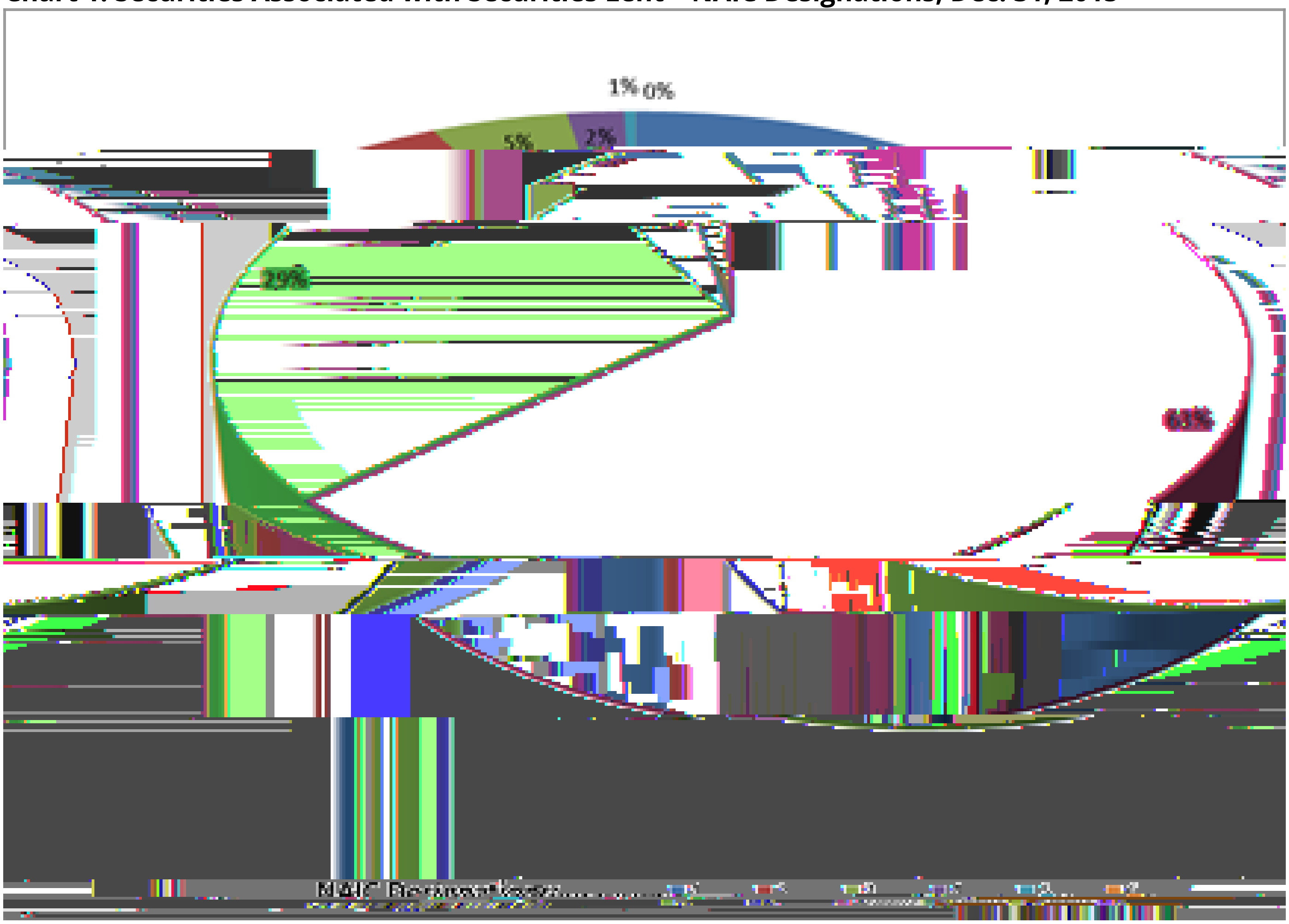
Corporate Bonds	37,703	3,540	3,755	1,138	-	46,136	58%
US Government	21,922	4,520	-	263	-	26,704	34%
Foreign Government	1,856	222	16	2	-	2,095	3%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Chart 1: Securities Associated with Securities Lent – NAIC Designations, Dec. 31, 2015



