

REGULATORY TREATMENT ANALYSIS SERVICE APPLICATION

PART I INSTRUCTIONS - The following guidance is offered to facilitate the Applicant's use of the Regulatory Treatment Analysis Service (RTAS).

- 1. About the RTAS Service:** For detailed information about the RTAS service, applicants should refer to Part Four, Section 3 (a) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the *Purposes & Procedures Manual*). A copy of the *Purposes & Procedures Manual* can be purchased at http://www.naic.org/store_home.htm.
- 2. Objectives:** As more fully explained in the *Purposes & Procedures Manual*, the Securities Valuation Office (SVO) analyzes credit and other risks in insurer owned investments for state insurance regulators. SVO analytical conclusions drive risk-based capital, statutory accounting, reporting and other regulatory mechanisms. The RTAS service permits insurance companies and other persons to ascertain the analytical position the SVO would take (or the recommendations it would make to NAIC regulators) with respect to credit and other investment risks embedded in a security and the regulatory treatment that corresponds to those analytical conclusions under the existing regulatory framework. The RTAS service can be used whether the security that is the subject of the Application is a modified version of a type previously known to insurers and regulators or a security never previously known to insurers or regulators. The opinion given by the SVO at the end of the RTAS assignment addresses key areas of regulatory treatment including: statutory accounting; risk-based capital; valuation and reporting. These areas of regulatory treatment are discussed by indicating our opinion of credit risk, asset classification, pricing and other analytical products produced as part of our regulatory function. It is also possible that an RTAS analysis may conclude that NAIC regulatory guidance is not sufficiently comprehensive to provide insurers with guidance if they purchased the security. In such a case the SVO can alert the appropriate NAIC regulator group and work with them to fashion an appropriate response.
- 3. The Application Process:** Once the Applicant has submitted and the SVO has examined the Application and required documentation, the SVO will send the Applicant an e-mail stating that it agrees or does not agree to conduct the requested RTAS analysis. The SVO shall also communicate whether it considers the security that is the subject of the Application to be a part of a Regulatory Transaction (as defined in Part II. G i below) or a part of a Highly Customized Transaction (hereafter defined). Please refer to Part III, C below for disclosure about fees applicable to Regulatory Transactions and Highly Customized Transactions.
- 4. The Application:** The Applicant must return this entire, original Application and may not alter, amend or otherwise modify this form in any way.
- 5. Filing Requirements:** The Applicant shall file: a completed Application; a prospectus, private placement memorandum or other document containing the contractual terms and conditions of the security; issuer financial statements and any data or information necessary or useful to understanding investment and other risks in the security.
- 6. Address:** The Application and all accompanying documentation should be sent: 1) in electronic form to RTAS (Name of Transaction) SVOInquiryDesk@naic.org. A PDF scan of the signed application is required or 2) in physical form, by certified mail to: **NAIC –Securities Valuation Office, One New York Plaza, Suite 4210, New York, New York, 10004, Attn: RTAS Opinion Request**

7. **Payment of Fee:**¹ The Applicant submits the amount of US \$5,000 with the Application to cover the SVO's initial review of the transaction to determine whether it accepts or does not accept the proposed RTAS assignment. If the SVO notifies the applicant of its acceptance of the RTAS assignment, and subject to the need to negotiate a fee pursuant to paragraph 3 above, the Applicant shall wire funds in the amount of an additional \$20,000 if it is not an insurance company or of an additional \$10,570 if it is an insurance company, payable to:

Bank: UMB Bank - Kansas City MO
ABA#: 101000695
Acct: NAIC
Acct#: 9870877295
SWIFT: UMKCUS44

After the wire has been sent, please email acctgrec@naic.org with your company name and the amount of the wire, reference "RTAS Review" and include the name of the issue that is to be reviewed.

8. **Turnaround Time:** From the time the NAIC is in receipt of the applicants payment and the SVO is in receipt of complete information and documentation, the target turnaround time is typically four to six (4-6) weeks but this can vary significantly depending upon the complexity of the transaction and the offices regulatory filing work-flow and may be longer from October 1 through January 30. Specific time commitments are discussed at the time of the proposed submission of an Application.

