

Statement of Clarification
Reporting Securities on the US Government Filing Exempt Lists
Published in the 12/31/11 Purposes and Procedures Manual

To: Industry and Interested Persons
From: Kevin Fry, Chair of the Valuation of Securities (E) Task Force
Members of the Valuation of Securities Task Force
Date: January 10, 2011

1. Issue – NAIC staff have received questions from industry representatives asking for clarification on how to report certain securities that appear on the US Government Filing Exempt List, Part Two, Section 4 (c), for year-end 2011. The questions arise because the recently published *Purposes and Procedures Manual*, dated December 31, 2011, contains revised text, adopted on September 11, 2011 that moves all GNMA obligations to the US Government category on Schedule D and moves all FNMA and FHLMC obligations to the Special Revenue category. Although the revised guidance is already reflected in Part Two, Section 4 (c) of the *Purposes and Procedures Manual* it is not reflected in Part Six, Section 2 (e) and a corresponding Blanks amendment to accommodate the necessary change in reporting has not yet been adopted. The question asked of staff is: how should insurance companies report in this situation for year-end 2011?

2. Clarification - When the Task Force adopted the proposal to change reporting requirements, it simultaneously referred the proposal to the Blanks (E) Working Group and the Capital Adequacy (E) Task Force *for implementation*. The Task Force intended to tie the effective date of the revised change in reporting to the date that appropriate reporting and or RBC guidance was concluded by the Blanks (E) Working Group and the Capital Adequacy (E) Task Force.

The Task Force did not intend that the revised reporting requirement would be effective for year-end 2011 reporting. This explains why no update was made to Part Six, Section 2 (e) List of Securities that are Considered “Exempt Obligations” for Purposes of Determining the Asset Valuation Reserve and the Risk-Based Capital Calculation. Therefore, for year-end 2011 reporting, insurance companies should follow existing reporting processes and instructions for US government securities using the Lists that appear in the **July 1, 2011** *Purposes and Procedures Manual*, included in Attachment One below. The Blanks (E) Working Group is preparing a proposal that will update Annual Statement Instructions for 2012 to be consistent with the text in the December 31, 2011 *Purposes and Procedures Manual*. The Blanks (E) Working Group will also consider this change as guidance for companies to use for 2012 quarterly statutory financial statements.

3. Excerpts from the Minutes of Task Force

Valuation of Securities (E) Task Force - Austin Texas - March 27, 2011

5. Proposal to Review Government Securities Framework

Mr. Fry said Matti Peltonen (NY) and Jim Everett (NY) propose to revise the government securities framework in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* (Attachment Five). The proposal reflects New York’s view that the current four-bucket analytical framework is too detailed and might be the cause of reporting errors by insurers. Annual statement instructions for government securities refer back to the *Purposes and Procedures Manual*. The proposal would create a two-bucket policy-based approach. Mr. Fry asked for a motion to receive and expose the proposal for a 45-day comment period. Mr. Franz moved and Mr. Medley seconded the motion. The motion passed.

10. Other Matters

Mr. Fry said Mr. Peltonen had proposed that the Federal National Mortgage Association (FNMA, or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac) be fully exempt, so that they are treated like the U.S. government for purposes of RBC and asset valuation reserves. Mr. Fry said he would like to receive the report (Attachment Seventeen) and consult with Task force and staff before determining how to proceed. Mr. Hudson moved Mr. Franz seconded the motion. The motion passed.

Valuation of Securities (E) Task Force - Conference Call - July 15, 2011

1. Proposed Amendment to the Purposes and Procedures Manual – Instructions for U.S. Government Securities

Mr. Fry said New York proposed an amendment to the *Purposes and Procedures Manual of the NAIC Securities Valuation Office for U.S. government securities* (Attachment One), which was released for comment. No comments were received. Mr. Fry asked for a motion to adopt the proposed amendment. Mr. Abitz moved and Ms. Wieche seconded the motion. The motion passed.