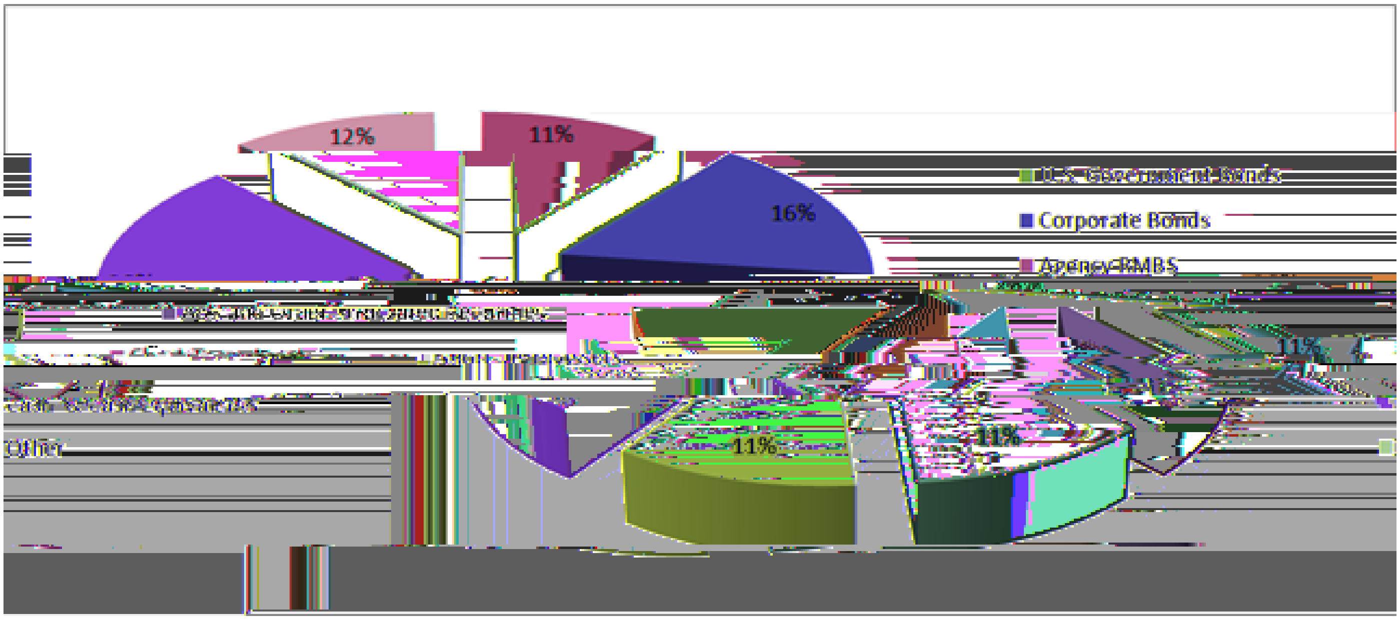
As of year-end 2015, about 40% of bonds associated with securities lent had maturities of up to five years, followed by 30% maturing between six and 10 years (Table 2). This compares similarly to the maturities of insurers' reinvested collateral.

Table 2: Maturity of Securities Associated with Securities Lent, Dec. 31, 2015 ($mil BACV)

Fraternal	263.4	1,290.1	2,006.9	83.9	129.2	12.8	3,786.3
Life	8,909.7	17,337.7	17,563.7	3,930.4	15,753.7	-	63,495.1
P/C	1,420.5	2,553.3	3,148.9	774.9	1,062.7	14.9	8,975.2
Heath	140.0	630.8	527.6	47.7	142.7	-	1,488.8
Total	**10,733.5**	**21,811.9**	**23,247.1**	**4,836.8**	**17,088.3**	**27.6**	**77,745.4**
% of Total	14%	28%	30%	6%	22%	0%	100%

Securities Lending Reinvested Collateral

Securities lending agreements require a borrower to post collateral in either cash or securities. As securities lending agreements are short-term in nature, for U.S. insurers, collater! me



In comparison, at year-end 2014, cash and cash equivalents was the second-largest asset type for reinvested collateral at 18%; the largest asset type was corporate bonds at 19% of total reinvested collateral (see Chart 3). A noteworthy observation between the two years is an increase in more liquid reinvested collateral from 2014 to 2015. That is, there was an increase in cash and cash equivalents, as well as in U.S. government bonds (from 10% of reinvested assets in 2014 to 11% in 2015), with a coinciding decrease in corporate bonds to 16% of reinvested collateral from 19%—perhaps due to conservative investing and concerns regarding market value volatility of certain investments based on prior experiences immediately preceding the financial crisis.

