

**North American
Securities Valuation
Association**

Questions and Answers

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Q&A for Filers

Compiled from NASVA members over the last few years

Section 1: Filing Q & A

Q: Why have the SVO analysts issued info reqs for the compliance certificate on private placement securities where there does not appear to be a requirement for this in the P&P manual?

A: Throughout the P&P Manual, reference is made to the need for the SVO analysts to perform adequate due diligence and, in order to do that, they are encouraged to use their professional judgment in requesting additional documents for a particular credit. The overriding assumption is that providing this document ultimately benefits both regulators and industry. In this specific case, the compliance certificate is a useful monitoring tool for an officer of the company to certify compliance with all covenants, including financial covenants, with the Terms and Conditions of the original or amended Offering Memo.

Q: Why have the SVO analysts issued info reqs for copies of the filer's internal investment analysis for private placement annual updates, there does not appear to be a requirement for this in the P&P manual?

A: Throughout the P & P Manual, reference is made to the need for the SVO analysts to perform adequate due diligence and, in order to do that, they are encouraged to use their professional judgment in requesting additional documents for a particular credit. The overriding assumption is that providing this document ultimately benefits both regulators and industry.

Q: Is it critical for an investment committee memorandum to be submitted as part of the initial filing package? If so, and if one is not available do we have to submit a VIM form?

A: Yes, it is critical for this document to be submitted whenever it is available because it provides detailed information from the insurance company about the investment transaction and the issuer. If one is not available, the filer should make a notation to that effect in the comments section of the ATF form. This should prevent an Info Req from being generated. In the event a filer does receive an Info Req for this document a telephone conversation with the analyst should resolve the problem. If it does not resolve the problem then a phone conversations with that analyst's manager should resolve the issue.

A VIM form is not a good substitute for the investment committee memorandum as it is designed to duplicate the kind of information found in an offering memorandum or a private placement memorandum. Only if these two latter documents are not available, the insurer must submit a completed VIM form. See Part Five, Section 3 (a) (ii) of the P&P Manual.

Q: As a new filer, I would like the definition of “Code 99” and how/when it is used. Also, why is this topic excluded from the P&P Manual if this something the SVO regularly employs?

A: A “Code 99” is used in the VOS database to indicate that a security was reviewed and updated in the current year for the previous year. Code 99 securities are not viewable on the VOS database.

Code 99 is used to process:

(a) Annual update filings that are received too late in the current year and cannot be processed before year end

(b) Annual update filings received in the current year to update a security for the previous year

All Code 99 filings are processed only at the request of the filer of the security.

After the Addendum, the SVO posts all the possible Code 99 securities for the prior year on its website.

Q: Can the NAIC expand industry’s ability to delete ATFs that have already been received by the SVO? Companies have encountered problems in the past when the SVO analyst tries to delete a filing which has been received at the SVO and already scanned into the system. Oftentimes the filings do not get deleted from the Inquiry Service screen so they must be deleted by NAIC staff.

A: Currently, the filer of an ATF can delete that ATF at any time prior to either its being scanned into ISIS by the SVO or its 30 day expiration window.

Companies have encountered problems in the past when the SVO analyst tries to delete a filing which has been received at the SVO and already scanned into the system. Oftentimes the filings do not get deleted from the Inquiry Service screen so they must be deleted by NAIC staff.

Once the ATF is scanned into ISIS, only an SVO staff member can delete it from the system. The SVO has not encountered any problems with this process. If ATF information is displaying in Inquiry, then the ATF has not yet been deleted by the analyst.

Q: Should long-term Certificates of Deposits be filed with the SVO? If so, which section of the P&P Manual addresses this type of filing? Which specific documents should be submitted with the filing? Are there any regulator considerations that industry should be aware of?

A: *SSAP No. 26 defines Certificates of Deposit that have a maturity in excess of one year as a Bond. The P&P Manual states that all Bonds should be filed with the SVO for Designation and Valuation unless they are subject to a filing exemption.*

The insurance company should submit the same kind of documents as for a bond – financial statements for the issuer and the document describing the transaction. We are not aware of any special regulatory considerations.

Q: Is there a way to track the status of a Counterparty initial filing? Which types of filings can be tracked via the Inquiry Service? Which cannot?

A: *Corporate, Municipal, Government, Sovereign and Supranational and Structured Securities are the eligible Departments within the VOS database for display in both AVS and the VOS CD-ROM, therefore only filings under those departments can be tracked within Inquiry Service.*

Other departments, including Mutual Fund, Bank Letter of Credit, Surplus Notes, Counterparty and Subsidiaries cannot be tracked using the Inquiry Service.

Q: For securities with non-12/31 FYE, what is considered to be a current financial statement? Is it fair to say that 8/31 to 12/31/05 and 1/31 to 7/31/06 would be considered valid for the current year?

A: *January (of past year) – June (of past year) = past year designation
July (of past year) – December (of current year) = current year designation
January (of current year) – June (of current year) = current year designation*

We don't consider this a significant issue, as close to 95% of issuers have December, January, and March fiscal year ends. Our experience has been that the primary reason filings are not completed is the timing of the filing with the SVO rather than FYE issues.

Q: Does the SVO review initial filings to determine if they correctly identify the instrument as Schedule D or Schedule BA? Does it contact the filer if the type of initial filing is incorrect?

A: The SVO is responsible for determining whether an investment is Schedule D-eligible. In the case of Schedule BA, the SVO does not question whether the investment is eligible, but accepts the filing as is.

Yes, the analyst will contact the filer.

Q: How does the SVO determine the guarantor and populate it in ISIS? If a filer feels the auto-populated data on the annual update ATF form is incorrect, what should it do?

A: The guarantor information is determined from the documents submitted by the filer with the initial filing. SVO Analysts link guarantor to VOS issues by assigning the 6 digit Issuer Number of the particular Guarantor.

If a filer believes that the guarantor information in our database is not accurate, he/she should contact the SVO analyst responsible for that security.

Q: Insurers are becoming more active in the foreign bank loan market. Oftentimes the documentation available for these types of deals is not the same as with U.S. issued private placements. Such is the case with the Audited Financials since they are oftentimes published in something other than English. The insurer's Investment Analyst instead uses the Auditors Due Diligence Report, as it is a more complex accounting of the company's financial status than the typical audited financials. Would the SVO be willing to accept this document, (in lieu of audited financials) so that these instruments are not automatically limited to a NAIC- 5* ratings?

A: We do not have the option to decide what we will consider for purposes of an analysis. For corporate transactions the P&P Manual requires a financial analysis based on Audited Financial Statements in English. (That term includes the auditor's opinion, and all notes to the financial statement.) In the case of non-US securities, the SVO may also require reconciliation. The requirement aims at reliability. Its application to all securities where financial analysis is at least part of the methodology ensures all securities are being measured against the same yardstick.

