obtain a final NAIC Designation for reporting purposes.

The Regulatory Treatment Analysis Services ("RTAS") process used to evaluate ETFs under Part Six, Section 2(d) only results in the assignment of a preliminary NAIC Designations to the ETF.

Preliminary NAIC Designations are indications of the likely SVO response if the ETF were purchased by an insurer and reported to the SVO for regulatory purposes and therefore cannot be used to report the ETF to the NAIC or state insurance regulators.

Please refer to Part Four, Section 3 of this Manual for text discussing the RTAS process and to Section 3 (a) (ix) of that Part for a detailed discussion of the preliminary status of NAIC Designations assigned under the RTAS process.

i) Exchange Traded Funds – Preferred Stock

Fund Name	Cusip

W:\National Meetings\2019\Spring\TF\VOS\2019 Spring National Meeting\Item 4 - to Provide Comprehensive Instructions for Fund Investments\05 - 2018-009.01B Task Force 2018 Comprehensive Fund Investment Proposal.docx

[1] The *Accounting Practices and Procedures Manual* (AP&PM) provides that shares of money market mutual funds (issued by open end operating companies) are reported as cash equivalents without an NAIC Designation and shares of ETFs are reported as common stock. The AP&PM does not provide guidance for shares of funds issued by any other type of registered investment company or for private funds reported on Schedule BA. The AP&PM recognizes fixed income like regulatory treatment for shares of money market funds eligible for listing on the U.S. direct/full faith and credit obligations list and certain bond mutual funds eligible for inclusion on the Bond Fund List. The SVO verifies that these funds have specified characteristics but does not assign NAIC Designations to them. The P&P Manual provides that the SVO may designate ETFs if a "look-through" credit assessment shows the fund would produce bond-like cash flows. The SVO has also historically assigned NAIC Designations based on a look through credit assessment to private funds reported on Schedule BA as discussed more fully in footnote 2 below.

[2] The amendment was adopted on the Task Force's Nov. 13 conference call.

[3] "… Mr. Guerin suggested reviewing all fixed-income-like funds currently reported on either Schedule BA or Schedule D that are not currently included in the P&P Manual to ensure their consistent treatment. This could involve referrals to both the Blanks (E) and the Capital Adequacy (E) Working Groups. Mr. Fry added that Schedule BA on the Life Blank has a bond-like section for risk-based capital (RBC) charges that are not equity; as an example, a private fund made up of bonds that would otherwise be reported on another schedule. SVO staff have a methodology … to produce an appropriate NAIC designation for a fixed-income-like charge. ETFs can go on Schedule D and get a designation like a bond charge. Bond mutual funds, however, are in limbo and may go on Schedule D, Part 2, which is a common stock schedule. He suggested the latter ought to receive a more favorable capital treatment. Further, he proposed expanding this treatment to other funds with fixed-income characteristic currently reported on other schedules across all statement blanks for the sake of consistency. Mr. Guerin agreed… Mr. Xiao made a motion, seconded by Mr. Milquet, to … direct staff to draft a second amendment to address funds with fixed-income characteristics currently reported on other schedules across all statement blanks and a referral on the matter to the Capital Adequacy (E) Task Force, the Blanks (E) Working Group and any other working groups involved. The motion passed."

[4] The principle was first applied to: **1) In 1991** US treasury money market mutual funds were exempted from maintaining a reserve [NAIC Proceedings 1991 Vol I-A pages 505, 520, 531]; **2) In 1992** full faith and credit funds were exempted from reserving and "prime institutional" (i.e., "Class 1") funds were added and permitted an NAIC 1 bond reserve, [NAIC Proceedings, 1993 Vol 1B, page 770; and Nov. 9, 1992 minutes of the IMR/AVR Study Group]; **3) In 1995**, short-term bond funds were permitted Schedule D at market value and reserved for AVR and RBC purposes as bonds, [NAIC Proceedings, 1995 2Q, pages 419, 437, 467 – 472] in 1995]; **4) In 2003**, certain ETFs were permitted treatment as bonds based on a look-through credit assessment of the portfolio, [See, NAIC Proceedings 2003 1Q, page 730; 2003 2Q, pages 810 - 813; 4Q page, 1859]; **5) In 2005**, BA assets with fixed income characteristics could be assigned NAIC Designations to those [See, NAIC Proceedings, 2001 3Q, page 802, 834, 841 and 845; 4Q Vol II, page 1302 and 2005, 4Q page 2067]. **6) In 2017** the P&P Manual was amended to make clear that the SVO can assign NAIC Designations to private Schedule BA funds joint ventures or partnership interests if the SVO finds the underlying investments are fixed-income like. This amendment links the P&P Manual with an *Annual Statement Instruction*.