Chart 3: Reinvested Collateral for Securities Lending, as of Dec. 31, 2014

In 2015, almost half of the reinvested collateral was the highest credit quality, as indicated by NAIC 1 designations (shown in Chart 3). A large proportion of the reinvested collateral did not have reported designations (or they were not assigned); this is not surprising, given that a large proportion included cash and cash equivalents, which, in addition to short-term investments, are not assigned NAIC designations.

repurchase the same (or substantially the same) securities back from the counterparty on an agreed-upon date and at an agreed-upon price. Similar to securities lending, SSAP No. 103 requires a reporting entity to receive and maintain adequate collateral for repurchase and reverse repurchase transactions. Repos serve as a way for insurers to raise short-term cash and access low-risk cash flow. According to statutory accounting rules within SSAP No. 103, repos are most often accounted for as collateralized borrowings, meaning the securities sold by the insurer continue to be accounted for as an investment owned by the insurer. Recognition of collateral received depends on the type of collateral (cash or security) and whether the reporting entity sells/transfers the collateral. If certain conditions are met as described in SSAP No. 103, repos may be accounted for as a sale of financial assets and a forward repurchase commitment. Currently, disclosure revisions to SSAP No. 103 regarding repos (and reverse repos) are being considered to enhance and improve information available to regulators.