It's not clear what an Auditor's Due Diligence Report is. The question is whether it fulfills the same purpose as an audited Financial Statement and whether it has the same degree of reliability and analytical usefulness. If we were to determine that it does and that it is a document that is widely in use, uniform and subject to ascertainable professional standards we could introduce an amendment to the P&P Manual to permit its use.

Q: Does the SVO follow a FIFO process in reviewing filings? If not, what type of process does it employ?

A: The SVO makes its best efforts to complete filings in the FIFO manner.

Q: What criteria does the SVO use when assigning a market indicator of "A"? Should all privately traded equities have this indicator? When is something assigned an "A" vs. "U"?

A: All private equities should have an "A" market indicator. The administrative symbol "A" indicates that the unit price of the equity was determined by the SVO.

"U" is used to indicate that the equity price is the price listed on any market or exchange, including a foreign exchange, other than NYSE, AMEX, or NASDAQ.

Q: A number of securities appear to have been reclassified from corporate bonds to structured securities over the past year or so. Many are lease-backed securities and other types of leveraged transactions. Historically these have been filed as corporate bonds as the analysis is based upon the corporate lessee/obligor. Why has the SVO reclassified these types of transactions to structured securities and which analyst is reviewing the filings?

A: The SVO has reclassified certain security filings from "Corporate" to "Structured" because the initial classifications were inaccurate.

"Corporate" bonds, and related filings, are typically defined as direct obligations of domestic and foreign corporations (see Part Seven, Section 2(a) of the P&P), whereas, "Structured" securities are typically not direct obligations of domestic and foreign corporations, notwithstanding the fact that some "Structured" securities may involve an underlying "Corporate" entity. Kevin Driscoll reviews structured securities.

Q: Will the SVO accept non-US GAAP financials? If so, under what conditions?

A: Yes. However, they must be in English with an explanation of how the national accounting standards differ from US GAAP.

Q: What type of information does the SVO require be filed for foreign public common stock which trades on a non-US exchange when no English language audited financial statements are available?

A: The Purposes and Procedures Manual of the NAIC-SVO requires GAAP audited financials in English for all filings.

Q: What consideration does the SVO give to a security where the issuer has declared bankruptcy and the bankruptcy judge has deemed the security has "adequate protection" (recognizes that the security will receive if not all, close to all of the interest and principal due) allowing the issuer to continue paying interest to the holders? If this security is still paying interest, and the expectation is that the principal will be repaid, and the security is trading at 98% is a NAIC-6 an appropriate designation?

A: Yes. When a debtor enters into bankruptcy, a legal entity called an estate is created by operation of law. All of the interests of the debtor to any interest in property to any legal rights whatsoever are transferred to the estate. At the same time, upon the filing of a case in bankruptcy, an automatic stay is imposed that precludes anyone from asserting any rights against the debtor and specifically against property of the debtor. A secured creditor is affected by this stay and therefore cannot by law enforce its rights to collateral without the court first lifting the stay. The argument the secured creditor will make is that it will be damaged (i.e., it will not have the ability to recover) if the stay is not lifted so it can enforce its rights in the property of the debtor. Oftentimes, the court has an interest in keeping the property in the estate so that debtor can use it to carry on its business as part of the reorganization. If the court is unwilling to lift the stay as it applies to the secured creditor it must, by law, ascertain that the secured creditor is adequately protected and if it finds that the secured party's interest in the debtor's property would be diminished by debtor's use of it, it must order the debtor to make payments to the secured party or provide other relief, such as giving the secured party a lien in other property to make up the loss in value of its collateral.

If a court actually lifts the stay and permits the secured party to exercise its rights in collateral, the security holder will cash out and should account for the transaction accordingly. If the court were to actually permit the debtor to continue to make payments of interest as an adequate protection remedy – that would be relevant to SVO valuation per Part Six, Section 3 (b) (iv).

Adequate protection, however, is not intended as a judgment by the court that the secured party will ultimately receive all or close to all of its interest or principal, only that its security interest is sufficient to permit the court to leave the automatic stay in place. An expectation that principal will be paid cannot flow from the court's judgment since all the judgment does as to repayment of principal is freeze the secured party in place. A judgment on the likelihood of repayment of principal can only flow from post reorganization performance of the issuer.

Q: How does the SVO define a distressed security? If a security has had a modification to its original payment terms (i.e. converted to PIK or extended maturity date) does this automatically mean it is distressed?

A: Although Part Six contains a definition of distressed, we prefer to use the material credit event standard. Any security where the creditor has had to renegotiate repayment terms, accept less coupon, extend the maturity date or forgive amounts due would constitute a material credit that should be reported and analyzed by us to see if it

requires a change in credit quality, valuation or both.

A conversion to PIK could certainly qualify under this standard. The concepts in SSAP No. 36 are both relevant and useful.

Q: Will the SVO use the same procedures as any other issue for Schedule BA Asset ATFs?

A: Established InfoReq procedures will be followed for Schedule BA Asset ATFs.

Q: If there are multiple issues under one issuer, and one issue is appealed, would the appealed rating (if changed, presumably up) be applied to all issues under that issuer? We did not think so, but one of our analysts was told by an SVO analyst that another issue for the same issuer were upgraded, they would upgrade all issues under that issuer. Is that true for all appeals? That one filed for one issue will blanket all of the other issues (even if no other appeal forms were submitted)?

A: See response to this question on the SVO Q & A on their website.

Q: Are Code 99's referenced anywhere in the P&P Manual?

A: The use of Code 99s is not referenced in the P&P Manual.

Q: How do you identify the correct CUSIPs for Bank Loans and Leverage Loans? If you can not identify a CUSIP what do you do with these and what is your filing process?

A: It is usually easy to identify which bank loan you hold from the Credit Agreement based on maturity date and date of issue. More often than not, these don't have available PPNs from S&P and you will have to request one. We are filing the bank loans that we cannot verify will have monitored ratings, but even those that qualify for FE treatment need to have a valid PPN.

Section 2: RSAT Q & A

Q: What documentation is required for an RSAT annual update? Do we have to supply support for both the reference obligation and the cash components?

A: Part Thirteen, Section 4 of the P&P Manual discusses filing requirements for RSAT annual updates.

Q: It does not appear that any of the short-term RSATs filed in 2005 or 2006 have been reviewed by the SVO and assigned a designation prior to maturity. As such, will the filing requirement for short-term RSATs be re-addressed in the future so industry does not have to file these types of securities?

A: The only short-term RSATs filed during 2005 and 2006 were those involving the S&P 500 Futures Index, which are typically 90 days in duration. Between the time an RSAT number is obtained and the filing is received by the SVO, in many instances, the time remaining to complete the filed RSAT is between approximately 30-45 days.

