

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force  
Members of the Valuation of Securities (E) Task Force

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RE: Part Four Manual Updates

DATE: February 25, 2022

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**Summary:** With the adoption of new Risk Based Capital factors for each NAIC Designation Category in 2021 by the Capital Adequacy (E) Task Force and its parent, the Financial Condition (E) Committee, technical updates are needed in the

**PART FOUR**  
**THE NAIC STRUCTURED SECURITIES GROUP**



## **ANALYTICAL ASSIGNMENTS**

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### **Use of Financial Modeling for Year-End Reporting for RMBS and CMBS**

22. Beginning with year-end 2009 for RMBS and 2010 for CMBS, probability weighted net present values will be produced under NAIC staff supervision by an NAIC-selected vendor using its financial model with defined analytical inputs selected by the SSG. The vendor will provide the SSG with a Intrinsic Price and/or a range of net present values for each RMBS or CMBS corresponding to each NAIC Designation

## Use of Net Present Value and Carrying Value for Financially Modeled Legacy Security RMBS and CMBS

26. For each modeled Legacy Security RMBS and CMBS, the financial model determines the net present value at which the expected loss equals the midpoint between the RBC charges for each NAIC Designation **and Designation Category**; i.e., each price point, if exceeded, changes the NAIC Designation **and Designation Category**. Net present value is the net present value of principal losses, discounted using the security's coupon rate (adjusted in case of original issue discount securities to book yield at original issue and in case of floating rate securities, discounted using **LIBOR-curve benchmark rate + Origination spread**). Because of the difference in RBC charge, the deliverable is **five nineteen** values for each RMBS and CMBS security for companies required to maintain an asset valuation reserve (AVR) and **five nineteen** values for companies not required to maintain an AVR. This is illustrated in the chart below.

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NAIC Designation Category	Life		P&C	
	RBC Factor (Pre-Test)	Midpoint	RBC Factor	Midpoint

27. The NAIC Designation and NAIC Designation Category for a given modeled Legacy Security RMBS or CMBS CUSIP owned by a given insurance company depends on the insurer's book/adjusted carrying value of each RMBS or CMBS, whether that carrying value, in accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, paragraphs 25 through 26a, is the amortized cost or fair value, and where the book/adjusted carrying value matches the price ranges provided in the model output for each NAIC Designation ~~and Designation Category and the mapped NAIC Designation Category, reflected in the table below, to be used for reporting an NAIC Designation Category until new prices ranges are developed to reflect the full range of new Risk Based Capital factors adopted for each NAIC Designation Category~~; except that a modeled Legacy Security RMBS or CMBS tranche that has no expected loss under any of the selected modeling scenarios would be assigned an **NAIC 1 Designation** and **NAIC 1.A Designation Cle458e5(-)-4 (at)-7(i)-2 (on)-4 ( C) Td.p.n C-4**

## MORTGAGE REFERENCED SECURITIES

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### NAIC Risk Assessment

32. In determining the NAIC Designation **and Designation Category** of a Mortgage Referenced Security, the SSG may use the financial modeling methodology discussed in this Part, adjusted (if and as necessary) to the specific reporting and accounting requirements applicable to Mortgage Referenced Securities.

### Quarterly Reporting for Mortgage Reference Securities

33. To determine the NAIC Designation **and Designation Category** to be used for quarterly financial statement reporting for a Mortgage Reference Security purchased subsequent to the annual surveillance described in this Part, the insurer uses the prior year-end modeling data for that CUSIP (which can be obtained from the NAIC) until the annual surveillance data is published for the current year. For a Mortgage Reference Security that is not in the prior year-end modeling data for that CUSIP, the insurer may follow the instructions in Part Two of this manual for the assignment of the SVO Administrative Symbol “Z” provided the insurer owned security meets the criteria for a security that is in transition in reporting or filing status.



## **GROUND LEASE FINANCING TRANSACTIONS**

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### **SSG Role and Process**

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