2. Proposed Amendment to Reporting Instructions – Reporting Full Faith and Other U.S. Government Obligations

Mr. Fry said New York proposed an amendment to reporting instructions to create greater consistency in how U.S. government securities are reported. The proposal before the Task Force would resolve the reporting inconsistencies by requiring all securities guaranteed or insured by the full faith and credit U.S. government entities to be reported as U.S. government and not be assigned RBC. FNMA and FHLMC debentures and the non-full faith and credit guaranteed mortgage-backed and asset-backed securities would remain in special revenue. ... In the ensuing discussion, Mr. Willis and Mr. Fry agreed *that the NAIC staff should forward the proposals to the Capital Adequacy (E) Task Force and the Blanks (E) Working Group for formal comment. Ms. Stock and Mr. Peltonen agreed that a recommendation on an effective date should be left open until comments are received from the Capital Adequacy (E) Task Force and the Blanks (E) Working Group.* Mr. Fry asked for a motion to expose the proposal for a 30-day comment period. Mr. Garn moved and Ms. Stock seconded the motion. The motion passed. (*Emphasis added*)

Valuation of Securities (E) Task Force - Conference Call - September 1, 2011

3. Amendment to Reporting Instructions for U.S. Government Securities

Mr. Fry said New York has proposed an amendment to reporting instructions for U.S. government securities (Attachment Six). The proposal has been released for comment, and a comment was received from the American Academy of Actuaries in support of the amendment. Mr. Peltonen said the proposal changes how bonds issued by entities on the U.S. government lists (in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*) are reported. The basic objective is to increase consistency by reporting all full faith and credit (whether issued directly, guaranteed or insured) in the U.S. Government category and all others in the Special Revenue category. Mr. Peltonen said the net impact of the proposal is an increase in RBC of about \$65 million. *Mr. Shepherd made a motion to adopt the proposal and to refer it to the Blanks (E) Working Group and the Capital Adequacy (E) Task Force for implementation.* Mr. Abitz seconded the motion. The motion passed. (*Emphasis added*).

4. Contacts – Questions with respect to reporting issues should be sent to Becky L. Fuller at BLFuller@naic.org. Questions about the Purposes and Procedures Manual should be sent to Bob Carcano at RCarcano@naic.org.

Attachment One

*Except of Text from the July 1, 2011 Purposes and Procedures Manual
Pertaining to US Government Securities*

**Purposes and Procedures
Manual of the NAIC
Securities Valuation Office
Effective for Statements ending December 31, 2011**

(volume/issue 10-02)

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Insurance Commissioners**

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Part Two - Filing With the SVO

Section 4. Reporting Exemptions

(c) U.S. Government Securities

(i) Filing Exemption for Direct or Full Faith and Credit Obligations of the United States Government

This section establishes a filing exemption for those U.S. government securities for which full payment of interest and full repayment of principal is either the direct obligation of the U.S. government or the full faith and credit obligation of the United States issued through a U.S. government agency or a U.S. government sponsored enterprise.

Section 4(d)(i) below, the **Direct or Full Faith and Credit Obligations of the United States Government List**, contains a compilation of the securities that are eligible for this exemption and provides a summary description of the security or securities to which the exemption applies. Recommendations to add or delete securities from Section 4(d)(i) below shall be made in the manner, and in accordance to the procedures, discussed in Part One, Section 6 of this Manual.

Any U.S. government security that is not listed in the Filing Exemption for Direct or Full Faith and Credit Obligations of the United States Government List, the U.S. Government NAIC ARO Rated Issuer Filing Exemption List discussed below in Section 4(c)(ii) of this Part, the Discretionary Government Filing Exemption List, discussed below in Section 4(c)(iii) of this Part or the securities exemptions discussed below in Section 4(c)(iv) of this Part, must be filed with the SVO according to the requirements in Part Two, Section 10 (c)(v)(A) of this Manual.

(ii) U.S. Government NAIC ARO Rated Issuer Filing Exemption

This section establishes a filing exemption for securities issued by agencies and government sponsored enterprises that are rated by an NAIC ARO in a rating category equivalent to an **NAIC 1** Designation on the basis of the business fundamentals of the entity and the less than full faith and credit support provided by the U.S. government to the entity.