Q: What value does the short-term RSAT filing requirement provide to regulators if the filings are not reviewed prior to maturity?

A: The value provided to regulators for filing short-term RSATs is that it facilitates their accurate reporting on Schedule DB-Part F, to the extent that RSATs - by definition - are not rated securities but unrated derivative transactions used for replication purposes.

Q: When does the SVO plan to present its next report on RSATs to the Valuation Of Securities Task Force?

A: The SVO can prepare a next report on RSATs whenever it is requested to do so by the VOS TF.

Q: Does the VOS Task Force plan to re-evaluate the need for short-term RSATs to be filed? If so, when does it plan to undertake this examination?

A: The VOS Task Force confirmed at the December 2004 National Meeting that short term RSATs were required to be filed with the SVO.

Q: Currently, RSATs receive a charge for RBC and AVR. The cash component and the derivative that are included in the RSAT also receive individual charges in the AVR and RBC calculations. Therefore, there is a “double-charge” in both the AVR and RBS resulting from RSATs. The guidance allows a “credit”, if RSATs meet certain criteria, however, not all RSATs meet the criteria. Does the NAIC/SVO plan to address this issue as RSATs become more common?

A: The "credit" was allowed for the specific purpose of eliminating a double charge. We believe it probably was specifically considered when a credit should not be allowed or should be reduced – though perhaps not for every potential type of transaction. It seems appropriate that in cases where the credit risk of the cash instrument is not eliminated there should be an additional RBS charge. This issue is not currently on the working agenda of the Capital Adequacy (E) Task Force, but anyone is welcome to submit an issue to the Task Force for their consideration.

Q: Would any of you who file RSATs put a Z on a security on Schedule DB Part F that you have filed, but have not received a rating yet from the SVO?

A: YES!

Q: Does the 120 day filing rule apply to short-term RSATS?

A: I include RSATS in my reporting of the 120 day rule and the interrogatory.

Section 3: Schedule BA Asset Q & A

Q: What documentation is required for a Schedule BA annual update filing?

A: An annual update ATF accompanied by the obligor's most current audited financial statements.

Q: The SVO's list of Schedule BA assets posted on its website appears to contain instruments that should be reported on Schedule D. Why?

A: If an investment is filed as Schedule BA, we do not question the decision of the filer.

Q: Are low-income housing tax credit instruments required to be filed under the Schedule BA filing initiative?

A: The SVO recommends that all investments that derive any part of their return from tax credits be filed on Schedule BA. The Classification and Designation will be the same as if filed on Schedule D.

Q: Are all surplus notes required to be filed with the SVO? If not, why and which ones should be filed?

A: The P&P Manual provides that surplus notes with public ratings equivalent to NAIC1 may be filed for inclusion in the list in Section 11 of the appendix.

Surplus notes with public ratings equivalent of NAIC2 or lower, or unrated surplus notes must be valued according to the rules in SSAP41. These surplus notes must then be filed as Schedule BA assets with the SVO. The filing must include the latest annual blank for the issuer. The SVO will review and approve the "statement factor" for valuation that is specified in Paragraph 10b of SSAP41.

Q: Is it possible for a BA Asset to be FE rated?

A: It is not possible to have an FE on Schedule BA.

Section 4: Filing Exemption Q & A

Q: Why are NRSRO rated Surplus Notes reported as FE on the VOS CD Rom if they cannot be reported as such by industry?

A: For the most part, Schedule D securities (FE pool) containing at least one NRSRO rating and not within the VOS database are currently classified as FE, including Surplus Notes. Known exceptions to this rule include specific government exempt issues (see #33 below), perhaps also Surplus Notes. The removal of Surplus Notes from the FE database was raised earlier this year. It's not as easy as suggested to completely distinguish and filter the entire Surplus Notes universe due to inconsistent information within the CUSIP feed.

Q: Are there any plans to remove Surplus Notes from the FE process?

A: The reporting and accounting framework for surplus notes does not incorporate credit ratings. Under SSAP No. 41 – only NAIC 1 equivalents are eligible for amortization treatment and SSAP No 41 provides for these surplus notes to be filed with the SVO for listing per Part Twelve of the P&P Manual and Section 11 of the Appendix of the P&P Manual. All other surplus notes (whether rated at the equivalent of an NAIC 2 – 6 or unrated) are valued in accordance with the formula in SSAP No. 41. Therefore the filing exempt concept does not apply to surplus notes since ratings serve no function in their reporting or valuation.

The SVO has worked with NASVA to clarify this and has a proposal before the Task Force to clarify Part Fourteen of the P&P Manual since surplus notes are Schedule BA assets reportable on the surplus note line.

Q: What are the requirements for a private letter rating to be used as support for a FE designation? Is a private letter rating with a current year date required each and every year or is the letter valid for the life of the security as long as the filing company monitors the issuer for material changes?

A: The letter needs to provide proof to your examiner that the security is currently rated and monitored.

Q: In the case of Trust securities (where all securities put into the trust remain for the life of the trust, except in the case of failing credit or bankruptcy where the collateral is removed) does the initial private rating letter validate the FE designation for the life of the Trust or is the Private Letter Rating with a current year date required each year?

A: A Private Letter Rating would be required each year. The performance of the securities in the trust must be monitored each year.

Q: Is FHLB capital stock considered to be filing exempt?

A: No, according to the P&P Manual, FHLB capital stock is not considered FE. Section 17 specifically says that for 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."

Q: What is the anticipated implementation date for AM Best ratings to be included in the FE process?

A: AM Best ratings are currently slated to be incorporated within the FE process by 8/25/2006.

Q: Fitch introduced a new rating methodology with regards to distressed or defaulted investments on April 25th. How does this change affect the FE process?

A: This change will not impact our current FE process. Our NRSRO rating(s) translation(s) to Designation takes into account whatever is reflected in the NRSRO rating(s).

Q: DBRS announced a new rating methodology for bank ratings on June 1st. How does this change affect the FE process?

A: This change will not impact our current FE process. Our NRSRO rating(s) translation(s) to Designation takes into account whatever is reflected in the NRSRO rating(s).

Q: It is permissible to report Schedule BA assets with FE designations?

A: The Schedule BA process is a classification and designation process. The FE process is not valid for classification purposes. To receive a Classification other than the standard BA classification (i.e., to receive fixed income-like), the security must be filed with the SVO.

Q: What steps, if any, are the SVO and/or the NAIC planning to take to resolve the issue of different classifications for NRSRO rated securities in the VOS database vs. the FE database? For example, in early 2005 a security is a 1FE bond in the FE database and, subsequent to a filing, becomes a RP1 preferred in the VOS database in late 2005. At the end of the addendum period (end of January 2006) the security reverts back to a 1FE bond since it is NRSRO rated. Since this will create on industries end all kinds of systems errors, has the SVO thought of how they will handle this situation in the upcoming year?

