

**SVO Benchmark Valuation Exception Reports  
Frequently Asked Questions  
February 2009**

The VOS Task Force has adopted an amendment permitting insurance companies to determine a value for a security in accordance with one of a number of approved valuation methods. Insurers will be required to identify one of the following valuation sources in a new annual statement column:

- a – the rate is determined by an approved pricing service
- b – the rate is determined by a stock exchange
- c – the rate is determined by a broker or custodian
- d – the rate is determined by the insurer
- e - the rate is determined by the Unit Price published in the NAIC Valuation of Securities

**1) Will the SVO use additional calculations to assist regulators while comparing insurer and SVO prices?**

Yes. In order to counter non-uniformity of valuation on a security basis, the NAIC will develop mechanisms to calculate averages and medians for insurer reported prices for any security to assist regulators while comparing the insurer reported price to the SVO Benchmark., i.e. SVO Unit Price.

**2) What resources will be used by the SVO to determine insurer reported prices and SVO Unit Prices?**

Insurer reported prices will be retrieved from the current year annual statement (Schedule D) while the latest year-end VOS and FE data files (12/31) will be utilized to extract SVO Unit Prices.

The SVO Unit Price is published within NAIC VOS publications including the AVS and the VOS CD-ROM. It is also available to the regulatory community via I-SITE.

**3) Will regulators be able to retrieve this latest information by an individual security?**

Yes. The average, median, insurer reported price and SVO benchmark values will be available within the I-SITE Security Search application for an individual CUSIP. **See Question #9**

**4) Will the SVO create Jumpstart Reports to identify material discrepancies between insurer reported valuations and SVO unit prices?**

Yes. Jumpstart Exception Reports will also be created to identify material discrepancies between the reported prices and their SVO determined year-end counterparts based on specific criteria. **See Question #11**

**5) Which industry types will be utilized by the SVO to retrieve prices reported by insurance companies within Schedule D?**

SVO will compile all valuations reported by insurance companies within the latest annual statement database for the following statement types:

- Life, Accident, and Health (L)
- Property and Casualty (P)
- Fraternal (F)
- Title (T)
- Health (X)

**6) Where will the reported valuations be derived within the NAIC annual statement universe?**

Source Table	Reported Valuation Field
Current Year Schedule D Part 1 (Bonds)	Rate Used To Obtain Fair Val
Current Year Schedule D Part 2 Section 1 (Preferred Stocks)	Rate Per Share Used To Obtain
Current Year Schedule D Part 2 Section 2 (Common Stocks)	Rate Per Share Used To Obtain

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**7) What is the reported average valuation?**

The **Reported Average Valuation** for a security will be obtained by finding the sum of all reported valuations and dividing it by the number of reported valuation.

**8) What is the reported median valuation?**

The **Reported Median Valuation** for a security is that midpoint valuation after sorting reported valuations in either ascending or descending order. In an odd numbered data set, the median would represent where an even number of records are before and after midpoint. In an even numbered data set, the average of the two middle values will serve as the median.

**Examples of Reported Average and Median Valuation Calculations:**

**Report Series 1 (CUSIP 123456AA):**

Company Code	Reported Value
11111	\$20.00
22222	\$40.00
33333	\$60.00
44444	\$80.00
55555	\$120.00

Average Valuation – Obtain sum of all five insurers (\$320.00) and divide by the number of insurers (5) for a value of **\$64.00**.

Median Valuation – Sort grouping in either ascending or descending order. Since Company 33333's value is midpoint (two values precede and two value follow), its reported value (**\$60.00**) is the median for this data set.

**Report Series 2 (CUSIP 987654AA):**

Company Code	Reported Value
11111	\$60.00
22222	\$60.00
33333	\$65.00
44444	\$75.00
55555	\$80.00
66666	\$80.00

Average Valuation – Obtain sum of all six insurers (\$420.00) and divide by the number of insurers (6) for a value of **\$70.00**.

Median Valuation – Sort grouping in either ascending or descending order. Since this is an even numbered data set, the average of Insurers 33333 (\$65.00) and 44444 (\$75.00) will serve as the median, which coincidentally matches the Average Value of **\$70.00**.

**9) How will regulators be able to access reported average and median valuations for an individual CUSIP within I-SITE?**

The Securities link within I-SITE will enable regulators to access these new calculations by individual security. Users can search for individual securities using the following criteria:

- CUSIP Number
- Issuer Number
- Issuer Name
- Maturity Date

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The search result pages for securities within VOS (Current option), History (VOS Historical) and FE (Filing Exempt option) will contain the following three price-related fields:

- SVO Unit Price (As of current year-end)
- Reported Median Price (As of current year-end)
- Reported Average Price (As of current year-end)

Definitions for Reported Median Price and Reported Average Price will also appear on bottom of the Securities Search page.

**10) Can the Price field on the I-SITE Securities display page differ from the SVO Unit Price?**

Yes. The Price field within the I-SITE Securities Search pages will reflect the current value of the security, thus it is expected to differ from the SVO Unit Price as the year progresses.