This exemption is based on an analytical judgment that the combination of business fundamentals and U.S. government support provides confidence that the issuer will be able to pay its obligation on a full and timely basis at the level of an **NAIC 1** quality designation. This exemption applies to all securities directly issued by and all securities fully guaranteed or insured by the NAIC ARO rated agency or government sponsored enterprise.

Section 4(d)(ii) below, the **U.S. Government NAIC ARO Rated Issuer Filing Exemption List**, contains a compilation of the issuers and securities deemed to be within this exemption and provides a summary description of the security or securities to which the exemption applies.

Recommendations to add or delete securities from Section 4 (d) (ii) shall be made in the manner, and in accordance to the procedures discussed in Part One, Section 6 of this Manual.

Any U.S. government security that is not listed in the U.S. Government NAIC ARO Rated Issuer Filing Exemption List, the Filing Exemption for Direct or Full Faith and Credit Obligations of the United States Government List, discussed above in Section 4(c)(i) of this Part, the Discretionary Government Filing Exemption List, discussed below in Section 4(c)(iii) of this Part, or the securities exemptions discussed below in Section 4 (c)(iv) of this Part, must be filed with the SVO according to the requirements in Part Two, Section 10(c)(v)(A) of this Manual.

(iii) Discretionary Government Filing Exemption

The VOS/TF retains discretion to grant a filing exemption for a specific security issued by an agency or government sponsored enterprise not otherwise eligible for the exemptions provided for in this Part Two, Section 4(c)(i) or 4(c)(ii). The grant of a filing exemption under this subsection is at the sole discretion of the VOS/TF after a full hearing in which the person proposing the grant of the filing exemption has demonstrated that the security and its issuer should be acknowledged to be of high quality consistent with an **NAIC 1** Designation.

Section 4(d)(iii) below, the **Discretionary Government Filing Exemption List**, contains a compilation of the issuers and securities deemed to be within this exemption and provides a summary description of conditions to the continued viability of the exemption. If any issuer or security contained on Section 4(d)(iii) should subsequently qualify for an exemption pursuant to 4(c)(i) or 4(c)(ii) of this Part, the SVO, or any other person, may move to delete the security from Section 4(d)(iii) and to add it to Section 4(d)(i) or 4(d)(ii), as may be appropriate.

Recommendations to add or delete a security to Section 4(d)(iii) shall be made in the manner and in accordance to the procedures discussed in Part One, Section 6. In order to guide the appropriate removal of a security from Section 4(d)(iii), the VOS/TF shall identify any conditions to the continued viability of the exemption.

Any U.S. government security that is not listed in the Discretionary Filing Exemption List, the Filing Exemption for Direct or Full Faith and Credit Obligations of the United States Government List, discussed above in Section 4(c)(i) of this Part, the U.S. Government NAIC ARO Rated Issuer Filing Exemption List, discussed above in Part 4 (c)(ii) of this Part, or the securities exemptions discussed below in Section 4(c)(iv) of this Part, must be filed with the SVO according to the requirements in Part Two, Section 10 (c)(v) (i) of this Manual.

(iv) Collateralized Mortgage Obligations (CMOs)

(A) *Agency CMOs*

A CMO directly issued through any program administered by the (a) Government National Mortgage Association (GNMA), (b) Federal National Mortgage Association (FNMA), (c) Federal Housing Loan Mortgage Corporation (FHLMC), or (d) the Federal Agricultural Mortgage Corporation (FAMC) is exempt from filing with the SVO.

(B) *CMOs Fully-Backed by Agency Collateral*

CMOs not issued by an agency on the list in Part Two, Section 4(c)(iv)(A) above, but where one hundred percent (100%) of the collateral that generates principal and interest to pay the holders of the CMO tranches consists of mortgage pass-through securities issued and or guaranteed by an agency on that list, are exempt from filing with the SVO.

Note: The above stated rules are applicable to all CMOs including CMOs issued in the form of Real Estate Mortgage Investment Conduits.