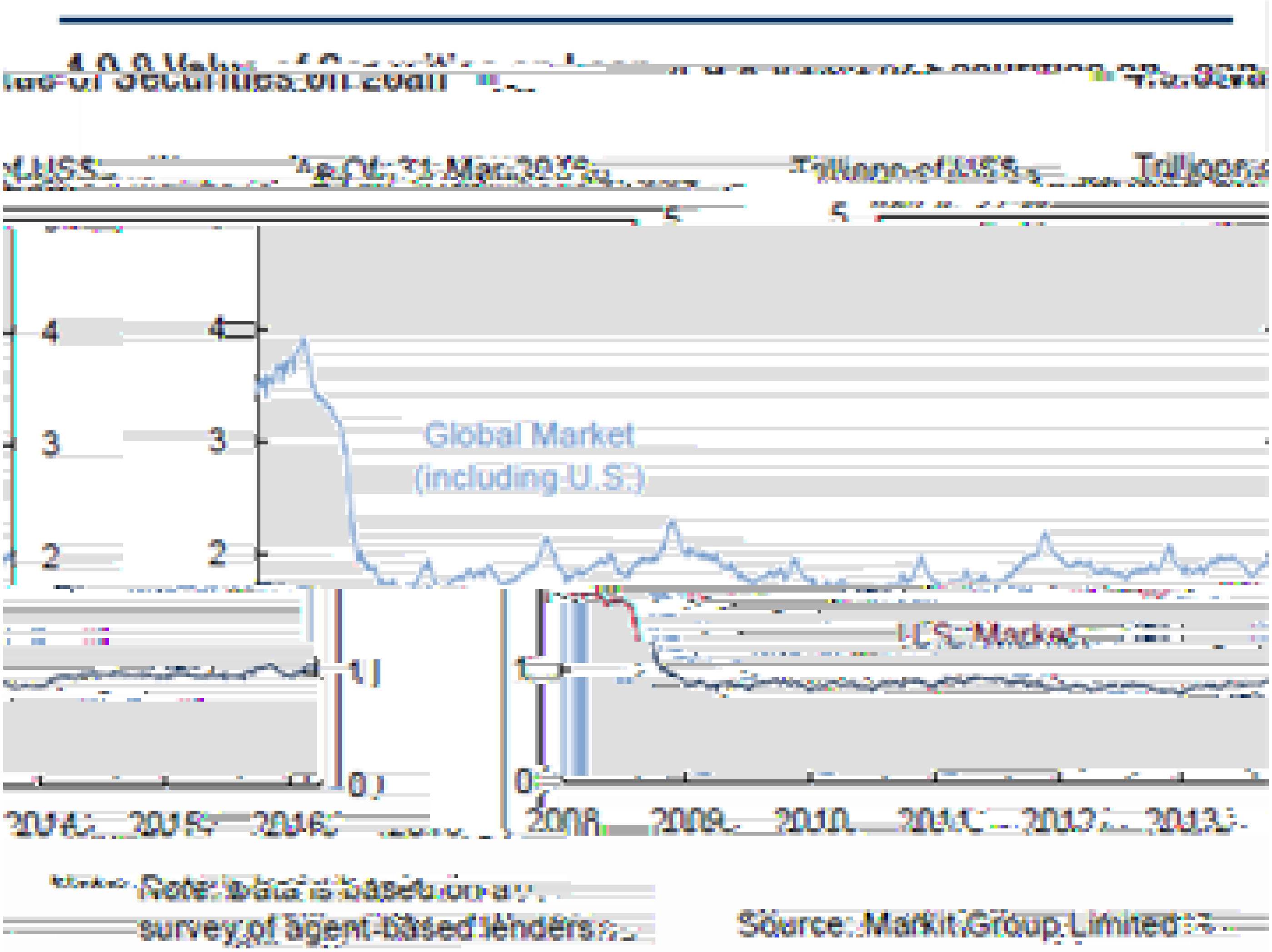
U.S. Insurance Industry Exposure

As of year-end 2015, the U.S. insurance industry had approximately $25 billion reported in securities associated with repurchase agreements, compared to $21.4 billion at year-end 2014 and $20.3 billion in 2013. Similar to securities lent, the amount reported by insurers for repos represents the BACV of securities ***associated*** with repo activity; that is, the insurers did not necessarily lend out the full amount of the securities; rather, they may have only lent a portion of the reported line item for which they received collateral from a counterparty. This report update does not account for reverse repo exposure, as it was less than 1% of the U.S. insurance industry's total repo activity. Table 4 identifies the types of securities associated with repurchase agreements involving U.S. insurers in 2015. U.S. government securities represented the majority, at almost 60% of total securities associated with repurchase agreements. While U.S. government securities are highly liquid, the ability of the counterparty to source the same, or substantially the same, securities to return back to the insurer at the end of the repo agreement term, at the predetermined price (usually overnight), could pose a risk . In addition, agency-backed RMBS and municipal bonds accounted for 15% of total securities associated with repurchase agreements sold by insurers to counterparties. All of the securities associated with repurchase agreements were investment grade, with 91% having an NAIC 1 designation.

Table 4: Securities Associated with Repurchase Agreements by U.S. Insurers, Dec. 31, 2015 ($mil BACV)

[redacted]			Life	[illegible]	[illegible]
U.S. Government	14,796	12	-	14,808	58%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Short-Term Invested [illegible]	-	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

