1. **Introduction** – During the NAIC Summer National Meeting, the Task Force adopted a charge (please refer to Attachment Nine-A) that requires NAIC staff to study and report on the impact on the NAIC and the state insurance regulatory process if the NAIC adopted a change to NAIC Designations and NAIC Designation categories, or more broadly, if the NAIC adopted asset-category-specific credit assessment frameworks. This is a preliminary itemization of impacted activity.

2. **Operations**

   a. **NAIC**

   i. Accreditation Program - Assessment pending.

   ii. Departments

   A. **SVO**

      • Review the processes, procedures and internal analytical benchmarks/criterion used by the SVO to produce NAIC Designations and identify how analytical inputs would change to implement the use of an expanded risk gradation scale or to accommodate more than one credit risk assessment frameworks.

      • With respect to the components of NAIC electronic systems used by SVO analysts to enter analytical determinations into NAIC systems, what changes would be necessary to accommodate the use of an expanded risk gradation scale or to accommodate more-than-one-credit-risk assessment frameworks.

      • Propose new definitions for the NAIC Designation categories adopted by the Task Force.

      • Develop plans describing how the SVO would conduct a changeover from the existing framework to the use of new NAIC Designation categories or more-than-one-credit-risk assessment frameworks.

   B. **FRS**

      • Identify areas of FRS operations that rely on or incorporate NAIC Designations. Identify how these areas relate operationally. Identify interactions or links between internal FRS operations and those of other NAIC Divisions or of the states that would be impacted by adoption of an expanded risk gradation scale or of an asset-specific-credit-
risk assessment frameworks.

1. **JumpStart Reports**
   Use as consistency validations would require creating additional logic in the validation process.

2. **Financial Analysis**
   All of the investment portions of processes involving financial analysis for the NAIC committee groups or otherwise performed by NAIC staff for regulators would be impacted.

3. **Analytical Tools**
   All investment portions of analytical tools provided to regulators via I-SITE.

3. **Documents and Products**
   a. **NAIC**
      i. **SVO – Purposes and Procedures Manual** – We anticipate that the following sections of the Purposes and Procedures Manual would require an amendment upon use of an expanded risk gradation scale or to accommodate more-than-one-credit-risk assessment frameworks.¹
         • **Part One, Section 3 (b) (i), (iii) and (iv)** – New symbols and definitions would be placed here if the NAIC retained a single credit risk assessment framework.
         • If the NAIC adopted asset-specific-credit-risk-assessment frameworks, amendments would be necessary for **Part One, Section 3 (b)** and **Part Three, Sections 1 (a), 3 (c) and 4 (a)**.
         • **Part One, Section 7 (d)** – The equivalency tables in the List of CRPs and the Equivalent of Their Credit Ratings to NAIC Designations would require amendment.
         • **Part Two, Section 4 (c) and (d)** – The references to NAIC Designation in the U.S. government filing exemption and FE rule would require amendment.
         • **Part Two, Section 5** – An amendment may be necessary to align the Special Instruction (5*/6* – Five/Star–Six/Star process) with the newly adopted NAIC Designation categories or asset-specific-credit-risk-assessment frameworks.
         • **Part Three, Section 3 (b)** – The references to NAIC Designation in the financial modeling instructions would require amendment.
         • **Part Four, Section 1** – The references to NAIC Designation in the Credit Tenant Loan instructions would require amendment.
         • **Part Five, Section 1** – The references to NAIC Designation in the instruction for pricing of unaffiliated investments would require amendment.
         • **Part Six, Section 3** – The references to NAIC Designation in the counterparty exposure-netting eligibility rules would require amendment.
         • **Part Six, Section 4** – The references to NAIC Designation in the capital and surplus rules would require amendment.
      ii. **FRS** –

¹ The July 1, 2013 publication of the Purposes and Procedures Manual was used for this assessment.
A. **Accounting Practices and Procedures Manual** – The identified paragraphs in the following SSAPs may require an amendment to realign them to any new NAIC categories adopted or to provide more specific guidance if the NAIC adopted asset-specific-credit-risk-assessment frameworks.

