October 26, 2026
Via Electronic Submission

Jake Garn, Chair
Laura Clements, Vice Chair
Credit Rating Provider (E) Working Group
National Association of Insurance Commissioners

Re: Revised Credit Rating Provider Due Diligence Framework

Dear Chair Garn and Vice Chair Clements:

Pinpoint Policy Institute ("PPI") appreciates the opportunity to comment on the revised **Credit Rating Provider Due Diligence Framework ("Revised Framework")** exposed by the Credit Rating Provider (E) Working Group on October 1, 2026. The Working Group exposed the proposal for 25 days, with comments due October 26, 2026.[1]

PPI submitted comments on July 03, 2026, addressing the Working Group's May 4 proposal. We supported responsible evaluation of the ratings that the NAIC uses for insurance regulatory purposes. We objected, however, to a framework that risked crossing the federal line against regulating rating substance and methodologies, concentrated significant authority in a private standard setting organization without commensurate safeguards, expanded confidential information transfers, and permitted decisions with broad market consequences without adequate legal, economic, or competition analysis.[2]

The Revised Framework includes marginal improvements, principally that it now states expressly that methodological differences among credit rating providers ("CRPs") exist and that the NAIC will not *require* a uniform methodology. Further process improvements include distinguishing prioritization for further review from a finding of deficiency and providing affected CRPs a written explanation and an opportunity to oppose materially adverse determinations. Similarly, the Revised Framework helpfully requires approval of Tier 2 remediation by the Working Group's parent bodies, provides public notice where

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[1] NAIC, *Credit Rating Provider Due Diligence Framework* (draft Sept. 24, 2026), in NAIC, Credit Rating Provider (E) Working Group, Meeting Materials, attach. 2 (Oct. 1, 2026), https://content.naic.org/sites/default/files/call_materials/2026oct01-crpwg-materialsv3.pdf [hereinafter *Revised Framework*]; NAIC, *Credit Rating Provider (E) Working Group*, Current Exposure Drafts, https://content.naic.org/committees/e/credit-rating-provider-wg (identifying a 25-day comment period and directing comments to Jane Ren and Denise Genao by October 26, 2026).

[2] Letter from Eric Ventimiglia, Executive Director, Pinpoint Policy Institute, to Jake Garn, Chair, and Laura Clements, Vice Chair, NAIC Credit Rating Provider (E) Working Group (July 3, 2026); *see also* NAIC, Credit Rating Provider (E) Working Group, Meeting Materials, attach. 1, at 1 (Oct. 1, 2026) (minutes of Aug. 12, 2026 meeting, noting the May 4 exposure of the proposed Framework for a comment period ending July 3).

appropriate, makes remediation prospective, and establishes a 120-day implementation period.

Those changes respond to part of PPI's July comments but fail to cure the proposal's central defects. We support regulators better understanding rating agency methodologies and assessing regulatory reliance on ratings. However, we still have serious concerns that the framework will result in the NAIC picking winners and losers among rating agencies. The operative provisions still authorize NAIC challenges to assumptions and model architecture, independent security-level rating analyses, security-specific methodology reviews, and remediation based on methodology or rating outcomes. The Framework also leaves important tests, thresholds, sampling methods, data specifications, confidentiality protections, decision standards, and review rights unsettled while preserving the NAIC's ability to alter them through implementation.

Most importantly, the Revised Framework would still exceed the legal authority of any regulator, and the NAIC as a non-regulator, under federal law, would create anti-competitive distortions in capital markets that harm insurance company investors.

The Working Group should not adopt the Revised Framework in its present form.

I. Federal Law Concern Remains Unresolved

PPI agrees that the NAIC may evaluate whether ratings are suitable inputs into its own system. The Working Group may study historical performance, determine whether a mapping serves the intended meaning of an NAIC Designation, and decide how much weight state insurance regulators should assign to external opinions.

However, this authority has a legal boundary. Section 15E(c)(2) of the Securities Exchange Act states that neither the Securities and Exchange Commission ("SEC") nor any State or political subdivision may regulate "the substance of credit ratings" or "the procedures and methodologies" by which an NRSRO determines ratings. The same statute gives the SEC exclusive authority to enforce Section 15E when an NRSRO materially departs from its disclosed procedures and requires the SEC to examine each NRSRO annually.[3]

The Revised Framework does not sufficiently incorporate this limitation. Its operative provisions retain substantial methodology-level review. Among other activities, the Framework would:

1. perform independent rating analyses for sampled securities;
2. assess the methodology selected by a CRP, the accuracy of inputs, the reasonableness of assumptions, and model accuracy; and
3. impose remediation where the NAIC identifies persistent inconsistencies involving methodology or outcomes.[4]

[3] Securities Exchange Act of 1934 § 15E(c)(1)–(2), (p)(3), 15 U.S.C. § 78o-7(c)(1)–(2), (p)(3).
[4] *Revised Framework*, *supra* note 1, § 3.2.1(b)–(c) (independent rating analysis and methodology review); *id.* § 4.2.2 (remediation based on methodology or rating outcomes).

