

TABLE OF CONTENTS

Part One - Purposes, General Policies and Instructions to the SVO	1
Section 1. About the NAIC	1
Section 2. Policies Defining the SVO Staff Function	2
Section 3. Internal Administration	11
Section 4. NAIC Policy on the Use of Credit Ratings of NAIC AROs	19
Section 5. NAIC Policies Pertaining to SVO Work Product	22
Section 6. Amendments and Updates to this Manual	24
Section 7. Administrative Guidance and Information	26
(a) Securities Valuation Office Staff and Responsibilities	26
(b) NAIC Valuation of Securities (E) Task Force Members	31
(c) List of Fees for Services and Publications	32
Part Two - Filing With the SVO	43
Section 1. General Definitions Used in This Manual	43
Section 2. General Reporting Framework	47
Section 3. Short-Term Investments	48
Section 4. Reporting Exemptions	49
Section 5. Special Reporting Instruction	54
Section 6. The Mechanics of Reporting With the SVO	58
Section 7. When to Use the Securities Acquisition Report (SAR)	60
Section 8. When to Use SUB 1 or SUB 2 Forms	61
Section 9. Specialized SVO Forms, Products and Systems	62
Section 10. Reporting Conventions and Required Documents	66
Section 11. Subsequent Reporting	82
Section 12. Standard Industrial Classification (SIC) Codes	90
Part Three - Credit Assessment	95
Section 1. Corporate Bonds and Preferred Stock	95
(a) General Assessment Procedure	95
(i) Independent Assessment	95
(ii) Financial Analysis	95
(A) Audited Financial Statement Required	95
(B) Unaudited Financial Statement	95
(C) Calculation of Ratios	96
(D) Foreign Securities	96
(E) Parent-Subsidiary Situations	98
(iii) Qualitative Analysis; Senior Unsecured Credit	98
(iv) Terms of the Security; Final Designation	98
(b) General Procedure for Credit Assessment and Classification of Preferred Stock	99
(i) Preferred Stock Not Rated By an NAIC ARO	99
(A) Determining an NAIC Designation	99
(B) Classification of Preferred Stock	99

(ii) Preferred Stock Rated by an NAIC ARO	100
(A) Determining an NAIC Designation.....	100
(B) Classification of Preferred Stock.....	100
Section 2. Corporate Bonds and Preferred Stock – Special Assessment Situations	101
(a) Eleemosynary Organization Bonds	101
(b) Debtor-in-Possession (DIP).....	101
(c) Credit Enhanced Transactions.....	101
(d) SCA Debt and Preferred Stock.....	101
(e) Investments in Certified Capital Companies.....	102
Section 3. Structured Securities or Transactions	103
(a) Structured Transactions Backed by Credit Enhancement	103
(i) Structured Securities Fully Guaranteed by an NAIC ARO-Rated Entity or U.S. Government Entity.....	103
(ii) Structured Securities Backed by NAIC ARO Rated Financial Assets	103
(iii) Structured Securities Fully Backed by Financial Assets Insured by NAIC ARO Rated Insurers....	104
(b) Other Transactions under Auspices of SVO Structured Transaction Group.....	104
(i) Structured Lottery Securities.....	105
(ii) Military Housing Bonds.....	105
(iii) Credit Tenant Loans.....	105
(iv) Replication (Synthetic Asset) Transactions	105
(v) Catastrophe Linked Bonds.....	105
(vi) Structured Notes.....	105
(vii) Residual Tranches of ABS, RMBS and CLOs and CDOs.....	105
(viii) Principal Protected Notes.....	105
(ix) Exchange Traded Funds.....	106
(c) Modeled and Non-Modeled Securities - General Instructions and Definitions	106
(i) Scope.....	106
(ii) Important Limitation on the Definitions Contained in the Section.....	106
(iii) Analytical Procedures Applicable to RMBS and CMBS Securitizations Subject to Financial Modeling Methodology.....	107
(iv) Analytical Procedures Applicable to Securities Not Subject to Financial Modeling Methodology..	112
(A) Securities Not Modeled but Rated by an NAIC ARO and Subject to Modified Filing Exempt Process	112
(B) Securities Not Modeled and Not Rated by an NAIC ARO or Designated by the SVO.....	112
(C) Exclusion of Certain Securities from Application of Carrying Value Methodology for Non Modeled Securities	113
Section 4. Municipal Bonds.....	114
(a) Computerized Services.....	114
(b) Rated Securities.....	114
(c) Unrated Securities	114
(i) General Obligation Bond	114
(ii) Revenue Bond.....	114
(iii) Industrial Development Revenue Bonds; Pollution Control Bonds	115
(iv) Escrowed And Pre-refunded Bonds.....	115
(v) Credit Enhanced Municipal Transactions	115
(vi) Special Situations.....	115
(d) Quantitative Analysis	118
(e) Terms of the Security; Final Designation.....	118
Section 6. Reporting Certain Schedule BA Assets with Underlying Characteristics of Bonds or Preferred Stock	119