- SSAP 26 – Bonds – paragraph 7
- SSAP 32 – Preferred Stock – paragraphs 15 through 22
- SSAP 41 – Surplus Notes – paragraph 10
- SSAP 43R – Loan-backed and Structured Securities – paragraphs 25

B. **Financial Statement Blanks:**

- AVR
- Schedule D, Part 1A, Section 1, including the footnote
- Schedule D, Part 2 (preferred stock)
- Quarterly Schedule D, Part 1B
- Schedule DL, Part 1 footnote
- Supplemental Investment Risk Interrogatories

C. **Annual Statement Instructions:**

- Audited Financial Statement
- Notes to Financial Statement
- IMR
- AVR & the default component
- SSAP 43R flowchart
- Schedule D, Part 1A, Section 1
- Schedule BA, Part 1
- Investment Schedules General
- Schedule D, Part 1
- Schedule DB, Part D, Section 1

D. **Risk-Based Capital**

- The life, fraternal, P/C, and health RBC formula.
- The RBC Blank.
- Supporting RBC instructions.
- RBC validations would be impacted for the investment sections that utilize NAIC designations (would involve creating some new validations for the new lines created in the RBC blank).
- NAIC database administrators to implement changes to the RBC tables.
- Annual Statement Software vendors would need to modify programs to accommodate RBC blank changes.

4. **Information Systems**

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2 The change in the number of designations applied will impact the blanks and instructions. Electronic filing would be impacted as the blank is impacted. Additional changes to the NAIC Designation symbols and definitions would likely only impact the identified items. Significant impact to textual data validations is not expected. For the annual statement process, it would involve adding values to the list of acceptable values. If vendors allow for drop-down choices for the designations, those would be impacted for vendors. Jumpstart reports may be impacted. (Mary Caswell)

3 These are more significant than the work described to publications, but would not be an undue burden as long as the changes are adopted early enough in the cycle for the implementation year.
Assumptions:

- SVO analysts would need ability to assign more/different NAIC designation.
- SVO analysts would need ability to assign more/different NAIC designation indicators.
- Data feed vendors would need ability to provide more/different designations.
- The NAIC would adopt an entirely new and separate designation system.

Impact

If any or all of the assumptions outlined above are adopted, at a minimum, the following would be impacted.

- The following ISIS system screens would need to be modified to allow SVO analysts to assign and/or view NAIC designations and designation indicators. (This is about 95% of the ATF portion of ISIS used by the insurers to file and 20% of the VOS portion of ISIS used by the analysts.)
  - Corporate
  - Municipal
  - Federal government
  - Structured securities
  - Sovereign
  - Supranational
  - Schedule BA
  - SCA (Subsidiary, Controlled, Affiliated)
  - Surplus Notes (NAIC1, NAIC2-NAIC6)
  - Counterparty Designation
  - Mutual Fund
  - Letter of Credit Bank

- The following back-end processes may need to be updated in order to retrieve more/different designations from vendors. (This represents approximately 50% of all SVO back-end processing.)
  - A.M. Best – daily and monthly
  - CINS – daily, monthly
  - CUSIP – daily and annual master
  - DBRS – daily and monthly
  - Determine Designation
  - Filing Exempt – daily, quarterly
  - Fitch – daily and monthly
  - Kroll – daily
  - Moody’s – daily and monthly
  - RealPoint – daily
  - AVS Web Support – daily
  - AVS Change Notification – daily

- The existing database structure would need to be modified to accommodate existing and new designations/indicators.
  - At least 75 database tables that relate to designation/indicator.
At least 20 of the systems’ stored procedures.

- The following would need to be updated where designations and/or designation indicators are displayed, in order to support new designations/indicators.
  - VOS security screens
  - VOS Schedule D lookup screens
  - AVS+ CUSIP detail screen
  - AVS+ valuation file – note that this would require insurers and third-party administrators to modify their processes for accepting the downloaded file
Study the impact to the different areas of NAIC, and to the state insurance regulatory structure, of modifying the existing NAIC credit assessment framework by changing the NAIC Designations and NAIC Designation categories, plus the impact of adopting asset-category-specific credit assessment frameworks. The study should include identifying what changes are required in:

i. How NAIC Designations are used in state investment laws, rules and regulations (including derivatives use laws).

ii. NAIC regulatory guidance, including, but not limited to, NAIC model laws, the Purposes and Procedures Manual, the Accounting Practices and Procedures Manual, the Financial Statement Blank and the Annual Statement Instructions;

iii. SVO credit-assessment operations, such as SVO industry and credit profiles, financial ratios, peer groups, credit committees and related internal processes and systems such as the ISIS and VOS Database.

iv. NAIC processes and operations, including computer and other systems, NAIC products, services and departments, and CRP equivalency tables.

The Task Force should coordinate with other NAIC working groups and task forces, including, but not limited to, the Capital Adequacy (E) Task Force, Investment Risk-Based Capital (E) Working Group, Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group to formulate recommendations relating to the amendments and strategies that will be needed to facilitate implementation of any changes adopted.