





**PART THREE**  
**SVO PROCEDURES AND METHODOLOGY FOR PRODUCTION**  
**OF NAIC DESIGNATIONS**



## REGULATORY TRANSACTIONS

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**NOTE:** See “Policies Applicable to Specific Asset Classes” in Part One for the policies governing this activity, as well as “Specific Populations of Securities Not Eligible for Filing Exemption” in “Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities” above.

### Defined

301. **Regulatory Transaction** means a security or other instrument in a transaction submitted to one or more state insurance departments for review and approval under the regulatory framework of the state or states. The term Regulatory Transaction is more broadly defined as a transaction engineered to address a regulatory concern one or more insurers have or may have that should be submitted to a state insurance department for approval and that has as a component a security or other instrument which on a stand-alone version may be an Investment Security, as defined in this Manual, that is eligible for assignment of an NAIC Designation.

### Status of Regulatory Transactions

302. A Regulatory Transaction is not eligible for:
- Assignment of an NAIC Designation by the SVO;
  - The filing exemption process for publicly rated securities;
  - The private letter rating component of the filing exemption or for use of the PLGI designation symbol;
  - Self-assignment by an insurer of the administrative symbol Z under the 120-rule;
  - Self-reporting by an insurer on the general interrogatory for securities eligible for filing exemption but for which no NAIC CRP credit rating is available (i.e., 5.B GI) and
  - Inclusion in the SVO List of Investment Securities or any other NAIC electronic system or processes maintained for operations for the VOS/TF.



## Intent

303. This section provides guidance to the SVO and the SSG on how to manage requests for assistance made by a state insurance department as authorized in this Manual. Insurance companies shall not report a Regulatory Transaction as a Filing Exempt security, and the NAIC staff shall not assign an NAIC Designation to the security component of a Regulatory Transaction or to the Regulatory Transaction or add them to the Filing Exempt Securities Process of the SVO List of Investment Securities. See the instructions on Regulatory Transactions contained in the compilation instructions in this Manual. This does not preclude the SVO from working directly with a state insurance department and issuing an opinion to the department consistent with the instructions outlined in this Manual.

## The Security Component of a Regulatory Transaction

304. However, as discussed above, the security component of the broadly defined Regulatory Transaction—i.e, a transaction engineered to address a regulatory concern one or more insurers have or may have that should be submitted to a state insurance department for approval—may be an Investment Security that may be eligible for designation under filing exemption or by the SVO on a stand-alone basis. For example:

An insurance company entered into a coinsurance reinsurance transactions thatt (O)1 (t)2 (or)



306. The SVO or SSG is authorized to conduct an analytical assessment on behalf of any state insurance department that requests such assistance. If the state insurance department of the insurer's state of domicile requests such assistance, the SVO shall engage in the requested analytical assessments of the security component of the Regulatory Transaction.



## Definition of SVO Analytical Value

310. An SVO Analytical Value produced by the SVO is an expression of the credit quality of the security component of a Regulatory Transaction which is expressed with the numerical symbols 1 through 6 in the case of a Regulatory Transaction within the reporting paradigm associated with the RTS code and can be expressed with the grade indicated by the letters A through G for Analytical Value of 1, and three delineations each for the Analytical Value 2, 3, 4 and 5 indicated by the letters A, B and C, and one delineation for Analytical Value 6. In the case of the security component of a Regulatory Transaction within the reporting paradigm associated with the RT code the SVO has not developed the SVO Analytical Value but in that case the Value is expressed with the numerical symbol 6.

## Codes and Their Meaning

311. **RTS** is reported for the security component of a Regulatory Transaction for which:

A state insurance department requested SVO assistance in assessing the credit quality of the security component of the Regulatory Transaction; and

The SVO provided an SVO Analytical Value for the security to the department; and

The department thereafter directed its insurer to report the SVO Analytical Value.

For the security component of a Regulatory Transaction within the RTS reporting paradigm, the reporting entity reports the analytical value it received from the department,



312. **RT** is reported for the security component of a Regulatory Transaction for which:
- A state insurance department did not request assistance from the SVO in assessing the credit quality of the security component of the Regulatory Transaction; or
  - The department requested the assistance of the SVO but the SVO determined the security component of the Regulatory Transaction was not an Investment Security if engaged in on a stand-alone basis; or
  - The SVO was unable to provide an SVO Analytical Value for the security component of the Regulatory Transaction.

For the security component of Regulatory Transactions within the RT reporting paradigm, the reporting entity always self-assigns and reports the SVO Analytical Value 6; e.g., 6 RT.

### **Annual Updates and Material Changes**

313. SVO or SSG determinations of an SVO Analytic Value are only applicable for the calendar year of the request and do not represent a permanent assessment of the risk of the Regulatory Transaction. The SVO Analytic Value will be withdrawn by the SVO the calendar year after it was requested, consistent with all other Initial and Annual assessments of investment risk in this Manual. In the absence of an updated assessment, the insurance company, with the insurance department's approval, will need to self-assign and report the SVO Analytical Value 6; e.g., 6 RT.
314. If the insurance company and/or insurance department requests an updated SVO Analytic Value for a subsequent calendar year, the SVO or SSG will reassess the Regulatory Transaction consistent with other Annual assessments of investment risk in this Manual. The insurer is expected to provide the necessary information to the SVO or SSG for its review. Any missing information will be requested by the SVO or SSG and expected to be provided promptly by the insurance company consistent with the Informational Deficiencies instructions in this Manual. At the completion of its assessment the SVO or SSG will inform the insurance company and insurance department of the updated SVO Analytic Value.
315. If the insurer becomes aware of a material change to the Regulatory Transaction at any time, it is the responsibility of the insurance company to provide the SVO or SSG with the necessary information to update the SVO Analytic Value assessment to reflect the change consistent with the Material Credit Events Filing instructions in this manual.