PART II GENERAL INFORMATION

THE APPLICANT

1. Name of Applicant: _____
2. If Applicant is an Insurer, please provide your NAIC #: _____
3. Address: _____

4. Contact Information for Person Designated to Work with the SVO on this Application.
Name: _____
Title: _____
Phone Number: _____
Fax Number: _____
E-mail address: _____
Address: If different from above: _____

THE SECURITY

1. Issuer Name: _____
[For example, ABC Corp.]
2. Issuer's SIC Code: _____

¹ Fee information is posted here: http://www.naic.org/documents/svo_2018_proposed_fees.pdf

3. Full description of the security: _____
 [For example, \$10,000,000 6.5% Subordinated Notes, Due 1999]

4. Is there a specific feature, characteristic, investment risk or other aspect of the security you wish the SVO to focus on in this analysis request? If, yes, please describe (attach supporting documentation as necessary):

5. Has the Applicant (or its representative) formally or informally discussed the security that is the subject of this Application with a credit rating organization (whether or not an NRSRO)? If yes, identify the credit rating organization, and the purpose and result of the discussion or submission? (Add supporting documentation as pertinent.)

6. Securities with Regulatory Content (**The Application will be rejected if this Section is Incomplete**)
- a. Has the Applicant (or its representative) formally or informally discussed or submitted the security that is the subject of this Application with a state insurance department?

- If yes, identify the state insurance department, the specific state regulator, and the purpose and result of the discussion or submission. (Add supporting documentation as pertinent.)

PART III TERMS AND CONDITIONS OF THE APPLICATION

A. APPLICATION IS REQUEST ONLY - Submission of an Application constitutes a request that the SVO conduct the requested analysis and does not indicate that the SVO has accepted the offered analytical assignment. The Applicant will be advised by an SVO staff member if the Application has been accepted or rejected. The SVO may refuse an RTAS Application for any reason, including a determination, in its sole discretion, that the assignment does not further NAIC objectives. If the SVO decides not to accept the Application, it shall so inform the Applicant.

B. NATURE OF UNDERTAKING – The acceptance of an RTAS assignment does not constitute an SVO commitment to assign a preliminary NAIC Designation to the security that is the subject of the Application. The SVO administers NAIC credit risk assessment processes for insurer owned securities. If the SVO accepts

an RTAS assignment it will determine whether it can conduct and convey a credit assessment of the security which requires that it communicate with other NAIC staff, Chairs of NAIC regulator groups or state insurance officials to ascertain how other components of regulatory guidance would be interpreted and applied to the security that is the subject of the Application. Despite best efforts and the exercise of good faith, it is possible that the SVO will conclude that existing rules do not permit the SVO to assign a preliminary NAIC Designation to the security or that applicable NAIC regulatory guidance would not permit insurers to purchase and report the security in accordance with existing NAIC rules. The Applicant represents that it understands that the communication of such a conclusion is a possible outcome (permitting the Applicant to seek suitable modifications to regulatory guidance) and not a basis for a claim that the SVO improperly accepted an assignment, breached its contractual obligation under this Application or that the Applicant is otherwise entitled to a refund of the fee paid.

C. FEES - The SVO will not begin an assignment until it has verified that the applicable fee has been paid. RTAS submissions deemed to be part of a Regulatory Transaction or of a Highly Customized Transaction are subject to a negotiated fee to be determined between the Director of the SVO and the Applicant. The fee applicable to an RTAS that is not deemed to be part of a Regulatory Transaction or of a Highly Customized Transaction is specified in paragraph Part I, paragraph 7 above. For purposes of this paragraph, a Highly Customized Transaction is one that involves a high level of documentation or of financial or structural complexity. If the documentation, terms, conditions, structure or supporting data or information (such as financial statements) of any transaction submitted under the Application is significantly amended or modified after submission to the SVO, the SVO, in its sole discretion, shall assess an additional fee in amount equal to a percentage (up to 100%) of the original application fee and the Applicant hereby agrees to pay this additional fee.