The Revised Framework's statement that the NAIC acts as a "consumer" rather than a regulator is mere window-dressing versus substantively addressing material concerns. The NAIC is proposing a regulatory process that is likely to significantly influence rating methodologies even if not formally prescribing them. If an unfavorable methodology assessment can lead to a translation matrix adjustment, loss of filing-exempt treatment, removal of ratings issued under a methodology, or CRP de-admittance, the practical pressure on methodology design is obvious. The NAIC has not undertaken a sufficient cost-benefit analysis or even examined the potential material effect on capital markets that is likely to result from regulatory pressure towards methodology convergence.

PPI does not suggest that Section 15E clearly prohibits every state examination of rating performance. Nor do we contend that the NAIC's use of ratings places every mapping decision within the SEC's exclusive jurisdiction. However, the Revised Framework combines permissible evaluation of regulatory reliance with inquiries and remedies that operate as indirect regulation of NRSRO rating substance and methodologies. The Working Group has not published a legal analysis establishing where that line lies or how regulators will remain on the permissible side of it. We urge the NAIC to conduct a legal authority analysis by an outside independent law firm before proceeding.

II. Process Revisions are Positive but Remain Insufficient

PPI credits the Working Group for adding several protections. A materially affected CRP would receive a confidential, detailed explanation before public action. It could present opposition, context, and new materials in a regulator-only session. Tier 2 actions would require approval by the Invested Assets (E) Task Force, Financial Condition (E) Committee, and Plenary. Remediation would apply prospectively, generally after 120 days, and public communications would state the primary rationale while protecting confidential information.[5]

These are improvements that partially address PPI's July concerns but ultimately fall short in five key respects.

First, the affected CRP still lacks access to a defined decisional record. The proposal does not guarantee bilateral disclosure of the data, test populations, formulas, assumptions, comparators, sampling decisions, expert analyses, or staff materials supporting a proposed action. Such disclosure is consistent with basic principles of due process.

Second, the opportunity to oppose a decision occurs in a regulator-only session. The proposal does not provide an independent reviewer, written reconsideration standard, external appeal, or neutral technical validation.

Third, insurers and other affected market participants receive notice only after approval. A translation matrix adjustment, multiple rating requirement, removal of filing-exempt status, or CRP de-admittance can affect portfolio management, reporting, investment limits, capital treatment, and market liquidity. The Framework does not require affected insurers to receive supporting analysis or an opportunity to address operational effects before approval.

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[5] *Id.* §§ 4.1.2, 4.2.2.

Fourth, the standards for escalation remain open-ended. Many statistical thresholds are described as preliminary or illustrative. Sample sizes remain undetermined. The Working Group may use judgmental sampling, combine test segments, extrapolate findings, or adopt other tests as experience develops, yet the Framework does not require re-exposure of every material methodological change.

Fifth, no economic/cost-benefit or competition analysis is required. The proposal contains no mandatory assessment of costs, benefits, alternatives, concentration effects, barriers to entry, market liquidity, capital formation, or downstream effects on insurers and policyholders before Tier 2 action.

The 120-day prospective period is useful, but it is not due process. Notice after a decision cannot substitute for reliable standards, a complete record, meaningful participation, and review before the decision becomes final.

III. The Revised Framework Still Technically Flawed and Underdeveloped

The proposal makes useful technical clarifications. It acknowledges that spread analysis should account, where feasible, for market conditions, tenor, origination timing, and other non-credit factors. A rating improvement of more than three sub-notches would trigger review and independent rating analysis would use the NAIC's three-sub-notch materiality tolerance. The Revised Framework also directly acknowledges that private and emerging assets may have limited or inconsistent data.

However, other changes create or expose additional risk.

A. Cross-CRP agreement should not be a goal - multiple credit opinions serve insurance investors

The Revised Framework continues to treat disagreement among CRPs, including on specific securities, as evidence of a problem that needs to be solved. It proposes correlation, association, distributional, migration, and time-series comparisons across providers.

We disagree strongly with this presumption. Divergent credit opinions are important to protecting investors – this is a major reason Congress explicitly prohibited the Securities and Exchange Commission, and any other body, from regulating the content of rating agency methodologies.[6] Penalizing divergence can promote convergence toward prevailing views and "groupthink" and weaken the independent judgment that is fundamental to the health of U.S. capital markets and to investor protection.

