NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
RATING AGENCY (E) WORKING GROUP

PUBLIC HEARING -
ASSESSING RATING AGENCY RATINGS IN PUBLIC FINANCE BOND MARKETS

Thursday, November 18, 2010
11:00 a.m. – 4:00 p.m.

Location – New York State Insurance Department, 25 Beaver Street - Room 510, New York, New York, 10004

Introduction **11:00 - 11: 15**
Honorable:
Michael McRaith, Director of the Illinois Insurance Department
James J. Wrynn, Superintendent of the NYS Insurance Department
Sean Dilweg, Commissioner of the Wisconsin Insurance Department
Thomas B. Considine, Commissioner of NJ Department of Banking & Insurance

Speakers

Chris Evangel – Managing Director, SVO **11:15 - 11:30**

Panel One – Issuers' Perspective **11:30 - 12:45**

Frank Hoadley, Director of Capital Finance, State of Wisconsin
Bill Brandt, President, Illinois Finance Authority
Philip Fischer, eBooleant Consulting LLC, Managing Principal

Panel Two – Investors' Perspective **12:45- 2:45**

Richard Larkin, Senior Vice- President, Herbert J. Sims & Co.
Matt Fabian, Managing Director and Senior Analyst, Municipal Market Advisers
Jerry Zinkula, Managing Director of Municipal Bonds, Allstate Insurance Company
Joseph Darcy, Senior Portfolio Manager, Hartford Investment Management Company
Speaker to be announced, Metlife

Panel Three –NRSROs' Perspective
2:45 - 4:15

Thomas Keller, Managing Director of Global Public Projects and Infrastructure Finance, Moody's Investors Service
James Wiemken, Managing Director of US and International Public Finance Criteria, Standard and Poors
Speaker to be announced, Fitch Ratings

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ASSESSING THE USE OF NRSRO PUBLIC FINANCE RATINGS IN INSURANCE REGULATION

Illustrative Issues for Presenters to Consider

Issuers:

- Have you thought of alternatives to ratings? If so what would they be?
- Do you think that ratings of municipal or state obligations are comparable to corporate ratings?
- Do you think municipal ratings are fair?
- How onerous are your total outstanding obligations (bond obligations, pension obligations, other post employment benefits, infrastructure concerns, etc.)?
- How much flexibility do you have to manage revenues and expenditures?
- What options do you have to defer or renegotiate obligations?
- What would it take (what would have to happen) for you not to make debt service payments?

Investors

- Has your perception of ratings changes as you used them in your investment given recent financial turmoil?
- To what extent do you rely on ratings in either constructing or managing your portfolio?
- What other analytical tools or sources of information do you rely on?
- Do you differentiate between municipals and corporate in terms of default rates?
- How do you see municipals securities in terms of risk, compared to other asset classes?
- What risk do you see specific to public finance issues?
- How have credit rating downgrades of monocline companies affect your approach to investing?
- Do you buy unrated municipal paper? If so what analytics or information do you use?
- Are there state limitations that apply to investment decisions and how do such limitations influence how you invest?
- Should we recalibrate risk based charges for municipal securities? (For insurer only)?

Rating Agencies

- How comparable are your corporate ratings to your public sector rating?
- Can you explain the objectives of the recalibration of municipal ratings?
- Have you completed the recalibration of municipals ratings to a more global standard?
- Describe the difference in the credit analysis of corporate entities and public entities?
- How do the different bankruptcy regimes - that applicable to corporate entities - and that applicable to public entities - affect your analysis for ratings?
- What percentage of municipal securities continue to be underwritten by monolines?
- How much transparency into the market has been lost as a result of the decrease of underwriting by monolines?
- Have you seen a spike in rating requests for municipal securities that were formerly underwritten by the monolines?
- Have you added rating staff to deal with this?
- Have you added surveillance staff?

- What changes in methodology, if any, were required to accommodate this change in the market?
- Do you review every issuer every year?
- Please explain how your methodology incorporates an assessment of the following:
- A. unfunded pension liability;
- B. Other post employment benefits such as health care
- C. Ageing infrastructure
- D. Aging populations
- E. Loss of or changes in traditional revenue sources - including federal and states transfer payments?
- F. Declining tax base?
- How does your methodology credit short term or one-shot fixes by states and or municipalities to balance budgets - for example, borrowing to cover pension liabilities?
- To what extent does your methodology assume that the next level of government will step in to prevent a default - for example, to restructure the finances of a municipality?
- To what extent do you assume the federal government will step in to prevent a default by a state?
- How much advance warning do you think ratings provide to insurers and or regulators?
- Do ratings provide early warning sufficient to enable insurers and regulators to minimize portfolio losses?