D. REPRESENTATIONS AND WARRANTIES

i. Familiarity with NAIC Objectives The Applicant represents that it is aware of the regulatory purposes and objectives of the RTAS service (as disclosed in summary form above and more fully in Part Four, Section 3 (a) of the *Purposes & Procedures Manual*). The Applicant warrants that its purpose in submitting an RTAS Application is consistent with the purposes described above and in the *Purposes & Procedures Manual*.

ii. Duty to Clarify Regulatory Objectives The Applicant agrees to inform any financial advisor employed in connection with this Application of the regulatory purpose and objectives of the RTAS service and of the scope of and limitations on SVO analytical authority.

E. SVO COMMUNICATIONS

i. The RTAS Letter The SVO will communicate its RTAS opinion to the Applicant in writing (the "RTAS Letter").

ii. Right to Revise Opinion SVO reserves the right to revoke an RTAS Letter and to issue a replacement RTAS Letter to the Applicant if it deems this necessary to reflect changes in data, information, issuer financial strength, competitive environment, structure, terms, NAIC regulatory policy or any other relevant consideration that varies significantly from the data, information, NAIC regulatory policy and corresponding assumptions under which the initial RTAS opinion was derived.

iii. Right to Withdraw RTAS Letter - SVO reserves the right to withdraw an RTAS Letter whenever potential or actual changes in NAIC policy or published technical guidance shall indicate that the opinion of the SVO or of any other NAIC staff whose opinion was incorporated into the RTAS Letter or served as a basis for a conclusion, is no longer accurate.

iv. Point in Time - An RTAS Letter conveys an SVO assessment as of the date it was issued. The

SVO has no obligation to revise the RTAS letter or to follow or communicate regulatory or other developments relevant to the transaction that is the subject of the Application.

F. CONFIDENTIALITY AND PERMITTED DISCLOSURES

i. **Of Submitted Information** The confidentiality of information submitted to the SVO as part of this Application is governed by the Statement of Practice in Part One, Section 5 (d) of the *Purposes & Procedures Manual*.

ii. **Of the RTAS Letter** The RTAS Letter is a confidential communication between the SVO and the Applicant. The Applicant shall have permission to disseminate the RTAS Letter provided that a copy of the entire RTAS Letter is given. *The Applicant agrees that it will use the RTAS Letter in a manner that is consistent with the state insurance regulatory objectives that the RTAS service is designed to advance. The SVO analysis is designed only to advise the Applicant, insurance companies and insurance regulators of risks in securities that may impact an insurer's financial condition and that may therefore require regulatory response. SVO disclaims that its analysis is a suitable basis upon which to sell securities to anyone.*

iii. **Permitted SVO Disclosures**

a. **Regulatory Consultations** - The SVO is the professional staff of the Valuation of Securities Task Force (VOSTF). Under certain circumstances specified in the *Purposes & Procedures Manual*, the SVO is obligated to consult with the VOSTF, including in connection with a proposed RTAS assignment. More generally, the SVO is at all times under a professional obligation to share analytical insight and information it obtains during the course of its operations with the Task Force or other members of the regulatory community, either to further specific charges or projects before those groups or to advise the VOSTF or the broader regulatory community of issue that may require regulatory intervention. In addition, the SVO may consult with the VOSTF as it may deem necessary or appropriate, including with respect to a security that is the subject of an Application. The SVO reserves the right to discuss any aspects of a security that is the subject of this Application privately with members of the VOSTF and or NAIC regulatory community.

b. **Staff Support** NAIC Committees, Task Forces, Working Groups or Subgroups are composed of state insurance officials who may determine it necessary to hold public hearings to discuss regulatory approaches to investment issues as part of the policy formulation process. It is the responsibility of the SVO to support such groups in their deliberations by providing information about investment risks. The SVO reserves the right to share confidential information gained as a result of any Application privately with regulators to assist their preparation for public hearings.

