

Congress of the United States
House of Representatives
Washington, DC 20515

July 13, 2023

Chlora Lindley-Myers
President
National Association of Insurance Commissioners
444 North Capitol Street NW, Suite 700
Washington, D.C. 20001

Dear Director Lindley-Myers,

It has recently come to our attention that the Securities Valuation Office (SVO), comprised within the National Association of Insurance Commissioners (NAIC), published proposal to the Purposes and Procedures Manual (P&P Manual) that would significantly expand the NAICs discretion over filing-exempt securities.¹ The proposal has the potential to provides risk-based capital uncertainly for all filing exempt investments held by U.S. insurance companies (which includes thousands of CUSIPs), creating liquidity and market disruption. We write to urge you to withdraw the proposed changes to the P&P Manual.

The NAIC retains an essential role as both a unifying body for state regulators and as a standard-setter which ensures the U.S. insurance industry remains strong and robust across the 50 states, the District of Columbia, and five U.S. territories. In this role, the NAIC has held a particularly unique position amongst U.S. regulators for over 150 years. Much of our economic success can be attributed to the NAIC's steadfast mission to support state-based insurance regulation.

Despite the NAIC's successful track record, it was particularly concerning to see the proposal from the May 15th Valuation of Securities (E) Task Force meeting that would allow the SVO to review all filing exempt securities and contest nationally recognized statistical rating organizations (NRSRO) NRSRO ratings if it believes a rating "is not a reasonable assessment of risk of the security for regulatory purposes."² Such discretion, which appears to lack any formal methodology, if enacted, would deviate significantly from the NAIC's proper role within insurance regulation. We fear that such discretion would make NAIC regulated entities susceptible to staff-driven agendas.

Additionally, these same proposals could undermine a competitive market amongst NRSROs and exacerbate the SVO's recent gravitation towards becoming an unregulated NRSRO competitor.

While we are aware the SVO has significantly grown its operations and revenue in recent years despite its limited size, the recent proposals would expand the SVO's footprint well-beyond that of a regulator. Should these proposals get enacted, the SVO would become an unregulated, de facto NRSRO and undermine market competition through their unfair competitive advantage.

¹ Nat'l Ass'n of Ins. Commissioners, Valuation of Securities (E) Task Force Meeting, May 15, 2023, https://content.naic.org/sites/default/files/call_materials/VOSTF%20Materials%202023-05-15%20v1.pdf (discussing the Proposed P&P Manual amendment authorizing the procedures for the SVO's discretion over NAIC designations assigned through the filing exemption process.)

² *Id.*

This unfair competitive advantage would arise from a conflict of interest within the SVO where the SVO would both set fees and designate securities. Using the NAIC's unique position to steer business through its commercial services, while simultaneously incentivizing U.S. insurers to stop using private sector ratings firms, would be an unwelcome paradigm shift.

The state-based regulatory framework continues to be a time-tested model of success. We cannot risk upending this framework by opening the door to SVO staff-driven actions that could ultimately hurt competition, imperil the capital adequacy of NAIC regulated entities, and make it harder for insurer's ability to meet their obligations. We ask that the NAIC withdraw the recent proposals and work to ensure the SVO does not undermine the integrity of our state-based regulatory structure or interfere with competition amongst NRSROs.

Please reach out to my office if you would like to discuss further.

Sincerely,



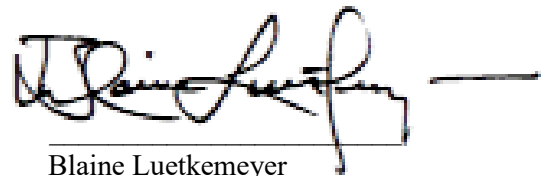
Warren Davidson
Member of Congress



Andy Barr
Member of Congress



Bill Posey
Member of Congress



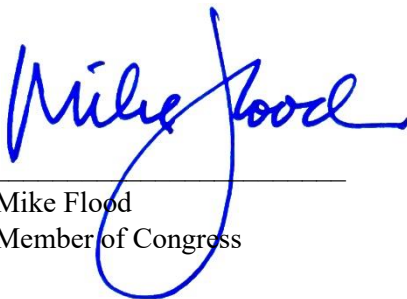
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