(C) *Participation Certificates (PCs) in Mortgage Pools*

(1) Agency PCs

The following are exempt from filing with the SVO: (a) PCs in project loan pools issued and/or fully guaranteed by the Federal Housing Administration (FHA), (b) PCs in loan pools issued and/or fully guaranteed by the Small Business Administration (SBA), and (c) PCs directly issued through any program administered by GNMA, FNMA, FHLMC and FAMC.

(2) PCs Fully-Backed by Agency Collateral

PCs, not issued by an agency on the list in Part Two, Section 4(c)(iv)(C) (1) above, but where one hundred percent (100%) of the collateral that generates principal and interest to pay the holders of the PCs is mortgage pass-through securities issued and or guaranteed by an agency on that list, are exempt from filing with the SVO.

(d) **Filing Exemption Lists for Government Securities**

- (i) Filing Exemption Lists for Direct or Full Faith and Credit Obligations of the United States Government

NOTE: THE SECURITIES IN THIS LIST ARE DEEMED TO BE EXEMPT FROM FILING WITH THE SVO BECAUSE THEY MEET THE TERMS OF THE FILING EXEMPTION PROVIDED FOR IN SECTION 4 (c) (i) ABOVE.

IF YOU ARE CONCERNED WITH A SECURITY THAT IS NOT LISTED BELOW, CHECK TO SEE IF THE SECURITY QUALIFIES FOR EXEMPTION UNDER SECTION 4 (c) (ii), (iii), OR (iv).

IF THE SECURITY MUST BE FILED WITH THE SVO, SEE SECTION 10 (C) (vi) BELOW.

- a) **Agency for International Development (AID)***
The filing exemption applies to loans guaranteed by AID
- b) **Department of Veterans Affairs (VA)***
The filing exemption applies to all loans guaranteed by the VA.
- c) **Export –Import Bank of the United States (Exim)***
The exemption applies to all loans guaranteed by Exim.
- d) **Farmers Home Administration (FmHA)**
This exemption applies to certificates of beneficial ownership issued directly by FmHA.
- e) **Federal Financing Bank (FFB)**
The filing exemption applies to all obligations issued directly by the FFB.
- f) **Federal Housing Administration (FHA)**
The filing exemption applies to debentures issued by the FHA (in lieu of payment of the insurance claims) and participation certificates in pass-through mortgage pools issued and or fully guaranteed by the FHA.
- g) **General Services Administration (GSA)**
The filing exemption applies to participation certificates issued and or fully guaranteed by the GSA and all mortgage notes issued by the GSA in connection with the Public Buildings Program.
- h) **Geothermal Energy Coordination and Management Agency***
The filing exemption applies to all loans guaranteed by the Geothermal Energy Coordination and Management Agency.
- i) **Government National Mortgage Association (GNMA or Ginnie Mae)**
The filing exemption applies to participation certificates in pass-through mortgage pools and CMOs issued and or fully guaranteed by GNMA in connection with the Mortgage Backed Securities Program.
- j) **Health and Human Services (HHS)***
The exemption applies to all loans to Health Maintenance Organizations guaranteed by HHS.
- k) **Housing and Urban Development (HUD)***
The exemption applies to all loans guaranteed by HUD.
- l) **Maritime Administration (MARAD) ***
The exemption applies to all loans backed by MARAD under the Title XI Ship Financing Program.
- m) **Overseas Private Investment Corp (OPIC)***
The filing exemption applies to loans backed by OPIC and certificates of participation issued directly by OPIC.