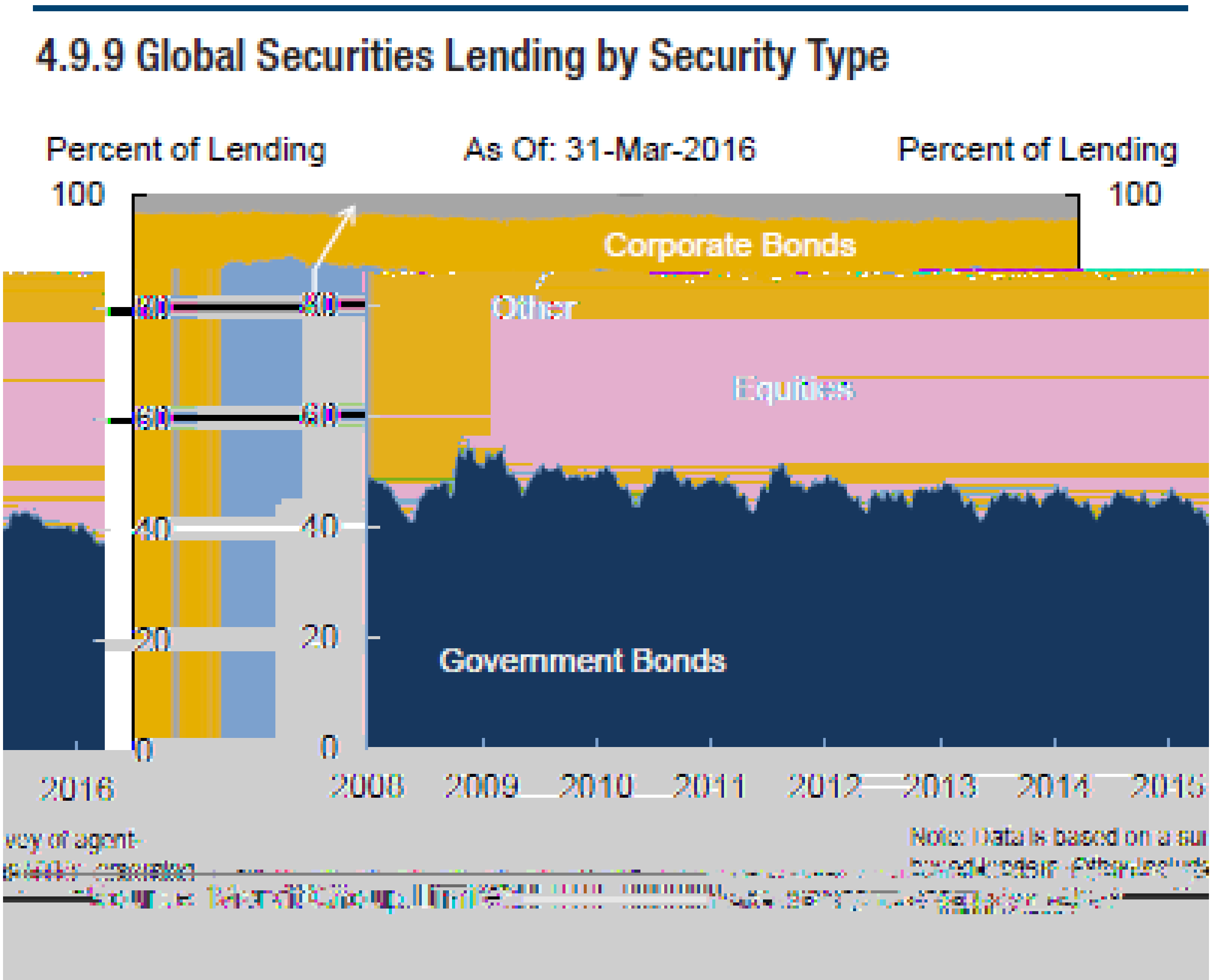
In comparison, at year-end 2014, securities associated with repo activity totaled about $22.3 billion, with U.S. government securities also representing the largest proportion, at 52% of the total. Bonds receiving U.S. government support and municipal bonds were 20% of the total. The largest four types of



Source: FSOC 2016 Annual Report.

Also according to the FSOC 2016 Annual Report, government bonds and equities comprised the largest proportion of global securities lent, at 85% of total securities lent (see Chart 6); as of March 2016, the share of equities was 49% of the total, exceeding government bonds (not surprising given the rally in the stock market), which accounted for about 38% of total securities lent. For U.S. insurers, this trend is not the case, but U.S. insurers are not considered the most active securities lenders. The FSOC 2016 Annual Report cites retirement funds, mutual funds and government bodies (including central banks) as the most active lenders.