(a) Application of Reporting Instruction	119
(b) Fixed Income and Preferred Stock Like Schedule BA Assets Defined	119
(c) Schedule BA Assets to be filed with the SVO	119
(i) Assets with Underlying Fixed Income Characteristics	119
(ii) Special Instruction – Capital and Surplus Debentures.....	120
(d) Reporting Exemptions for Certain Separate Accounts.....	121
(e) Directive to the SVO	121
(f) Reporting on Schedule BA Assets	122
(g) Maintenance and Monitoring of SVO Determinations for Schedule BA Assets	122
(h) NAIC Designation Categories, Valuation Indicators and Administrative Symbols	123
(i) Administrative Procedures; Reporting Conventions; Pricing; Credit Assessment	124

Part Four - Special Regulatory Procedures Applicable to Investment Activity Of Insurers125

Section 1. Guidelines for Determining Status of New Instruments as Debt, Preferred Equity or Common Equity.....	125
(a) Categorization as Debt or Equity.....	125
(b) Benchmark for the Guidelines.....	125
(c) Relevant Principles.....	126
(i) Comparison of Debt and Preferred Equity.....	126
(ii) Deeply Subordinated Debt.....	126
(iii) Weighting of Guideline Criteria	126
(iv) Factors or Criteria Not Listed in Guidelines	127
(v) Status of Security under Local (Foreign) Law.....	127
(vi) Mandatorily Convertible Securities	127
(vii) SVO's Exercise of Discretion	127
(d) Guidelines Tables and Comments.....	127
(i) About the Guideline Tables	127
(ii) About the Comments	127
Section 2. Credit Tenant Loans.....	130
(i) General.....	130
(A) CTL Categories	130
(B) Intent.....	130
(C) Presumption of Eligibility	130
(D) SVO Procedure.....	131
(E) General CTL Issues.....	131
(F) Evaluation Form	132
(ii) Bond Lease Based CTL	132
(A) Definition	132
(B) Legal Characteristics of Bond Leases	133
(C) Structural Characteristics of Bond Lease Based Transactions	133
(iii) Credit Lease Based CTL.....	134
(A) Definition	134
(B) Legal Characteristics of Credit Leases.....	134
(C) Structural Characteristics of Credit Lease Based Transactions.....	135
(D) Risks and Acceptable Mitigants in Credit Lease Based Transactions	136
(iv) Acceptable CTL Variants.....	137
(v) Guidelines For Acceptable CTL Variants.....	138

(A) Acceptable CTL Variants	138
(vi) Multiple Property Transactions (MPTs)	141
(A) Definition	141
(B) General Legal Characteristics of MPTs	141
(C) Legal and Structural Characteristics of Credit Lease Based MPT CTLs	142
(D) Acceptable CTL Variants Eligible for MPT Treatment	142
(vii) Variants Requiring an NAIC ARO Rating	143
Section 3. Replication (Synthetic Asset) Transactions (RSATs)	144
(a) Definitions	144
(b) Instruction to Report Replication (Synthetic Asset) Transactions	148
(i) Instruction	148
(ii) Special Instruction Regarding Identical RSATs	148
(iii) Counterparty Risk-Based Capital	148
(c) Initial Reporting of Replication (Synthetic Asset) Transactions	148
(i) Informational Requirements – General	148
(A) General Filing Instructions	149
(B) Additional Instructions for RSATs with a Change in Credit Profile	149
(d) Procedures Applied to Initial Reports of Replication (Synthetic Asset) Transactions	149
(i) Effective RSAT	149
(ii) Credit Assessment	149
(e) Subsequent Reporting of Replication (Synthetic Asset) Transactions	150
(i) Informational Requirements – General	150
(f) Procedures Applied to Subsequent Reports of Replication (Synthetic Asset) Transactions	151
(i) Credit Assessment	151
(g) Additional Procedures for RSATs Using Baskets	152
(i) Initial Reporting	152
(ii) Procedures Applied to Initial Reports of Baskets	152
(h) Subsequent Reporting	153
(i) Additional Procedures for RSATs Using Indices	153
(i) Initial Reporting	153
(j) Subsequent Reporting	154
(k) Procedures for Compilation of the RSAT Index List	154
(l) RSAT Index List	156
Section 4. The RTAS – Emerging Investment Vehicle	157
(a) Emerging Investment Vehicle	157
Section 5. Catastrophe Linked Bonds	160
(a) Catastrophe Linked Securities	160
(i) Definition	160
(ii) Filing Exemption Status	160
(iii) Procedure	160
Section 6. Military Housing Bonds	162
(a) Direction	162
(b) Definition	162
(c) Status of Other Military Housing Bonds	162
(d) Certification Process for Military Housing Bonds	163