- n) **Private Export Funding Corporation (PEFCO) ***
The filing exemption applies to all loans guaranteed by PEFCO.
- o) **Resolution Trust Corporation (RTC)**
The filing exemption applies to all obligations issued directly by the RTC.
- p) **Small Business Administration (SBA)***
The filing exemption applies to loans backed by the SBA and to participation certificates in pass-through mortgage pools issued and or fully guaranteed by the SBA.
- q) **United States Department of Agriculture (USDA)***
The filing exemption applies to all loans issued or one hundred percent guaranteed directly by the following USDA programs: Farm Service Agency, Rural Housing Service, Rural Utilities Service, Rural Telephone Bank, Rural Electrification Administration and Rural Business Cooperative Services.
- r) **U.S. Postal Service**
The filing exemption applies to U.S. Postal Service guaranteed bonds that, at the request of the Postal Service, have been guaranteed by the U.S. Treasury.
- s) **United States Treasury**
The filing exemption applies to all direct obligations of the U.S. Treasury including bills, bonds, notes, treasury receipts, Separate Trading of Interest and Principal Securities (STRIPS), and Unites States Mortgage Guaranty Insurance Company Tax and Loss Bonds. This exemption also applies to private label zero-coupon STRIP products composed entirely of U.S. Treasury bonds.
- t) **Washington Metropolitan Area Transit Authority**
The filing exemption applies to all US government guaranteed transit bonds.
- u) **Federal Deposit Insurance Corporation**
The filing exemption applies to structured securities that are issued by a trust and backed by collateral in the form of financial assets (such as residential mortgage backed securities). The trust acquires the collateral from the FDIC who acquired the assets that constitute the collateral in its statutory capacity as receiver of failed banks. Holders of the structured securities receive payments of principal and interest from the cash flow generated by the collateral. However, if the collateral fails to generate cash flow sufficient to pay interest and principal in full when due, a trustee is entitled to draw on an FDIC guarantee, backed by the full faith and credit of the United States, for the shortfall.

*** The guaranteed loans issued by this government entity are entitled to the full faith and credit of the United States government but at a level of support that may be less than one hundred percent (100%) of the interest and principal due on the obligation. If this government entity or a private issuer use the guaranteed loans of this entity as collateral for another security so that the interest and principal on the new security is backed 100% by the full faith and credit of the U.S as a result of the collateral, then the resulting security is exempt from filing with the SVO.**

(ii) U.S. Government NAIC ARO Rated Issuer Filing Exemption List

NOTE: THE SECURITIES IN THIS LIST ARE DEEMED TO BE EXEMPT FROM FILING WITH THE SVO BECAUSE THEY MEET THE TERMS OF THE FILING EXEMPTION PROVIDED FOR IN SECTION 4 (c) (ii) ABOVE.

IF YOU ARE CONCERNED WITH A SECURITY THAT IS NOT LISTED BELOW, CHECK TO SEE IF THE SECURITY QUALIFIES FOR EXEMPTION UNDER SECTION 4 (c) (i), (iii) AND (iv).

IF THE SECURITY MUST BE FILED WITH THE SVO, SEE SECTION 10 (C) (VI) BELOW.

a) Farm Credit System Financial Assistance Corporation (FCSFAC)

The filing exemption applies to all obligations of FCSFAC.

b) Federal Farm Credit Banks (FFCB)

The filing exemption applies to consolidated system wide bonds and notes, which benefit from the joint and several guarantee of the Federal Farm Credit System Banks.

c) Federal Home Loan Banks (FHLB)

The filing exemption applies to consolidated system wide bonds and notes, which benefit from the joint and several guarantee of the Federal Home Loan Bank System.

d) Federal Home Loan Mortgage Corporation (Freddie Mac)

The filing exemption applies to senior and subordinated bonds, notes and debentures issued directly by Freddie Mac and to participation certificates and CMOs issued and or fully guaranteed by Freddie Mac.

e) Federal National Mortgage Association (Fannie Mae)

The filing exemption applies to senior and subordinated bonds, notes and debentures issued directly by Fannie Mae and to participation certificates and CMOs issued and or fully guaranteed by Fannie Mae.

f) Financing Corporation (FICO)

The filing exemption applies to FICO long term bonds

g) Private Export Funding Corporation (PEFCO)

The filing exemption applies to PEFCO long, medium, and short-term notes, and to PEFCO Finance Corp. collateralized notes.

h) Resolution Funding Corporation (REFCorp)

The filing exemption applies to all REFCorp long-term bonds.

i) Tennessee Valley Authority (TVA)

The filing exemption applies to TVA power bonds.

(iii) Discretionary Government Filing Exemption List

NOTE: THE SECURITIES IN THIS LIST ARE DEEMED TO BE EXEMPT FROM FILING WITH THE SVO BECAUSE THEY MEET THE TERMS OF THE FILING EXEMPTION PROVIDED IN SECTION 4 (c) (iii) ABOVE.

