

STATE OF ARIZONA  
FILED

OCT 27 2000

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE  
BY CP

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3 In the Matter of: )  
4 INVESTMENT GRADE RATINGS FOR AND ) Docket No. 00A-123-INS  
5 ELIGIBILITY OF INVESTMENTS IN ) ORDER  
6 OBLIGATIONS AND PREFERRED STOCK )  
7 UNDER A.R.S. §§20-544 and 20-545. )

8 A hearing was held in the above referenced matter on September 18, 2000. The Director called  
9 this hearing pursuant to A.R.S. §§20-544 and 20-545 which provide that the Director may issue an order  
10 after a hearing in which appropriate investment grade ratings and recognized rating agencies are  
11 prescribed for purposes of permitting insurers to invest in: (i) bonds, debentures, notes, commercial  
12 paper and other evidences of indebtedness issued, assumed or guaranteed by any solvent institution  
13 created or existing under the laws of the United States or any state, district or territory of the United  
14 States, which are not in default as to principal or interest; and (ii) preferred, guaranteed or preference  
15 stocks or shares of any solvent institution created or existing under the laws of the United States or of  
16 any state, district or territory of the United States (hereinafter referred to as "corporate obligations" and  
17 "preferred stock" respectively). The Director is authorized to prescribe standards by which corporate  
18 obligations or preferred stocks which have not received an investment grade rating may be eligible for  
19 investments.

20 The purpose of the September 18, 2000, hearing was to determine whether certain amendments  
21 should be made to the Order previously entered on November 17, 1988 (the "1988 Order"). The  
22 amendments considered at the hearing included, but were not limited to, those set forth in Exhibit A to  
23 the Notice of Hearing issued in this matter on August 11, 2000.

1           Based on the evidence presented at the hearing, the Director finds that there is a need to  
2 supersede the 1988 Order with an order clarifying the classes of investments to which the 1988 Order  
3 applies, modifying certain concentration limits contained in the 1988 Order and recognizing certain class  
4 ratings by the Securities Valuation Office of the National Association of Insurance Commissioners (the  
5 "SVO") as an acceptable investment grade rating for purposes of investments, including private  
6 placement investments, not rated by one of the recognized rating agencies referenced in the 1988 Order.

7           **IT IS THEREFORE ORDERED:**

8           1.     The Order of the Department entered in this matter on November 17, 1988, is superseded  
9 and amended by this Order. This Order is issued to set forth the corporate obligations and preferred  
10 stocks ("the securities") eligible for investment pursuant to A.R.S. §§20-544 and 20-545.

11           2.     The National Association of Insurance Commissioner's Securities Valuation Office  
12 ("SVO") and Nationally Recognized Statistical Rating Organizations ("NRSRO") designated by the  
13 SVO are hereby recognized as rating agencies for the purposes of A.R.S. §§20-544 and 20-545.

14           3.     An insurer may invest in corporate obligations and preferred stocks eligible for  
15 investment pursuant to A.R.S. §§20-544 and 20-545 provided that:

16                   (a) the SVO has assigned the security an investment grade rating of 1 or 2; or

17                   (b) if the security has not received an SVO investment grade rating as set forth in

18                                 subsection (a), the security has received an SVO equivalent rating as published by the  
19                                 SVO at the time of the investment from a designated NRSRO.

20           4.     An insurer may invest in corporate obligations and preferred stock that are otherwise  
21 eligible for investment pursuant to A.R.S. §§20-544 and 20-545 and have not received investment grade  
22 ratings as set forth in Paragraph 3, provided that:

23

- 1 (a) no more than twenty (20%) of an insurer's admitted assets or two hundred percent  
2 (200%) of an insurer's capital and surplus, whichever is greater, is invested in  
3 such lower grade and unrated securities;
- 4 (b) no more than five percent (5%) of the amount that may be invested in lower grade  
5 or unrated securities, as set forth in subparagraph (a), may be invested in any one  
6 institution; and
- 7 (c) no more than twenty-five percent (25%) of the amount that may be invested in  
8 such lower grade or unrated securities, as set forth in subparagraph (a) may be  
9 invested in institutions from any one industry.

10 5. Each insurer shall possess and maintain adequate documentation to establish the  
11 eligibility of lower grade or unrated securities pursuant to Paragraph 4 above.

12 6. "Corporate obligation" shall include structured securities and other evidences of  
13 indebtedness as set forth in Schedule D, Part 1, or Schedule DA of an insurer's Annual Statement, in  
14 accordance with the instructions and accounting practices and procedures that are approved by the  
15 NAIC.

16 7. "Industry" means a distinct and recognized area of economic activity that consists of the  
17 production, manufacture or distribution of common goods, products, commodities or services.

18 8. All references herein based upon the amount of an insurer's admitted assets or an  
19 insurer's capital and surplus shall relate to general account admitted assets or capital and surplus as  
20 shown by the insurer's annual statement as of December 31 last preceding the date of a proposed  
21 investment.

22 9. Nothing contained herein shall be construed to permit the insurer to invest in any lower  
23

1 grade or unrated stock, note, commercial paper or other evidence of indebtedness issued by an affiliate,  
2 as that term is defined in A.R.S. §20-481, except to the extent such investments are permitted by the  
3 provisions of A.R.S. §20-481.01.

4 DATED this 27<sup>th</sup> day of October, 2000

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7 CHARLES R. COHEN, Director  
8 Department of Insurance

9 COPY of the foregoing mailed this  
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