B. Market and impairment indicators require careful interpretation

The new assessment of CRP-rated security performance would examine insurer impairments on investments carrying high NAIC Designations and ask whether the CRP rating adjusted for "credit or other asset deterioration." That inquiry may be useful, but impairments can reflect accounting judgments, liquidity, market conditions, structure, or timing that do not correspond to the credit risk concept that a rating measures.

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[6] *See supra* note 3.

The NAIC should define the outcome it seeks to predict. It should distinguish between default risk, expected loss, impairment, market value, spread movement, and the NAIC's broader concept of investment risk. Otherwise, the Framework may compare unlike measures and treat the difference as rating error.

C. Lack of NAIC SVO application should be addressed

The NAIC should run the same due diligence on its own Securities Valuation Office, which produces its investment designations. The Revised Framework continues to scrutinize CRP methodology while exempting the NAIC's own designation methodology.

A framework built to cure "blind reliance" should apply the same discipline and standards to the NAIC's own SVO designations that it would apply to the credit rating providers it reviews.

IV. Confidentiality and Cybersecurity Rules Insufficiently Specified

The Revised Framework improves the provision addressing SEC examination information. The May proposal would have required each accepted CRP to share annual SEC assessment findings. The revision instead states that the NAIC "may rely on" findings, data, or other information provided by the SEC. That is seemingly an improvement, as it appears to contemplate regulator-to-regulator coordination rather than compulsory transfer by each CRP.

Ultimately, the remaining text is unclear. Appendix A still asks CRPs for "Feedback from SEC Office of Credit Ratings examinations." The annual report may summarize "SEC review findings by CRP." The NAIC also may consider information from foreign authorities and may place an entire CRP in scope across all asset classes based on information it deems material.[7]

The Working Group should clearly and explicitly state that it will not ask a CRP to provide nonpublic SEC examination material, privileged communications, or regulator-confidential information unless disclosure is lawful, authorized by the originating regulator, and governed by a written agreement that addresses use, onward disclosure, retention, privilege, security, and incident notification. Unadjudicated supervisory information should not independently support public or materially adverse action.

Developments since July also require a more precise cybersecurity discussion. NAIC has reported that the June incident involved exfiltration of public and private rating determinations and associated identifiers, but not rating-agency rationale reports. It later reported that all CRP feeds required for filing-exempt processing had resumed by August 10 and that designations were again published beginning August 17.[8]

PPI credits the NAIC for restoring operations and publishing additional facts. However, those developments do not eliminate the need for binding safeguards before the NAIC expands the

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[7] *Revised Framework*, *supra* note 1, §§ 1.2.3.1, 4.2.1 & app. A.
[8] NAIC, *Security Update* (last updated Oct. 13, 2026), https://content.naic.org/about/security-update (updates of Aug. 10 and Aug. 18, 2026).

volume and sensitivity of information it receives. The Revised Framework contains no data inventory, minimization standard, access restrictions, retention schedule, segregation requirement, onward disclosure rule, vendor control standard, or independent security certification tied to the proposed data collection.

V. Requested Action

PPI respectfully asks the Working Group to:

1. **Defer adoption and re-expose a revised proposal for at least 60 days.** The present 25-day period is too short for a framework whose tests, data requirements, governance, and remedies continue to evolve.
2. **Publish a federal law analysis.** The analysis, conducted by an outside, independent law firm, should address Section 15E(c)(2), the distinction between evaluating regulatory reliance and regulating methodology, the role of state regulators acting through the NAIC, and limits on remedies tied to methodology assessments.
3. **Narrow the Framework to mapping and performance.** Use aggregated, asset-class-specific default, loss, transition, and stability evidence. Remove security-specific methodology review and remediation based on methodology disagreement.
4. **Adopt formal procedural protections.** Provide advance written notice, the complete supporting record, a meaningful response period, written findings, reconsideration by a body not responsible for the initial analysis, and public explanation of Tier 2 decisions.
5. **Require economic/cost-benefit and antitrust/competition analysis before Tier 2 action.** Address market liquidity, implementation costs, rating market concentration, new entrants, private market financing, insurer capital effects, and less restrictive alternatives.
6. **Adopt binding data-governance and cybersecurity conditions.** Minimize collection, prohibit unauthorized onward transfer, define retention and deletion, segregate confidential information, require independent security assurance, and establish prompt incident-notification duties.

PPI supports disciplined oversight of the inputs used in insurance solvency regulation. However, the magnitude of a regulator's objective does not reduce the need for lawful authority, reliable evidence, fair process, and accountability. The Revised Framework is an improvement over the May proposal but still falls significantly short of being ready for adoption.

Respectfully submitted,

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