

The NAIC Procedure for Placing a Security under Regulatory Review

Note: The text below explains how the NAIC places an investment or asset class under review for the purpose of determining the policy and regulatory framework that would apply to the investment if purchased by an insurance company. You should read and interpret this text along with the other material contained on this page. The text is taken from the December 31, 2008 publication of the *Purposes and Procedures of the NAIC Securities Valuation Office*. An update of the *Purposes and Procedures Manual* is published in July and December of each year. Please refer to the latest update to review changes to the cited language.

Part Two

Section 3

(d) Application of Analytical Instructions

(i) Relationship to Policy

The directives in Section 3 (a) and (b) of this Part Two evince a policy determination to ensure analytical resources to support financial solvency objectives of state insurance regulators as expressed in the NAIC Financial Regulation Standards and Accreditation Program and or other NAIC developed regulatory guidance embodied in state law.

(ii) Parameters for Use of Instructions and Methodologies

The description of methodologies and the instructions pertaining to the application of those methodologies in this Manual are general and mandatory instructions from the VOS/TF to the SVO. The SVO shall have reasonable professional latitude to interpret how the instructions and methodologies contained in this Manual apply to specific securities, financial products or differing analytical situations. Factors that may affect how the SVO interprets instructions and methodologies include, but are not limited to, the terms of individual securities, unique features or characteristics of securities, legal or regulatory issues associated with structured transactions, the issuer's industry, the introduction of a new security type or asset class and NAIC regulatory objectives.

(iii) Use of Generally Accepted Techniques or Methodologies

The SVO is expressly authorized to employ any analytical technique that is taught in standard undergraduate and graduate business school financial analysis curriculum and any analytical technique otherwise widely or commonly used by lending officers, securities professionals, credit rating analysts, valuation professionals, statisticians or members of other similar

professions, despite the lack of an express authorization to use the technique in this Manual.

(iv) Updating Instructions and Methodologies

The SVO shall have ongoing professional responsibility to advise the VOS/TF of developments that may suggest the need for the NAIC to develop regulatory policy for new or existing investments or the need for the NAIC to amend or provide for additional instructions and or methodologies.

(e) When Analytical Instructions Are Insufficient or Inadequate

(i) Notice

The Managing Director shall promptly inform the Chair of the VOS/TF of his or her conclusion that market or other developments, the aspects of a new or existing security, financial instrument or analytical situation requires the NAIC to formulate new financial solvency policy or develop new or additional instructions and or methodologies for the SVO. The Managing Director shall prepare a written report for the VOS/TF explaining the reasoning that lead to the conclusion.

(ii) Deliberation

The Chair shall call a meeting of the VOS/TF to consider and discuss the SVO report and the issues it presents and to consider how to proceed. If the VOS/TF determines that the nature of the security and or the issues raised by the SVO requires formulation of new policy or regulatory instructions or the development of new or additional instructions and or methodologies, the VOS/TF shall consider whether to declare the security or financial product to be under regulatory review.

On its own initiative or at the direction of the NAIC Executive Committee, the Financial Conditions (E) Committee may instruct the VOS/TF to place a security under regulatory review. The VOS/TF may, on its own initiative place a security under regulatory review as discussed in this section.

(iii) Hearing and Declaration

If the VOS/TF is instructed or if it determines that a security should be formally declared to be under regulatory review, it shall hold a public hearing to discuss the issue and make a formal declaration of this decision. The staff shall cause notice of the determination to be published to interested persons and to other NAIC groups that have jurisdiction over

reporting issues, have relevant expertise or would be affected by the activities of the VOS/TF.

(iv) Reporting Framework for Securities under Regulatory Review

Upon a public declaration that a security is under regulatory review, insurance companies that own the security shall report it on the NAIC Financial Statement Blank with the administrative symbol NR* if the security is under review for an assessment of regulatory policy for the investment or regulatory reporting instructions to implement applicable policy or with the administrative symbol Z* if the security is under regulatory review for development by the VOS/TF of the instructions or methodologies for application by the SVO in its risk assessment.

In September of each year, the VOSTF will publicly identify which classes of securities, if any, are under regulatory review and therefore eligible to take the regulatory treatment prescribed for NR*/Z* in the Annual Statement Instructions for that year's year-end NAIC Financial Statement Blank.

(v) Filing of Securities under Regulatory Review

Unless the VOS/TF shall provide other instructions to insurance companies, securities under regulatory review that are otherwise reportable to the SVO shall continue to be filed with the SVO during the period of regulatory review.