Part Five -Valuation of Securities	165
Section 1. Pricing of Unaffiliated Investments	165
(a) Regulatory Objectives	165
(b) General Valuation Process	165
(i) Obligation to Report a Fair Value.....	165
(ii) Valuation Procedure.....	165
(iii)Valuation Methodologies and Corresponding Reporting Codes	166
(c) SVO Valuation Methodologies	166
(i) Instruction and Disclosure	166
(ii) Use of Publicly Available Prices as Fair Value	167
(A) Pricing of Shares of Exchange Traded Funds	167
(iii) Analytical Determinations of Fair Value.....	167
(A) Special Instruction for Private Placements.....	167
(B) Bonds.....	167
(C) Preferred Stock.....	169
(D) Limited Life Preferred Shares	170
(E) Common Stock	170
(F) Shares of Mutual Funds	171
(G) Common Stock of Insurance Companies	171
(H) Stock Warrants	171
(I) Common Stock and Preferred Stock Issued Under Investment Letter or Restricted As to Transferability	172
(d) When Price Is Not Determinable	172
(i) General Procedures	172
(ii) Restriction on Use of the Administrative Symbol NR.....	173
Section 2. Valuation of Subsidiary Controlled and Affiliated Investments	174
(a) The SCA Reporting Cycle.....	174
(b) Reporting Framework	174
(i) Value of Common Stock.....	174
(ii) Initial Reporting of SCA Investments.....	174
(iii)Subsequent Reporting of SCA Investments.....	175
(iv) Special Instructions	175
(v) Consistency in Application of Chosen Valuation Method	176
(c) Valuation Methods	176
(i) Market and Equity Valuation Methods.....	176
(A) Market Valuation Method	176
(B) Equity Methods	177
(d) SVO Assessment and Review of SUB 1-Form.....	179
(i) Extraneous Factors.....	179
(ii) Appropriateness of Valuation Method.....	179
(iii) Assess Transaction.....	179
(iv) Valuation Method.....	180
(v) Enter Not Valued (NV).....	180
(e) SVO Assessment and Review of SUB 2 - Form	181
(i) Monitoring of VOS Database	181
(ii) Assess and Adjust Reported Values.....	181
(iii) Check NAIC Financial Statement Blank; Finalize a Value.....	181

(A) NAIC Financial Statement Blank.....	181
(B) Finalize Value.....	181
(C) Written Notification.....	181
(f) Make Adjustments to Reported Value.....	182
(i) Reduction of Goodwill.....	182
(ii) Non-admitted Asset Value.....	182
(iii) Reciprocal Ownership.....	183
Part Six – SVO Verification Activities In Support Of Certain Regulatory Processes	185
Section 1. Creation and Maintenance of Bank List	185
(a) List to be Compiled.....	185
(b) Eligibility Standards.....	185
(i) Domestic Issuers.....	185
(ii) Foreign Issuers.....	185
(iii) General.....	185
(c) Administration.....	186
(i) Reporting.....	186
(ii) Monitoring and Updates.....	186
(iii) Downgraded Banks.....	186
(d) List of Banks.....	187
Section 2. Mutual Funds and Exchange Traded Funds.....	191
(a) SVO Administration.....	191
(b) Mutual Fund Lists.....	191
(i) U.S. Direct Obligations/Full Faith and Credit Exempt List.....	191
(ii) Class 1 List.....	191
(iii) Bond Fund List.....	192
(c) Approval of Listing.....	193
(d) Exchange Traded Funds.....	193
(i) Regulatory Presumption.....	193
(ii) ETFs Eligible for Classification Analysis.....	193
(iii) Determining whether an Eligible ETF has Debt Characteristics.....	194
(iv) The ETF List.....	194
(v) Relationship between the Regulatory Treatment Analysis Service Application Process and Initial and Subsequent Reporting of ETFs.....	194
(e) List of Securities that are Considered “Exempt Obligations” for Purposes of Determining the Asset Valuation Reserve and the Risk-Based Capital Calculation.....	195
(f) List of Money Market Funds Filed with the SVO (U.S. Direct Obligations/Full Faith and Credit Exempt List).....	196
(g) List of Money Market Funds Filed with the SVO (Class 1 Funds).....	201
(h) List of Bond Mutual Funds Filed with the SVO (Bond Funds).....	208
(i) List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond.....	209
Section 3. Counterparty Exposure; Netting Eligibility.....	210
(a) NAIC Designation.....	210
(b) Netting Eligibility.....	210
(c) List of Counterparties Rated by the SVO for Schedule DB—Part E—Section 1.....	210
(i) General.....	210

- (ii) Procedures for Determining NAIC Designations and Netting Eligibility for Derivative Instrument Counterparties.....211
- (d) List of Foreign (non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB - Part E - Section 1217
- (i) Procedures for Determining NAIC Designations and Netting Eligibility for Derivative Instrument Counterparties.....217
 - (A) Purpose217
- Section 4. Capital and Surplus Debentures.....219
 - (a) Reporting To SVO.....219
 - (b) List of Capital and Surplus Notes Eligible for Amortized Value Accounting.....219
 - (i) List of Issuers.....219
- Section 5. Creation and Maintenance of List of Brokers-Dealers Eligible to Act as Custodian for Insurance Company Assets.....221
 - (a) List to be Compiled221
 - (b) Purposes of the List; Status under State Law; Status of Broker-Dealer on List221
 - (i) Purposes of List.....221
 - (ii) Status of the List under State Law221
 - (iii) Status of Broker-Dealers on the List.....221
 - (c) Eligibility Standards:.....222
 - (d) Administration.....222
 - (e) List of Brokers-Dealers Eligible to Act as Custodian for Insurance Company Assets.....224