A: Briefly, the SVO will implement a change that will no longer allow FE eligible securities with VOS designation to revert back to FE status after the addendum. This change will take effect in October 2006.

Q: Are there any plans to begin tagging securities filed at the request of a regulator so that the FE designation does not override the SVO assigned designation? In kind, how does the NAIC plan to address NRSRO rated securities which have qualified ratings?

A: At this point, NRSRO rating feeds do not flag or differentiate qualified ratings.

Q: Has the SVO performed an internal cost-benefit analysis of Gary Wickland's proposal for managing the data verification of multiple NRSROs?

A: We have not yet been able to do the cost-benefit analysis.

Q: It is our understanding that CUSIPs in the FE database are matched to ones contained in the NRSRO data feeds and then converted into FE designations which are populated in the FE database. We are aware the NRSROs use many different types of identifiers in their data feeds such as ISIN. For those securities which are determined to be Unconfirmed FE, does the NAIC ever use the feed they receive from the S&P CUSIP Service Bureau to further decode the ISIN numbers into CUSIP/PPN/CINS so more securities can be identified as FE? If not, why?

A: The CUSIP/PPN/CINS values within our S&P CUSIP feed serve as the common identifier within the FE process. Our system is not currently geared to decode ISINs or any other identifier beside CUSIP/PPN/CINS within the CUSIP feed. Insurers can inform the S&P CUSIP Bureau to insert missing CUSIP values, if available.

Q: US government exempt securities still continue to appear as UFE or 1FE. Why? We

were told that this problem would be corrected in 2005.

A: Rodney is currently involved in discussions with the SVO Support Team and Todd Sells/Matt Minnich of FRS to develop procedures to properly identify and remove these government exemptions from the FE and UFE data buckets. It will be a gradual process at the outset but expect to have tangible results within the next few months.

Q: When does the NAIC plan to implement a change to the second lowest in its FE process? Should industry expect to see the change as of January 2007 or a later date?

A: The FE process will implement the second lowest rating principle immediately after the 2006 Addendum, approximately 01/16/2007.

Q: Who should a company contact if it has a question regarding an FE designation or price contained within AVS? Should the company e-mail the NAIC helpdesk? Which department or group of the NAIC staff members are responsible for addressing the question?

A: Filers who have questions about FE designations or prices can apply the following hierarchy to researching the problem:

- 1. Investigate the company's internal processes to determine whether the source of the problem is on the company's side, i.e., data feeds are not current, source of rating or price is not reliable, etc.*
 - 2. Contact the rating or pricing agency directly and ask them to investigate whether the security has a rating and/or price and if so, if the security is on their feed. Filers should not rely on rating agency web sites or Bloomberg to resolve discrepancies.*
 - 3. If the rating agency confirms the company's data, contact the NAIC Help Desk. The e-mail will be given a ticket number and then routed to the appropriate NAIC staff for investigation.*
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Q: On the NRSRO rating feeds, issues are identified by different types of identifiers (CINS, ISIN, CUSIP, PPN). Which type of identifier(s) does the NAIC use in the FE rating confirmation process?

A: The NAIC uses CINS, PPNs, and CUSIPs in all of its applications.

Q: We are still seeing securities being reclassified by the SVO from bonds to preferred or common stock even with the new FE rules. We have been advised to take the matter

up with our individual state insurance departments on a case-by-case basis, but because the bulk of these reclassifications take place at year-end, there isn't always time to get a response from the state, or in some cases multiple states. Is there a ruling for interim reporting of these securities? Is there any thought to giving them their own suffix (perhaps H for hybrid) so that they don't have to constantly be moved between Schedule D – Part 1 and Schedule D – Part 2 Sections 1 or 2?

A: This question makes a number of assumptions that must be clarified before we can offer a suggestion of what may be happening here. It is important to understand that the SVO does not have the ability to affect the FE process. Therefore, the SVO is not reclassifying securities that have been reported by an insurance company on its financial statement as FE. The SVO keeps statistics on performance for all of its activities. We are now, and have been for some time, completing 60 percent of the work filed with us within 30 days of the filing, with the balance following in quick order.

With respect to the classification of FE securities. At the present time, the only way that the SVO would be conducting classification analysis on NRSRO rated securities is if an insurance company files the NRSRO rated security voluntarily or if it files the NRSRO rated security at the direction of a state insurance regulator. In these cases, the SVO will assign a Designation consistently with the FE rule, but as the FE rule only impacts credit – the SVO will conduct a classification analysis. The decision that results from that analysis may differ from the company's expectations for a number of reasons, some of which have to do with the name given to the security and the identifier assigned to the security as a result of that. However, once a security that is otherwise eligible for the filing exemption is filed with the SVO, it is no longer eligible for or considered to be filing exempt but is considered an SVO designated security (and classified) security.

Q: Are we required to use the SVO's market prices for securities contained in the FE database?

A: Yes, regulators expect the SVO to provide market prices.

Q: Are RSATs eligible for FE designations?

A: No, they are not.

Q: Why are FE securities assigned a classification type in the FE database? There is nothing in the P&P manual that indicates a requirement for an asset classification – all it requires is the existence of an NRSRO rating.

A: For a security to be FE eligible, the P&P manual requires the existence of an NRSRO rating and also requires that this rating be continuously monitored. The NRSRO ratings are electronically transmitted to the NAIC and are translated into the

appropriate designation. For each of the NRSRO's there is a separate conversion chart for each classification (bonds, preferred stock and commercial paper). The FE process needs to know the security's classification in order to access the correct conversion chart to determine the security's FE designation. See Section 4 of the P&P manual Appendix for the rating Equivalent charts for the NRSRO's.

Q: After DBRS became an NRSRO recognized by the NAIC, there was a time lag before the DBRS ratings were incorporated into the FE designations reported by the SVO in the month end files. Have AM Best ratings been incorporated in the month end files yet? If, not do you know the expected time frame?

A: *AM Best was completed in August 2006.*

Section 5: AVS/ ISIS System Q & A

Q: Is the AVS charge based on a per minute connectivity basis or a per security look up basis?

A: It is based on a per-minute charge for the time a customer is on the Search Maintain Portfolio link.

Q: Please explain how the Issuer name and Issue Description are populated on ATF forms.

A: This information is included on a feed from S&P CUSIP. The data is stored in ISIS and retrieved as needed to populate the ATF forms.

Q: Is it possible for the SVO analyst to extend the 90 day response period on an Info Req if the materials would not be available in the 90 day time period?