c. **No Breach of Confidentiality** The Applicant agrees that SVO disclosure of information regarding the subject of this RTAS Application to NAIC members (i.e., members of state insurance departments acting as Chairs or members of NAIC Committees, Task Force or Working Groups); NAIC employees (provided the employee's duties require them to have such information); and to individual state insurance regulators, is not a breach of the confidentiality of these terms and conditions.

iv. **RTAS Letter Not A License Agreement** The permission granted in this Application and in the RTAS Letter, to disseminate the Letter is NOT intended to authorize, and does NOT authorize, the Applicant, or any person who receives the RTAS Letter from the Applicant, to distribute the Preliminary NAIC Designation (or the Unit Price, classification decision or other analytical product of the NAIC) indicated in the Letter or any subsequent NAIC Designation (or Unit Price, classification

decisions or any other analytical product of the NAIC) that may be assigned to the security that is the subject of the RTAS Application, on the Applicant's electronic computer system or public web-site or on the electronic computer system or public web-site of any person who has received the Letter from the Applicant, *unless the express written permission to do so shall have been obtained from the NAIC in a separate License Agreement.*

v. **Non Consent for Inclusion in Registration Statements or Prospectuses** – The regulatory assessment transmitted in an RTAS Letter explains the regulatory function of the preliminary NAIC Designation. The NAIC SVO does not consent to the use of the RTAS Letter, the preliminary NAIC Designation or any portion of an assessment in a registration statement or prospectus, as defined in US federal securities law and whether or not exempt from the registration requirements of the Securities Act of 1933, for use as a credit rating opinion or an assessment of the merits of an investment in offered securities to an investor.

G. OBLIGATION TO DISCLOSE/PROVIDE INFORMATION

i. **Regulatory Transaction** - Regulatory Transaction means and refers to a security or a financing component that is part of a larger transaction intended as a solution for insurance companies generally or for one or more specific insurance companies to a given regulatory issue, problem or objective that requires the interpretation of state law or regulation and or the determination of regulatory issues by, or the regulatory approval of, one or more state insurance departments. The SVO is not authorized to issue NAIC Designations or any other NAIC analytical product or determination to an insurance company for a Regulatory Transaction. Regulatory Transactions are subject to regulatory guidance that differs from that which applies to insurer investors. However, the SVO is authorized to conduct an analytical assessment on behalf of any state insurance department that requests such assistance. Accordingly, the SVO is required to contact the state insurance department to disclose that a Regulatory Transaction has been submitted and inquire whether the state insurance department requests that the SVO provide analytical assistance.

SVO assessments for a Regulatory Transaction are given to the state insurance department who may adopt the analytical assessments as part of that state's internal determination of policy and regulatory issues presented by the Regulatory Transaction. However, SVO assessments for a Regulatory Transaction will not be entered into NAIC computer systems reserved for investments, such as the Valuation of Securities (VOS) or the Automated Valuation Service+ (AVS+) databases. For purposes of this paragraph an investment means a security or other financial arrangement between unaffiliated entities, involving a non-insurer borrower whose sole motivation is to borrow money and an insurance company whose sole motivation is to make a profit on a loan in an arms-length financing governed by the NAIC Financial Conditions Framework and not involving any unique issue that requires a determination by a state insurance department official. This provision is intended to protect against the risk of unintentional interference by the SVO with the exercise of regulatory authority by the States.

ii. **Communications with Rating Organizations and Regulators** The Applicant agrees to disclose and divulge to the SVO that the RTAS submission involves a Regulatory Transaction, as defined above, or that it has had communication with representatives of any state insurance department about a transaction. The Applicant also agrees to disclose and divulge to the SVO that prior to submitting the RTAS Application it has held discussions with nationally recognized statistical rating organizations, NAIC Credit Rating Providers (CRPs) or any credit rating organization (NRSROs) regarding the subject of this Application. The obligation to disclose communications with state insurance departments and or NRSROs, CRPs or other credit rating organizations shall apply whether the communication occurred before or after the submission of this Application. Any RTAS Letter issued by the SVO as a result of an RTAS Application may be withdrawn if the SVO subsequently learns the Applicant has held undisclosed discussions with state insurance department, nationally recognized statistical rating organization, NAIC CRPs or other NRSRO representatives which could

have affected the SVO opinion had it been known and considered as part of the assignment.