**11) How many Valuation Jumpstart Reports will be created to identify material discrepancies between insurer-reported prices and SVO Unit Prices?**

Two. The Security Valuation Jumpstart and Company Valuation Exception Reports have been developed for regulators to identify these material differences.

**12) Will reported median and average prices appear in the Valuation Jumpstart Reports?**

Yes. The reported median and average price values will be included to assist in regulatory analysis.

**13) Will these calculations within the Valuation Jumpstart Reports pertain to the listed exceptions?**

No. The calculations appearing within the exception reports will reflect the reported values of all insurer holders, including the ones with reported valuations falling within the specified threshold range.

**14) What criteria will serve as thresholds to identify exception prices reported by insurance companies?**

Reported Designation	Threshold Range
NAIC1 equivalent (bonds and preferred stocks)	> or < 5% SVO Unit Price
NAIC2 equivalent (bonds and preferred stocks)	> or < 5% SVO Unit Price
NAIC3 equivalent (bonds and preferred stocks)	> or < 10% SVO Unit Price
NAIC4 equivalent (bonds and preferred stocks)	> or < 10% SVO Unit Price
NAIC5 equivalent (bonds and preferred stocks)	> or < 10% SVO Unit Price
NAIC6 equivalent (bonds and preferred stocks)	> or < 10% SVO Unit Price
No Designation (common stocks)	> or < 2% SVO Unit Price

Jumpstart Exception Examples:

A) A 1FE designated bond is valued \$100 by the SVO via third party vendor. Insurance companies reporting values \$94.999 or less or \$105.001 or greater will appear on any valuation exception report.

B) A P3 designated preferred stock within VOS is valued at \$100 by a SVO analyst. Insurance companies reporting values \$89.999 or \$110.001 or greater will appear on any valuation exception report.

C) A common stock within VOS is valued at \$100 by a SVO analyst. Insurance companies reporting values \$97.999 or less or \$102.001 or greater will appear on any valuation exception report.

**15) How will users be able to access the Security Valuation Jumpstart Report for a given security?**

The Security Valuation Jumpstart Report will be available within I-SITE where regulators can search for company reported pricing exceptions of any security.

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The report link (Security Valuation Jumpstart) will be available through the Securities Search results page for a given CUSIP where the resulting report will display all insurance companies whose reported values exceed the assigned thresholds.

The report header will contain a 'CUSIP' label along with CUSIP Number, Issuer Name, Issue Description, Coupon Rate and Maturity Date.

**16) What fields will display for each exception within the Security Valuation Jumpstart Report?**

- Company Code
- Company Name
- Reported Designation
- Reported Value
- SVO Unit Price
- Reported Median Value
- Reported Average Value
- Valuation Source (a-e)

The final line will be titled 'Total Number of Reporting Insurers' along with its corresponding total.

**17) How will users be able to access the Company Valuation Exception Report for a given insurance company?**

The Company Valuation Exam Jumpstart exception report will be available within I-SITE where users can search for security pricing exceptions of any insurance company.

To access this report, users will navigate through the Company/Firm Search menu where search criteria including NAIC Company Code or Company Name can be entered. The Categories page will contain the new link under the Examination section just beneath the Portfolio Analysis Memorandum.

The Company Valuation Exception report will only include securities with reported values exceeding the predetermined threshold ranges.

The report header will display the title - 'Company Valuation Exception' with the 5-digit Company Code ID and Company Name just beneath it.

**18) What fields will display for each exception within the Company Valuation Exception Report?**

- CUSIP Issuer No.
- CUSIP Issue No.
- Issuer Description
- Reported Designation
- Reported Value
- SVO Unit Price
- Reported Median Value
- Reported Average Value
- Valuation Source (a-e)

The final line will be titled 'Total Number of Reported Securities by Insurer' along with its corresponding total.

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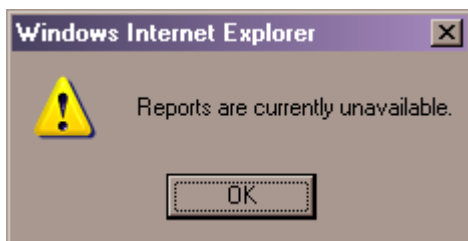
**19) Will an exception be created if the insurer reports a value for a given security where there is no SVO Unit Price?**

No. Pricing exceptions can be calculated and identified if the SVO provides a Unit Price for a given security.

**20) Will the Reported Average/Median Prices and Valuation Jumpstart Reports be available to regulators all year round?**

No, but it will be accessible for most of the calendar year. These fields and reports will be deactivated some time in December for year-end processing.

Users attempting to retrieve one of the Jumpstart Reports during deactivation will receive the following message:



Since the annual deadline for insurance companies to report their annual statements to the NAIC is March 1<sup>st</sup>, the NAIC/SVO will more than likely activate these calculation and report functionality including the latest annual year-end data during the first half of March, ex. March 15<sup>th</sup>.

Given the unpredictable nature of financial statement filing receipts, our new median and average calculations may be misleading to I-SITE users if not all nationally significant insurers have submitted their filings. Therefore, the NAIC will exercise the utmost discretion before activating these reports and inform the regulatory community of future release schedules.