PLEASE NOTE, UNLESS OTHERWISE INDICATED ONLY THE SPECIFIC COMBINATION OF ISSUER AND SECURITY (SECURITIES) THAT IS LISTED ARE EXEMPT.

a) **Federal Agricultural Mortgage Corporation (FAMC)**

The filing exemption applies to bonds, notes and debentures issued directly by FAMC and to participation certificates and CMOs issued and or fully guaranteed by FAMC.

Section 10. Reporting Conventions and Required Documents

(c) **Reporting Conventions and Required Documents**

Specific reporting conventions for initial reports that all reporting insurance companies should follow are described below.

(v) **U.S. Government Securities**

(A) *U.S. Government Securities required to be filed with the SVO*

(1) General Rule

Any security that purports to benefit from the guaranty, insurance, or other credit support of the U.S. government, a U.S. government agency or a U.S. government sponsored enterprise, but that is not specifically exempted from filing with the SVO by Part Two, Section 4(c) (i), (ii), (iii) and (iv), must be filed with the SVO according to the requirements in subparagraph (A)(2), below.

(2) Securities That Are Not Exempt

The **List of U.S. Government Securities Required to be filed with the SVO**, in subsection (iv) below, contains a compilation of specific securities that are required to be filed with the SVO. This reporting status is based on a determination that the issuer cannot bind the credit of the U.S. government directly, is not entitled to claim the full faith and credit of the U.S. government, is not highly rated by an NAIC ARO on the basis of its business fundamentals and implied U.S. government support and has not been exempted from filing by the VOS/TF under its discretionary authority.

Recommendations to add or delete securities from subsection (iv) below shall be made in the manner, and in accordance to the procedures, discussed in Part One, Section 6 of this Manual.

(B) *SVO Publishing Conventions for U.S. Government Securities Exempt From Filing*

(1) Direct Treasury Obligations

Direct United States Treasury obligations will be added to the VOS Database automatically and will appear in the VOS Products. The NAIC Designation for these securities should be **NAIC 1**. The use of the administrative symbol “**Z**” is not required for the aforementioned securities.

(2) Other Exempted U.S Government Securities

A single entry will appear in the VOS Products in its normal CUSIP sequence, followed by the description “All Issues” for the specific securities listed in the U.S. Government Securities Filing Exemption List which is Part Two, Section 4(d)(i), (d)(ii) and (d)(iii) of this Manual.

Because filings are not required for the securities enumerated above, CUSIP numbers for specific securities will not be published in the VOS Products. These exempted securities, however, should be listed with the CUSIP number specific to each security in the appropriate section of Schedule D.

The NAIC Designation for these securities should be **NAIC 1**. The use of the administrative symbol “**Z**” is not required for the aforementioned securities.

(C) *Filing Requirements for U.S. Government Securities*

No filing is required for the securities deemed exempt from filing pursuant to Part Two, Section 4(c)(i) through (iv) unless a state insurance department has specifically requested the SVO to evaluate an exempt security.

For U.S. Government Securities required to be filed with the SVO, the reporting insurance company shall submit: (a) a completed SAR, and (b) a prospectus of the security that includes a description of the U.S. government program under which it is issued, and appropriate evidence that the security or other obligation is backed by the U.S. government, an agency of the U.S. government or a U.S. government sponsored enterprise.

A variety of documents are acceptable as evidence that the issuer in question has some degree of support from the U.S. government. A copy of the legislation that created the entity or the program is acceptable as evidence of government support. Additionally, a copy of the guaranty or insurance policy for the transaction is also good evidence of government support. Another acceptable form of evidence is evidence of an NAIC ARO rating with a copy of the rating rationale memorandum discussing the role of U.S. government support. Oftentimes, the prospectus for the security describes in sufficient detail the relationship of the entity to the U.S. government, its agency or its government-sponsored enterprise.

It is not enough to merely establish a relationship between the U.S. government and the entity. It is necessary to provide materials that specifically describe all of the financial terms of the obligation and the manner in which the U.S. government will pay the obligation.

