

To: Persons Interested in the work of the Valuation of Securities (E) Task Force  
From: Robert Carcano, Senior Counsel, SVO  
Re: Project to Re-organize the text of the Purposes and Procedures Manual of the NAIC Securities Valuation Office  
Date: May 20, 2009

**1. Introduction** – This memorandum provides information and background for the SVO proposal to reorganize the text of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* (the “P&P Manual”). The proposal is an item on the agenda of the Valuation of Securities (E) Task Force for its 2009 NAIC Summer Meeting to be held in Minneapolis, Minnesota in June. The staff effort to re-organize the text of the P&P Manual is motivated by a desire to improve the utility of the document to its various users and to improve the transparency of SVO operations and functions to the public. Importantly, the scope of the project is limited to re-organization of text: the staff is not proposing changes or amendments to any portion of the text itself beyond those minor word changes to some headings that may be necessary to meld text transferred from one location to a new location.

**2. Project Objectives** - For some time, the staff has been concerned that the current organizational format of the P&P Manual has become unwieldy and no longer serves NAIC needs as well as it should or could. The P&P Manual text is now organized in 15 Parts of a Manual and 21 Sections of an Appendix; a total of 36 separate pieces of instructions and guidance. The staff has developed a prototype of a re-organized P&P Manual that consists of a total of 6 Parts. It is the intent of the staff to request that the Valuation of Securities (E) Task Force, during its quarterly meeting held in conjunction with the NAIC Summer National Meeting, to receive the proposed P&P Manual prototype and release it to interested persons for comments. The overall objective of the staff is to finalize work on the proposed re-organized P&P Manual and present a final draft for adoption sometime this year.

**3. Staff Considerations** - The staff has contemplated a re-organization of the P&P Manual since at least 2008. However, the current staff effort began in January of 2009. The P&P Manual was last completely re-written and given its current format in the period between 1995 and 1996 and adopted with an effective date of January 1, 1997. The current format of the P&P Manual emphasizes the SVO credit assessment mission. This reflects the adoption by the NAIC of a new credit assessment methodology for the SVO implemented in 1991 and 1992 and the subsequent reorganization of SVO staff into analytical departments to better effect the new methodology. Today, it is clearer that the current format of the P&P Manual obscures other important SVO missions and assignments and SVO procedures and methodologies that have purely regulatory objectives.

**4. Process** - The proposed prototype P&P Manual was developed by:

- Grouping all general policy directions in one Part;
- Placing Lists and other guidance formerly contained in the Appendix with its corresponding text in the P&P Manual, thus eliminating the need for a separate Appendix;
- Redistributing text related to the credit assessment function, now distributed in about 7 Parts into two Parts: one devoted to filing instructions and the other to analytical instructions and methodology;
- Grouping in one place all assignments that require the SVO to verify the existence of required characteristics as a precursor to placing an investment on a list to denote eligibility for more favorable regulatory treatment;
- Grouping two different sets of valuation instructions (one for unaffiliated and one for affiliated investments) into one Part, and
- Identifying investment activity that is subject to special regulatory instructions and placing these in one Part.

5. **Documentation** - Arranged nearby is all of the documentation generated or created by the staff in the course of developing the proposed prototype. The first document shown is the proposed prototype. This is followed by:

- The initial Plan of Reorganization that guided the placement of text into the new six Parts;  
[New Format - Table of Contents](#)
- The new Six Parts showing the transferred text, coded to show its point of origin;  
[New Format - Part 1](#)  
[New Format - Part 2](#)  
[New Format - Part 3](#)  
[New Format - Part 4](#)  
[New Format - Part 5](#)  
[New Format - Part 6](#)
- Two control documents; i.e., the P&P Manual as of 12/31/08 and the corresponding Appendix with color coded text to identify where text was moved to:  
[Purposes and Procedures Manual as of 12/31/08](#)  
[Appendix with color-coded text](#)
- The first prototype draft showing the Six Parts in a single document joined by revised section references; and  
[Purposes and Procedures Manual Prototype](#)
- Six separate documents showing samples of the lettering pattern for each Part in the second draft of the prototype.  
[Prototype Part 1 Organizational Outline](#)  
[Prototype Part 2 Organizational Outline](#)  
[Prototype Part 3 Organizational Outline](#)  
[Prototype Part 4 Organizational Outline](#)  
[Prototype Part 5 Organizational Outline](#)  
[Prototype Part 6 Organizational Outline](#)

These documents were generated by the staff solely to fulfill internal staff needs: i.e., to keep track of text and to create some record reflecting the decisions made to arrive at a proposed prototype. We release these documents to ensure that anyone who wishes to assess the process used to arrive at the proposed prototype can do so. However, we do not believe it is necessary or even fruitful for anyone to spend time reviewing these documents. In particular, we do not expect these documents to play any role in the discussion over the proposed prototype. We think the better approach is for interested persons to review the proposed prototype with your specific needs in mind and to make comments for improvement in text placement, organization or formatting of the P&P Manual from this perspective.

We appreciate your interest in the NAIC and in this project.