iii. Relevant Transaction Information The Applicant agrees to promptly furnish the SVO, or to cause the issuer or the issuer's investment advisor to promptly furnish the SVO, with all documentation, data and information necessary to analyze the security that is the subject of the Application. Documentation, data and information submitted to the SVO shall be in reasonably final form and accurately reflect the understanding between the parties as of the time the documents are submitted to the SVO. If, in the SVO's sole discretion, the accompanying documentation is not sufficient to proceed with the analysis, the SVO will request further information. If such information is not provided the SVO reserves the right to terminate the assignment and to refund a pro-rated portion of the fee as the SVO, in its sole discretion, shall deem appropriate.

iv. To Update Information The Applicant agrees to apprise the SVO in writing of any material changes to the documents, structure or terms of the security, (either known to the Applicant or, if the Applicant is an insurance company, to its investment advisor) as soon as practicable after having learned of it.

H. NAIC DISCLOSURES

i. Not Investment Advice NAIC Designations are produced solely for NAIC members and are indications of eligibility for certain regulatory treatment under the NAIC Financial Conditions Framework. SVO asset classification opinions are rendered solely in furtherance of specific and unique procedures developed by the NAIC and state insurance regulators for statutory reporting purposes. SVO opinions on valuation are intended to aid regulators estimate an appropriate carrying value for insurance company assets so they can better gauge financial strength of insurers. SVO assessments of and opinions on other investment risks in securities are similarly intended for application by state insurance regulators in context of the developing and evolving NAIC framework and individual state regulatory statutes, regulations and investment guidance based on the NAIC framework. Because SVO opinion and analytic products are intended for regulatory purposes, they may be derived by the application of criteria that is relevant only to state insurance regulators. *Accordingly, no SVO opinion or analytical product should be treated as if it were intended for investors generally for the purpose of buying or selling a security or other financial product.*

ii. RTAS Letter Not an Endorsement Acceptance of this Application by the SVO, the Applicant's receipt of a RTAS Letter from the SVO, the involvement of any NAIC regulator group in determining changes to the regulatory framework to accommodate the security that is the subject of an Application or any other similar NAIC activity is not and shall not be represented by the Applicant to insurance companies or anyone else to be a statement by the SVO, any NAIC employee, the NAIC or any of its members endorsing, recommending the purchase of or providing regulatory approval for investment in the security.

iii. Limitations on Preliminary NAIC Designations The preliminary NAIC Designation issued as a result of this Application may not be used to report the security to insurance regulators unless and until such time as an insurer has purchased the security, reported it to the SVO and the SVO shall have confirmed its preliminary decision by publishing an NAIC Designation for that security in the Valuations of Securities Database or in such other internal NAIC electronic computer as shall then be designated by the NAIC to reflect that decision as an official NAIC Designation, Unit Price or determination of asset classification.

I. Limitation of Regulatory Treatment Analysis Service Opinions

i. **No Guaranty** As the staff of the VOSTF specifically tasked with conducting the day to day operations necessary to effect policy decisions of the VOSTF and serving as the repository of investment expertise for the NAIC staff function, an SVO RTAS opinion could be highly persuasive to the VOSTF and state insurance regulators. However, authority to formulate NAIC regulatory policy on investments officially rests with the VOSTF, the members of which may have unique concerns of which the SVO could be unaware. **Accordingly, the SVO does not and cannot guarantee that the regulatory treatment suggested by a RTAS opinion will be accepted and implemented by the VOSTF or other state insurance regulator.** An RTAS Letter issued pursuant to an Application is not intended to be used for general investment purposes.

PART IV SIGNATURE

The signatory is an officer of the Applicant authorized to execute this Application and to accept the agreement it contains. By signing this application, the officer acknowledges and agrees to bind the Applicant to the statements, terms and conditions set forth herein.

By:

(Signature)

Name: _____

Title: _____

Date: _____

For SVO Use Only

Dates: Application was received on: _____

Application was complete on: _____

The Response to the Applicant is due on: _____

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