A: A list of all ATFs that have reached the end of their retention period and will, therefore, be deleted is posted on the SVO web site two weeks prior to the deletion process. Filers have ample opportunity to access the list, contact the analyst and provide the SVO with the information needed to complete the ATF package. Analysts do not have the option of extending the life of an Info Req ATF. However, in exceptional cases, at the request of the filer an analyst may retain the originally submitted material for a specific period of time after the ATF has been deleted so that the filer needs to submit only the missing information with the new ATF.

Q: Can the SVO post via their bulletin board when asset types are changed from bond to preferred/common stock or vice versa in all cases (not specifically hybrids)? If not, why not?

A: This is not a simple task to accomplish within AVS or systematically on the SVO's end. It would require comparing historical databases which is extremely dynamic.

Q: There is a big push for industry to get financial information out faster in order to meet new SEC reporting deadlines. Can the NAIC release the month-end valuation files any earlier than 8:00 a.m.? Is it possible to release them on the 2nd business day instead of the 3rd business day so as to make their timing agree to that of the quarter end

downloads?

A: This is a joint effort between KC and NY whereby (1) KC runs certain processes, (2) the SVO approves the output and (3) KC then runs the AVS files that are releases. The SVO approval takes the same amount of time (1day) for both quarter end and month end. We are currently reviewing the requested change for month end processing to start on the last business day of the month. This issue is currently under review and requires input from the SVO, the SVO Technical Team and Accounting. In the end, we believe the timeframes for monthly and quarterly files are the same, but with capability and approval, we may be able to release sooner.

Q: Is it possible to make the security description (name of security) appear on the Inquiry Service Screen?

A: This enhancement should be submitted to the SVO where it will be prioritized along with other ISIS enhancements. We will include this on our list of enhancements for consideration in upcoming releases.

Q: What is Online Incomplete Processing and why are companies charged for it on their AVS invoices? How can it be prevented?

A: This charge is the result of users not logging out of the system correctly. With non-usage, the system remains active for a period of 15 minutes, and then automatically logs the user out. There is a maximum charge of 5 minutes each time this happens, and that charge is reflected on the invoice as Online Incomplete Processing. To log off correctly, click the Logout link in the blue menu bar. Another screen will appear to verify your request to log out. Next click the yellow "logout" button to complete the process. This procedure is explained on page 24 of the AVS Users Guide, which is sent to all new customers and is also posted at <http://www.naic.org/svi/training.htm>.

Q: Please explain which identifiers can and cannot be used with the NAIC's systems. For example, domestic issues use CUSIP or PPN while foreign issues use CINS. Does the SVO foresee moving to identifiers that are more in tune with the market place (SEDOL, COMMON or ISIN)? How does the NAIC determine/select which types of identifiers can be used?

A: The SVO uses CUSIP/PPN/CINS as the exclusive identifier. The CUSIP/PPN/CINS values within our S&P CUSIP feed serve as the common identifier within the FE process. Our system is not currently geared to decode ISINs or any other identifier beside CUSIP/PPN/CINS within the CUSIP feed. Insurers can inform the S&P CUSIP Bureau to insert missing CUSIP values, if available.

Q: Are there any plans to begin accepting LSTA (Loan Syndication and Trading Association) numbers for bank loan transactions?

A: *Not at this time.*

Q: Can the NAIC's systems be expanded to contain CUSIP numbers for the SVO approved Money Market Funds as well as the exempt US Government securities? This would greatly improve the accuracy of the Jumpstart reports and the efficiency of the examination process.

A: *There are no plans to expand our system to include CUSIP numbers for money market funds. As for the US Government Exempt securities once we establish a process with FRS, these securities will accurately appear within Jumpstart and improve the overall efficiency of the examination process.*

Q: When is the next ISIS enhancement scheduled to be released? What will be included?

A: *The following enhancements to the ISIS system will be available in production on Friday 2/23/2007. Please distribute to your membership.*

- ***Prevention of Duplicate Appeals for Securities.*** *The ISIS/ATF application has been modified to prevent filers from creating duplicate Appeal filings for a security.*
 - ***PAM Request Access for Examiners within I-SITE.*** *A new PAM link will be available within the Categories page in I-SITE to allow state examiners to submit electronic PAM Requests via ISIS.*
 - ***AM BEST Ratings Within ISIS***
 - ***AM BEST ratings have been installed along side the other 4 agencies within our internal ISIS/VOS application.*** *The ISIS/ATF application will be updated in our next major release in June.*
-

Q: How does the ISIS system link guarantors to specific issues? Does it use the Issuer ID? If so, what if a guarantor has more than one Issuer ID? Which one does ISIS select?

A: *SVO Analysts link guarantor to VOS issues by assigning a 6 digit Issuer Number of the particular Guarantor (Issuer). Since a given issuer can contain multiple issuer numbers, the ISIS system was adjusted last year to utilize the full Guarantor Name*

(Issuer Name) for billing purposes.

Q: How is “issuer” defined/determined in VOS?

A: All issuer/issue information in VOS comes directly from the S&P CUSIP feed. The SVO analytical staff cannot modify this data in any way.

Q: Industry has reported problems over the past year with the lack of coverage at the AVS Help Desk during quarter-ends. Who is responsible for answering questions during this period and who should industry contact? Is there a back-up contact?

A: We are unaware of any particular response issues experienced by industry users during quarter end periods. Because we only have 2 AVS administrators, it is recommended that inquiries be sent to the avsisis@naic.org distribution list. This will ensure that both administrators have access to the inquiry. It's important to note that the AVS Administrators are available during normal business hours, which are 8:30am to 5:00pm CST, Monday through Friday. Any inquiries that come in outside of normal business hours will be responded to as quickly as possible during the previously noted hours. Currently, we do post both month-end and quarter-end schedules on the AVS bulletin board. In addition, beginning with the September quarter end, we will post AVS FAQ's which should answer many of the most commonly asked questions.

Q: When a filer responds to an INFOREQ, the ATF# appears in Inquiry Service but the response date does not. Does the NAIC have any plans to correct this problem?

A: Based on the Inquiry Service's current setup, the InfoReq Response Dates for requested items are not predicated by a filer's response, but internally by the SVO analyst. The response date will only populate when an SVO analyst internally marks at least one requested item as received but the Info Request will still contain other outstanding requested items. It can be confusing at times but the system is functioning properly.

Q: Would it be possible to post a list of completed (reviewed) securities to the bulletin board or the SVO website on a monthly basis so that all market participants are aware of the SVO's actions?

A: Not at this time.

Q: Why is it that sometimes the Inquiry Service screen identifies a CINS/ CUSIP/ PPN as being invalid when it is contained on the S&P's CUSIP or ISID Plus database? The

identifier is obviously valid so why can't you file an ATF using the number?

