

The [NAIC's Capital Markets Bureau](#) monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Please see the Capital Markets Bureau website at [INDEX](#).

The securities lender has the discretion to invest the cash posted by the borrower in "income productive" securities (i.e., reinvested collateral), which, on short notice, are liquid enough to be sold without losing significant

While this insurer is most known for significant losses that occurred within its credit default swap (CDS) program,

then obligated to deliver additional collateral by the next business day so that the fair value of total collateral received equals 102% of the fair value of the loaned securities.

Note that the cash or collateral held on the balance sheet is treated like any other insurer asset in terms of reporting, valuation and risk-based capital (RBC). Accounting treatment for U.S. insurers' securities lending exposure aims not only to promote consistency, but also to improve transparency with respect to reporting.

Key Terminology

The act of loaning a bond, stock or other security to an investor in an over-the-counter market, requiring the borrower to post collateral in the form of cash or securities.

A financial institution that participates in a financial transaction.

A trade of securities (without a physical location) directly between two counterparties without any supervision of exchange.

Cash proceeds that a counterparty, or borrower, gives to the lender in exchange for loaned securities.

Securities purchased with the cash collateral received for securities lent to borrowers.

Income (i.e., interest earned) generated by the reinvested collateral.

The degree to which an asset's price is negatively affected as it is bought or sold in the financial markets.

The risk that the value of the liabilities will exceed the value of assets.

Risk that the counterparty/borrower will be unable to return the loaned securities back to the lender on the securities lending termination date.