(vi) List of U.S. Government Securities Required to be Filed with the SVO

NOTE: THE SECURITIES MATCHING THE CRITERIA IN THIS LIST ARE NOT EXEMPT FROM FILING PURSUANT TO SECTION 4 (c) (i) THROUGH (iv) ABOVE. REFER TO THE LISTS IN SECTION 4 (D) (I) THROUGH (IV) ABOVE.

- a) **Agency for International Development (AID)**
All insurance obligations of AID must be filed with the SVO.
- b) **Amtrak**
All securities of Amtrak must be filed with the SVO.
- c) **Army and Air Force Exchange Service (AAFES)**
All securities of AAFES must be filed with the SVO.
- d) **Bonneville Power Administration (BPA)**
All securities of BPA must be filed with the SVO.
- e) **College Construction Loan Insurance Corporation (Connie Lee)**
All securities of Connie Lee must be filed with the SVO.
- f) **Commodity Credit Corporation (CCC)**
All securities of CCC must be filed with the SVO.
- g) **Communications Satellite Corporation**
All securities of Communications Satellite Corporation must be filed with the SVO.
- h) **Corporation for Public Broadcasting**
All securities of the Corporation for Public Broadcasting must be filed with the SVO.
- i) **Department of Defense**
Securities that are to be repaid from cash flow on capital leases of the Department of Defense must be filed with the SVO.

- j) **Export-Import Bank of the United States (Exim Bank)**
All insurance obligations of the Exim Bank must be filed with the SVO.
- k) **Federal Crop Insurance Corporation**
All securities of the Federal Crop Insurance Corporation must be filed with the SVO.
- l) **Federal Deposit Insurance Corporation (FDIC)**
All securities of the FDIC must be filed with the SVO except the securities identified in Part Two, Section 4 (d) (i): i.e., the Filing Exemption List for Direct or Full Faith and Credit Obligations of the United States.
- m) **Federal Prison Industries, Inc. (Unicorp)**
All securities issued by Unicorp must be filed with the SVO.
- n) **Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund**
All securities issued by the FSLIC Resolution Trust must be filed with the SVO.
- o) **General Services Administration (GSA)**
All capital leases issued by the GSA must be filed with the SVO.
- p) **Legal Services Corporation**
All securities of the Legal Services Corporation must be filed with the SVO.
- q) **National Consumer Cooperative Bank (NCB)**
All bonds that are the direct obligation of NCB must be filed with the SVO.
- r) **National Credit Union Central Liquidity Facility (CLF)**
All securities of the CLF must be filed with the SVO.
- s) **National Credit Union Share Insurance Fund (NCUSIF)**
All securities of NCUSIF must be filed with the SVO.
- t) **Navy Exchange**
All securities of the Navy Exchange must be filed with the SVO.
- u) **Neighborhood Reinvestment Corporation**
All securities of the Neighborhood Reinvestment Corporation must be filed with the

SVO.

- v) **Non-Nuclear Energy Research and Development**
All securities backed by the loan guarantees of the Non-Nuclear Energy Research and Development must be filed with the SVO.
- w) **Overseas Private Investment Corporation (OPIC)**
All OPIC insurance obligations must be filed with the SVO.
- x) **Pension Benefit Guarantee Corporation (PBGC)**
All securities of the PBGC must be filed with the SVO.

y) **Rural Telephone Bank (RTB), (USDA)**

All direct loans of the RTB must be filed with the SVO.

z) **Saint Lawrence Seaway Development Corporation (SLSDC)**

All securities of the SLSDC must be filed with the SVO.

aa) **Securities Investor Protection Corporation (SIPC)**

All securities of SIPC must be filed with the SVO.

bb) **U.S. Postal Service**

All non-guaranteed bonds of the U.S. Postal Service must be filed with the SVO.

(vii) **Foreign Sovereign Government and Supranational Entities**

A reporting insurance company that owns a security issued by a foreign sovereign government, an agency or political subdivision of a foreign sovereign government or a supranational entity (entities with more than one sovereign government as a member), or that is guaranteed directly or indirectly by such an entity, must file such security with the SVO accompanied by a prospectus, investment committee memorandum and proof of rating from an NAIC ARO unless it is filing exempt as defined in Part Two, Section 4 (e).