A: The only time a CUSIP will trigger the "Invalid CUSIP" message in Inquiry is when that CUSIP is not on the S&P CUSIP daily feed. The filer should confirm with the S&P CUSIP Bureau that the CUSIP is valid and then request that they add it to the CUSIP's feed to the SVO.

Section 6: Annual/Quarterly Statement Reporting Q & A

Q: There is continual confusion as to whether Leveraged Loans/Bank Loans should be reported as Schedule D assets or Schedule BA assets. Industry would like clarifying language added to the Instructions so that it explicitly states these instruments should be reported on Schedule D. Should I submit a Blanks Change?

A: SSAP No. 26 includes Bank Participations in the definition of bonds. Per Robert Carcano, syndicated loans of banks and participations generally refer to the same thing. If this is the only change that is pursued, then industry could submit a blanks proposal to add an instruction that indicates syndicated loans of banks are included in Schedule D, Part 1, since they are synonymous with bank participations defined as bonds in SSAP No. 26. If there are other types of bank loans that are in question, then the SVO/VOS TF would need to determine that they do or do not qualify as bank participations.

Q: Why are ARO-rated Surplus Notes required to be reported on Schedule BA instead of the Schedule D?

A: There has never been any accounting or reporting guidance to indicate that rated surplus notes should be reported in a different location than unrated surplus notes. Schedule BA has the reporting category for surplus notes, and unless and until some other methodology is adopted by an NAIC committee, they are all to be reported in that category.

Q: Please clarify why the Examination Jumpstart report identifies FE securities under the “CUSIPs Not Found on VOS Database” report when these securities are only found in the FE database, not the VOS database. Shouldn’t this report only identify those securities which are reported without a suffix (i.e. non-Z or non-FE) and compare them to the VOS database? Also, why does it identify affiliated securities since these have never been part of the VOS database?

A: There are several issues with Exam Jumpstart reports that need to be addressed in light of the PE and now FE rules and other concerns. However, the first question is actually supposed to be handled already; if an investment exists in the FE datafile (either current or history), then it should not kick out as a CUSIP not found exception. I would need to look at the specific situation to determine the cause of the exceptions. As to affiliated securities, keep in mind that all affiliated securities are not private. Thus, we would want the publicly traded affiliated securities to be subject to the same checks as publicly traded non-affiliated securities. For the privately held securities, I believe those do have to be filed with the SVO - and thus, should actually show up in the VOS datafile. If this latter question is focused on equities, the problem is we cannot distinguish between the privately held and publicly traded equities in the SCA category of Schedule D Part 2, Section 2.

Q: What types of securities are included under the scope of the General Interrogatories question regarding SVO compliance? Does it include all Schedule D assets, Schedule DB-Part F and fixed income-like Schedule BA assets?

A: The general interrogatory replaced the separate supplemental filing (SVO Compliance Certification). Thus, it includes any and all investments for which the insurer is required to comply with SVO procedures. For example, a life insurer that has separate account investments that are not subject to SVO requirements would not answer the interrogatory in terms of those separate account investments. Regarding the BA fixed income-like investments, remember that the filing of those securities is optional. As long as the insurer is complying with the reporting requirements (including the investment in one of the "Other" categories of BA) if they choose not to file with the SVO, they are still in compliance with the SVO requirements.

Q: Where should bank loans be reported, Schedule D or Schedule BA?

A: All Bank Loans are eligible for Schedule D reporting.

Q: When a new filing/reporting requirement is approved by the VOS/TF, such as for BA Assets, what type of coordination occurs between the NAIC's Accounting and Financial Reporting Groups at the SVO to ensure all of the necessary publications are up-to-date and provides consistent guidance? Is there a standing group of people who work on these types of updates?

A: SVO and KC staff meet on a period basis to discuss these issues, and to coordinate the work of the SAPWG, EAIWG and Blanks Working Group and VOS Task Force. These groups work hard to ensure coverage within each of their areas for any conference call and or meeting that takes place where issues may overlap. In addition, both groups meet prior to the national meeting to share their perspective on overlapping issues. Follow up among these staff takes place where necessary in order to incorporate any adopted guidance into the respective area publications.

Q: Where should Class One Money Market Funds, Commercial paper and Cash Equivalents be reported? Schedule DA or Schedule E?

A: Class One Money Market Funds are included in the appropriate line number range of Schedule DA, Part I.

Commercial paper is defined as a bond in SSAP No. 26; thus if the term is longer than a year, it goes on Schedule D, Part I; if the term is less than a year but greater than 90

days, it goes on Schedule DA, Part. ; if the term is less than 90 days and it qualifies as a cash equivalent, then it is reported in Schedule E as described below.

Cash Equivalents as defined in SSAP No. 2 are included in Schedule E, Part 2 (annual 2004 and quarterly 2005; Schedule E, part 1 along with cash depositories for quarterlies 2004 only).

Q: There used to be a designation column for DA. This column is required on the quarters for Schedule D Part 1b and annually for Schedule D Part 1a Section 1. I called the number for annual report preparation questions and was told that the decision was made to delete the column (no documentation was available as to why the decision was made) and was told that I would still have to determine the designations for these parts. As we have to share information with another company quarterly and annually, they have also asked me to include the designation column on all parts of DA when sending to them. They need to know the designations for IMR/AVR purposes. As our DA securities generally have designations of 1 to 3, it is taking a lot of time to look up the information. Can the column be reinstated, or how are other filers dealing with this issue?

A: *The referenced schedules are limited in terms of the amount of information that can be reported using even the very small 6-point font. Regulators have made a decision to not require this particular column based on:*

- 1. A relatively smaller amount of credit risk on shorter – term securities.*
- 2. In part due to the size limitations*

However, any person at any given point in time can complete a blanks proposal if they feel they can justify the reason for the change. NAIC staff suggests you complete the form on the following (http://www.naic.org/frs/financial_statement_reporting/index.htm) and also submit your request to Dan Daveline at ddavelin@naic.org. It will be considered for exposure at the NAICs next regularly scheduled meeting.

Q: The CUSIP column was deleted on Schedule DA Part 1 and combined with the description. Securities under 90 days have to be moved to Schedule E Part 2 where the columns are separated, it is taking time to manipulate the information. Can the CUSIP column be returned?

A: *As mentioned in the previous answer, anyone can submit a blanks proposal to make a change. However, as a point of clarification, no manipulation should be required because only securities purchased with maturities of less than 90 days to maturity are reported on Schedule E, part 2.*

Q: The NAIC Annual Statement instructions say to report cap corridors & collars on Schedule DB, Part C. The question is, should the pieces (i.e. buy a cap and write a cap – our current corridor we bought) be reported individually or should the transactions be combined and shown as one item with the data netted for the columns? This is not clearly stated, what is the expectation?

