

*2014 Summer National Meeting
Washington, District of Columbia*

**VALUATION OF SECURITIES (E) TASK FORCE
Sunday, November 17, 2014
2:00 – 3:30 p.m.**

Meeting Summary Report

The Valuation of Securities (E) Task Force met Nov. 17, 2014. During this meeting, the Task Force:

1. Adopted its Oct. 2, Sept. 17 and Sept. 11 minutes.
2. Adopted the report of the Securitization Data Quality (E) Working Group, which included its Sept. 29 and Sept. 11 minutes and an amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (Purposes and Procedures Manual) to provide documentation standards for residential mortgage-backed securities (RMBS) REMIC securities. Having completed its charge, the Task Force voted to disband the Securitization Data Quality (E) Working Group.
3. Heard a status report on the Investment Classification Project of the Statutory Accounting Principles (E) Working Group.
4. Voted to refer to the Financial Regulation Standards and Accreditation (F) Committee a technical document developed by the SVO providing guidance on how to refer to NAIC designations and related processes in state laws based on NAIC model laws. The document recommends textual changes that would align state law references to SVO processes with NAIC practices. The Financial Regulation Standards and Accreditation (F) Committee has an informal process it could use to bring these types of issues before the states.
5. Heard a report from the American Council of Life Insurers (ACLI) and the SVO that the United Kingdom (UK) accounting standards have been modified. This will require an amendment to instructions in the Purposes and Procedures Manual that currently permit the use of UK national generally accepted accounting principles (GAAP) without reconciliation to U.S. GAAP. The SVO was asked to study the changes in the UK accounting standards and to make appropriate recommendations to the Task Force.
6. Adopted an amendment to the Purposes and Procedures Manual to modify a reference to Canadian GAAP to refer to Canadian Accounting Standard for Private Enterprises (Canada's new accounting standard for private entities) and added French GAAP as a new National Financial Presentation Standard in the definition of Audited Financial Statement in the Purposes and Procedures Manual.
7. Adopted an amendment to the Purposes and Procedures Manual to make a single credit rating standard applicable to both domestic and foreign banks that apply to be listed on the NAIC Bank List as issuers of letters of credit for reinsurance purposes, and directed SVO staff to study the regulation of financial institutions other than banks to determine if the regulation was at least as experienced and well regulated as banks. The NAIC Bank List currently requires foreign banks to attain a higher "double A" credit rating, (i.e., Aa/AA) while domestic banks must attain a "triple B", (i.e., Baa/BBB) credit rating.
8. Adopted an amendment to the Purposes and Procedures Manual to eliminate duplicate guidance from multiple sections relating to credit ratings eligible for use under the filing exempt rule and instructions for the application of that rule.
9. Heard a status report from NAIC staff on the progress of the 2014 year-end financial modeling of RMBS and commercial mortgage backed securities (CMBS).
10. Heard a status report from NAIC staff on a project that identified discrepancies in the filing of securities that the SVO could not confirm with its data sources as being filing exemption but which have not been filed with the SVO. The SVO was asked to continue to work with industry representatives to identify ways to reduce exceptions from the Jumpstart report.

11. Heard a report from the SVO that changes made by the U.S. Securities and Exchange Commission (SEC) to money market fund rules would not impact the NAIC U.S. Direct Obligations/Full Faith and Credit List but that the Class 1 List would be affected. Because the SEC allowed for a two-year transition/compliance period, the SVO expects these funds to drop off the Class 1 List as fund sponsors reorganize them to comply with the new regulations. Accordingly, the SVO recommended that the Task Force take no action at this time. The Task Force received the report and released it for a 60 day comment period ending Jan. 16, 2015.
12. Heard a report from the SVO that the Financial Condition (E) Committee has requested that the Task Force review the *Derivative Instruments Model Regulation* (#282) against the NAIC's Model Law criteria and recommend whether Model #282 should be retained, amended, converted to a guideline or archived. The SVO recommended that the Task Force study the derivatives market, instruments and regulation both as a way to consider whether adjustments to NAIC guidance on the use of derivatives by insurers is required and to formulate recommendations on the referral. The Task Force received the report and released it for a 90-day comment period ending Feb. 15, 2015.
13. Heard a presentation from representatives of Nationwide proposing a review of the regulatory framework that applies to catastrophe linked bonds. Nationwide opines that calculating RBC under the C1 (credit risk) factor of the RBC formula leads to a charge that is disproportionate to the risks of this asset class. They further suggest that this creates an unnecessary disincentive to life insurer ownership of catastrophe linked bonds. Nationwide urges that catastrophe linked bonds be recognized as insurance and that the NAIC calculate RBC on the basis of the C2 (insurance risk) factor of the RBC formula. The Task Force received the report and released it for a 60-day comment period ending Jan. 16, 2015.

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