Insurance companies shall not file issues with the SVO if the issuer does not have a sovereign rating from an NAIC ARO. If the issuer is not rated by an NAIC ARO, proof of a guarantee from an NAIC ARO-rated foreign sovereign government may be submitted. See Part Three, Section 1(a)(ii)(B) for instructions for issuers with unaudited financial statements.

Section 11. Subsequent Reporting

(a) **Annual Filing Requirement**

(e) **Reporting Conventions and Required Documents**

Specific reporting conventions that all reporting insurance companies should follow are described below.

(viii) **U.S. Government Securities**

(A) *Subsequent Filing*

No subsequent report (*i.e.*, an annual update filing) is required for non-exempt U.S. government securities within Part Two, Section 10(c)(v). However, a material credit events filing, pursuant to Part Two, Section 11 (b) of this Manual is required for non-exempt U.S. government securities, if:

- (1) The legislation authorizing the program has been rescinded;
- (2) The transaction terms and/or the transaction documents have been waived, amended or modified; or
- (3) If the legal commitment of the U.S. government, U.S. government agency or U.S. government sponsored entity has been allowed to lapse or has been withdrawn.

Part Three - Credit Assessment

Section 5. U.S. Government Securities

(a) Credit Assessment Methodology

U.S. government securities that are not exempt under the provisions of Part Two, Section 4(c)(i) through (iv), or those required to be filed by the specific instruction of a state insurance department, shall be reviewed by the SVO to determine if they have an enforceable claim to the direct, full faith and credit or other support of the U.S. government. In conducting this analysis, the SVO shall apply any methodology mentioned in this Part but with special emphasis on the credit substitution concepts contained in Section 2(c) of this Part.

The SVO shall verify that legislation authorizing the program by which the U.S. government, U.S. government agency or U.S. government sponsored entity has committed to provide credit support is in full force and effect and has not been rescinded or amended in any material way. It shall also verify the legal commitment of the U.S. government, U.S. government agency or U.S. government sponsored entity to support the obligation of the borrower or other obligor, is in full force and effect and has not lapsed, been amended or changed in any way which would permit the government support to be withdrawn.

Part Six – SVO Verification Activities In Support Of Certain Regulatory Processes

(e) List of Securities that are Considered “Exempt Obligations” for Purposes of Determining the Asset Valuation Reserve and the Risk-Based Capital Calculation

THIS SECTION IS USED TO DETERMINE THOSE SECURITIES THAT ARE INCLUDED IN THE "EXEMPT OBLIGATIONS" CATEGORY FOR PURPOSES OF DETERMINING ASSET VALUATION RESERVE AND THE RISK-BASED CAPITAL CALCULATION.

For purposes of determining the Asset Valuation Reserve, Risk-Based Capital, and certain other defined regulatory purposes, the issuers and securities shown in Part Two Section #4 (d) (i), (ii) and (iii) are considered to be in the “exempt obligations” category for purposes of determining Asset Valuation Reserve and the Risk-Based Capital calculation although the following exceptions exist relative to mortgage-backed/asset-backed securities.

Mortgage-backed/asset-backed securities of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agriculture Mortgage Corporation (Farmer Mac) and the Federal Home Loan Banks (FHL Banks) are not “exempt obligations”, and shall be reported in the Special Revenue and Special Assessment Obligations category, not in the U.S. Government category.

The only loan-backed and structured securities that are “exempt obligations” and are reported in the U.S. Government category are securities that have a full guarantee for their interest and principal payments by the United States Government, and whose collateral is not divided into separate classes. Examples of such securities are the pass through securities guaranteed by the Government National Mortgage Association (GNMA) or the U.S. Department of Veterans Affairs (VA). As the Collateralized Mortgage Obligations (CMOs) divide the collateral cashflows into separate classes (tranches), they are not ‘exempt obligations’ and shall be reported in the Special Revenue and Special Assessment Obligations category of the Annual Statement, not in the U.S. Government category.