A: As the question indicates, the instructions don't explicitly state how the item is to be reported but, generally speaking, we believe it is more transparent to show them individually. We suggest that any company with a concern may want to contact their state of domicile to determine how the state would like it to be reported.

Q: Schedule E, Part 2 – Cash Equivalents currently does not have a Verification Between Years to disclose the disposal and acquisition activity and reconcile beginning balances to ending balances. Will a VBY be added at some point in the future?

A: As previously mentioned, a blanks proposal can be submitted to make a change by any individual. Recently a subgroup (Investment Schedules Subgroup) has been formed by the Blanks Working Group to review the inconsistencies between the various investment schedules, and this particular issue is one item that was noted for discussion by that group. It is uncertain at this point what the subgroup will conclude with respect to this issue.

Q: Schedule E, Part 2 – Cash Equivalents currently does not have a place to report income on investments held in prior periods and disposed of during the current period. Since you only report holdings at the end of the period, the gross investment income reported is only for investments still held. At year end, the YTD income is reported in the Exhibit of Net Investment Income, but where should it be reported on the quarters?

A: The NAIC has made decisions within its committee structure that place more emphasis on the annual filing and - as a result - this amount will only show up in the total net investment income line on a quarterly statement and will not be detailed out in a separate schedule.

Q: What is the purpose/benefit of collecting the information on the Quarterly Schedule DA Part 1 Column 4 (Interest Collected YTD) and Column 5 (Paid for Accrued Interest YTD) only for the securities owned at quarter end?

A: This is an issue that we will place on our list for discussion with the Blanks Working Group.

Q: How do you determine what goes on Schedule D and what goes on Schedule BA? Given the new filing requirements of BA, the line seems to have blurred.

A: Determination of whether a security is a Schedule BA asset is made by the reporting entity from accounting guidance. The SVO accepts this determination. If the security is considered a Schedule BA asset, then the company must then determine if it is fixed income-like. If so, the company decides whether it wants to file the security with the SVO or take a 6 designation.

Q: For holding companies listed on Schedule BA that serve as investment subsidiaries, should the AVR/RBC instructions and the AVR/RBC forms be updated to clarify that a look-through approach for purposes of calculating the AVR and RBC should be applied to investments held within the holding company, similar to SCA Investment Subsidiaries on Schedule D?

A: Generally investment in holding companies should be listed on Schedule D Part 2 Section 1 or Section 2 as applicable and not Schedule BA. It should also be pointed out that the instructions for Schedule D Part 6 Section 1 specifically exclude holding companies from being an investment subsidiary.

Q: What should be done with surplus notes that do not appear on the approved list? How should these be reported? Should they be filed with the SVO just as any other corporate bond or are their special filing requirements?

A: Not all surplus notes need to be filed with the SVO. Only those rated A or higher are included on the List of Capital and Surplus Notes Eligible for Amortized Value Accounting which is maintained by the SVO. In order to get on this list, the insurance company must submit an Initial Filing Surplus Notes ATF. Filers do not need to submit annual updates for these notes. All surplus notes regardless of whether they are on the list or not, are Schedule BA assets and their treatment is detailed in SSAP No. 41.

Q: Where in the schedules would you report non-tradable rights from hybrid securities?

A: You report your non-tradable rights (not Hybrids) on Schedule D, Part 2, Section 2. Hybrid long term guidance still has not been formalized.

Section 7: Pricing Q & A

Q: It is our understanding that the SVO only uses the monthly feed it received from IDC to price the securities in AVS. Please confirm that the prices you receive are what is referred to as Bid-Ask? Could you offer an explanation for why this particular price type represents, in your opinion, the fair value of the bond?

A: The "Bid" price is used as a better gauge for a fair market value of the security.

Q: Why does the SVO have prices in the AVS system that are not current month prices? Is there any thought to deleting the stale prices on a regular basis rather than just performing the pricing delete conducted in December and only pass through current month-end prices for publicly traded securities?

A: All prior-month prices received from IDS and IDC Foreign are deleted as part of month-end processing.

Q: Why doesn't the SVO take ownership for the data verification of all prices it receives on its vendor feeds regardless of whether a security is in the FE database or VOS database?

A: The SVO uses IDC and IDC Foreign month-end closing prices. In cases of "bid" and "ask", we use the "bid" price. If your vendor price does not match the IDC and IDC Foreign price in the SVO database, you should contact your vendor directly.

Q: Can a pricing ATF be submitted at any time throughout the year? If not, what are the restrictions and when can it be submitted?

A: Please refer to the "Pricing Request ATF Instructions" document (pages 1 and 2) accessible through the following link, which addresses this question in detail:
http://www.naic.org/documents/svo_Pricing_Request_ISISATF2005.pdf

Q: Which pricing vendors does the SVO use and what types of prices does it use from the vendor? For example, does it use Bid Evaluation, Last Trade, Bid, etc.

A: IDC is the SVO's vendor. We use month-end closing prices.

Q: Should all private common stock with a market indicator of “A” and a current year review date have a price assigned? If so, what should an insurer do if it finds this is not happening?

A: If a private common stock with a current year review date does not have a current price, the insurer should contact the SVO analyst responsible for that security.

Q: Under what circumstances does the SVO assign a zero price to a security?

A: If the application of the analytical methods in Part Six of the P&P Manual are not sufficient to enable the SVO to determine a unit price for a private security designated NAIC6, the SVO will assign that security a unit price of zero. The filer can contact the responsible analyst if he/she is not in agreement with the valuation.

Q: How can a security that is current on its payments be assigned a zero price from the SVO?

A: We should be able to price a bond but not equity securities. Please provide us with an example.

Q: When requesting a market price, what type of support should be provided if the price was derived through an internal pricing process (matrix, impairment, etc.)?

A: Reference Part Six, Section 3 of the P&P Manual for information on pricing securities for which no public price is available. In addition to the documentation discussed in the P&P Manual, it is always a good idea to provide written rationale for a recommended price.

Q: If multiple pricing requests are submitted for a single security, how does the Credit Analyst determine which market price to populate in AVS?

A: The SVO has the discretion to determine which price is the most reasonable which is not necessarily the lowest price. An insurer who disagrees with this price could contact the analyst for an explanation of how that particular security was priced.

Q: What is needed for certain types of supporting documents for pricing to be accepted by the SVO?

A: Use of internal pricing models and or internal valuation analysis. You would need to explain not just the price but also what assumptions are used in generating the price. It

is more than providing a price, it is also describing the process as well as any premium attached to the daily yields.

Q: Was there any notification to industry that the fee for the P&P manual had changed?

A: Yes, the NAIC did notify all existing customers in December/January that the price was being raised to \$100.00 and posted the new pricing on our web site and in our catalogs. Regardless, we realize that there is confusion given that the P&P manual itself list the price at \$65.00. We apologize for the confusion. What we are going to do is refund \$35.00 of the \$100.00 for each customer that actually paid their invoice. For those that have not paid, we are going to credit \$35.00 toward the invoice and will request payment of the \$65.00. We will notify all customers individually of this approach.

Q: If the FE Security (bond, preferred, or common) is on the SVO file with a price, are we required to use this price?

A: Yes; however, if you know this price is incorrect, then an insurer should use its best judgment. In addition, please refer to Schedule D 2004 NAIC Annual Statement Instructions, which provide the following instructions regarding the rate used to obtain fair value column: "If this rate is not published in the NAIC Valuation of Securities, obtain a rate from a registered U.S. exchange. If a fair value is not available from these sources, the insurer should determine a rate."

Section 8: Billing Q & A

Q: Why are annual update fees based upon issuer instead of the creditor/guarantor/obligor?

A: *With the first issue of the issuer billing enhancements, implemented in June 2005, Corporate Annual Update fees are predicated on third party support (if available) within VOS.*

Q: Industry is charged for "online incomplete processing time" on the AVS invoices. What exactly does this represent and how is it tracked and billed by the NAIC? How can industry be charged for online incomplete processing time at the exact time when it is also charged for being logged into the AVS system?

A: *Each time an AVS User enters the "Search/Maintain Portfolio" area of AVS, they are beginning a "Session" that carries a \$2.75 per-minute fee. These sessions last the entire time that the user is in the fee-bearing part of the system. Failure to log out of the application at the end of a session will result in the incomplete processing charge. There are two ways that a user can end a session without incurring incomplete processing charges:*

1. **Log Off.** *Click on the Logout link in the upper right of your screen and when the log out page displays, click on the button. This ends the session normally and that session will bill as either "Connect Time for Inquiry Access" for Inquiry-Only users, or as "OnLine Connect Time" for Full-Access users. On the invoice, each session is detailed in the notes to this line item;*
2. **Move to a non-fee bearing part of the system.** *This will also end the session normally and the system will bill exactly as when a user logs out.*

However, when a user leaves the system without logging out as outlined above, they will then incur the incomplete processing charge. In those instances, the charge is calculated by recording the last activity performed in the session and then adding five minutes to the session. These sessions are billed as "Online Incomplete Processing Time" and are detailed in the line notes.

It's important to note that if multiple windows are open under one user ID, that each session must be logged out or any session that is not logged out correctly will result in incomplete processing time.

Q: Has the NAIC determined why filers have had problems with the receipt of invoices over the past year? If so, what is the cause and what is being done to remedy the problem?

A: A "copy center/mailroom problem", according to Darryl Thacker in Kansas City, resulted in the June and November invoices not being sent out last year. He has assured us that he has found and corrected the cause and that it should not happen again.

Section 9: Miscellaneous Q & A

Q: What is the NAIC's Business Continuity Plan in the case of disaster (i.e. avian flu) and how will it impact the operations of the SVO?

A: The plan that we follow would depend on the magnitude of the disaster relative to our staff, our offices, and our city.

We assure you that we will do everything possible, as we did after September 11, 2001, to continue, or resume, our operations as quickly as feasible given the particular circumstances that we face.

Q: Who is responsible for monitoring the accuracy of and recommending updates to the US Government lists in the P&P manual?

A: Reference Part Two, Section 10 of the P&P Manual for an explanation of how to modify language to the P&P Manual.

Q: Please explain how indices are added to the RSAT Index List. Is there a fee to have something added?

A: Reference Part Thirteen of the P&P Manual. Yes, there is a fee for having something added to the RSAT Index List.

Q: Now that both FNMA & FHLMC have been taken over by the govt, do these still belong as GSEs or should they be reported as straight US Govt obligations?

A: They are still considered GSE.

Q: Money Market Funds Removed from Approved List. If you own one of these funds no longer on the approved list? Where should they be reported? Can they still be reported on Schedule D1?

A: Money Market Mutual Funds held by insurance companies that are listed on one of the three SVO's "approved" lists are report on DA Part 1 (US Direct Obligation list & Class 1 list), and Schedule D, Part 1 (Bond Fund list). Money market funds that are not on the "approved" list are treated as equity. Schedule D, Part 2, Section 2. In 2007 NAIC added to NAIC D2.2 separate line number groupings for mutual funds and money market mutual funds (those not on the special SVO lists).

Q: What are CDARS? Do any of you actually trade these, and how should they be reported for Statutory purposes?

A: *CDARS are CD pools issued by the Certificate of Deposit Account Registry Service, and many companies have been buying them. This is from the CDARS Web site <http://www.cdars.com/how-cdars-works.php>:*

“When you place a large deposit with a [CDARS] network member, that institution uses CDARS to place your funds into certificates of deposit issued by banks in the network. This occurs in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance.

Other network members do the same thing with their customers' deposits. With the help of a sophisticated matching system, network members exchange funds. This exchange occurs on a dollar-for-dollar basis, so that the equivalent of your original deposit comes back to your institution and effectively stays local (meaning the full amount can support lending initiatives that build a stronger local community). Alternatively, with your consent, network members can receive fee income instead of matching deposits. In either case, the full amount of your original deposit becomes eligible for complete FDIC protection and you receive just one regular statement detailing all your holdings.”

As far as Statutory reporting is concerned, we have not been able to get any official guidance. Current wisdom indicates that the risk is in the individual parts, not just the bank where the CDARS agreement is signed. You may be well-advised to break them into their individual parts.

If your company has not yet invested in CDARS but is considering it, be cautious about any long-term CD portion of the agreement. Long-term CDs would have to be reported on Schedule D – Part 1; that means you will have to pay for a CUSIP number for each of the CDs (required for Schedule D – Part 1 reporting) and, technically, you should file them with the SVO for a rating. The cost of doing all that would likely wipe out your effective yield.

Q: Has anything been brought up regarding municipal bonds where S&P gives the bond an underlying rating of an A or NAIC 1 and then the Moody's rating doesn't give an underlying rating but it rates it based on the insurance enhancement (MBIA) so it is rated an NAIC2? We don't think we should have to take the lower rating since that is based on the insurance and not the underlying bond. Have there been any discussions on this?

A: *This was discussed at the NASVA Quarterly meeting in October. The SVO is allowing companies to file the muni's in order to get a higher rating based on the underlying and not based on the insurance wrapper. As of the October meeting, only 2 bonds had been re-filed! It's an expense, but it may be better than taking the potential*

RBC and surplus hits (not to mention throwing off the portfolio balance) because AMBAC and MBIA were both poised to take multiple credit rating downgrades prior to year-end. Going by the book, companies will still have to use the second-lowest rating - regardless of the fact that it's the rating of the muni bond insurer - unless they file with the SVO.