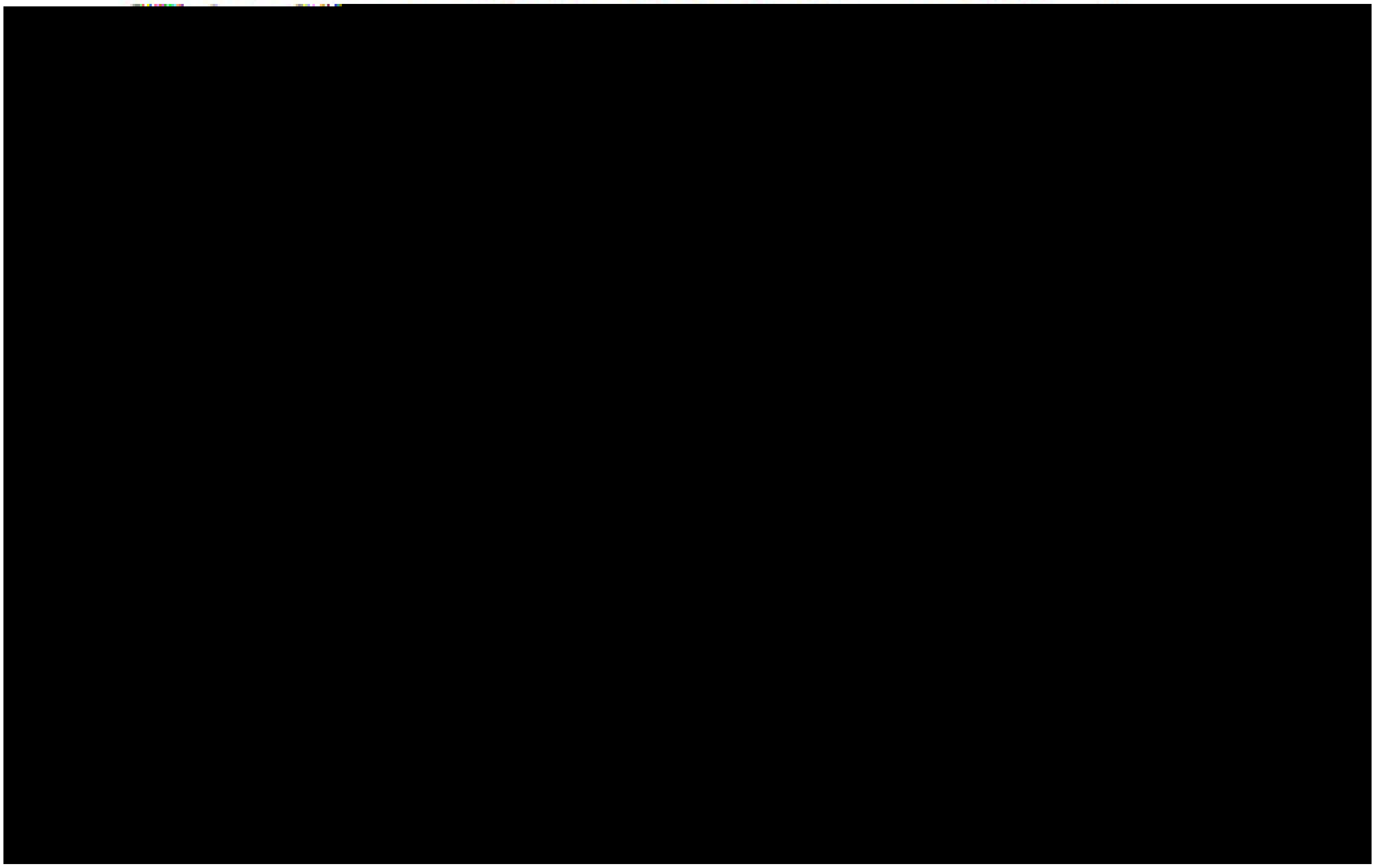
Chart 6:



Source: FSOC 2016 Annual Report.

<u>Repos ̧ Bilateral and Tri-Party</u>

The repo market consists of two segments: 1) bilateral repos, where two repo counterparties' custodian banks are responsible for clearing and settling trades; and 2) tri-party repos, where a third-party custodian bank serves as intermediary between the two counterparties. Currently, JPMorgan Chase and Bank of New York Mellon are the primary asset servicers that act as intermediaries for tri-party repos. Total bilateral U.S. repo activity ranged between $2.0 trillion and $2.3 trillion for the 12 months ended March 2016, after reaching a pre-crisis peak in 2007 around $4.5 trillion (see Chart 7).The tri-party repo market was estimated to be between $1.5 trillio [illegible]



Source: SIFMA.

The repo market has proven functional and reliable, even through the financial crisis. Investors on both sides of the transaction "…benefit from operational efficiency, security, and low funding costs…" according to a repo market fact sheet published by SIFMA. The repo market also has standardized documentation that is widely utilized and accepted by participants, lending further comfort to engaging in these transactions.

Regulatory Trends with Securities Lending and Repos

The U.S. insurance industry's exposure has been minimal (securities associated as a percentage of total cash and invested assets) and has not changed significantly over the past few years. However, securities lending and repo agreements play a significant role in the U.S. financial markets. The size of the securities lending market is difficult to ascertain due to a lack of comprehensive data; estimates differ depending on the source. As such, regulators encourage consistent data reporting from firms involved in securities lending activity. In 2014, the U.S. Department of the Treasury's Office of Financial Research (OFR), together with the U.S. Securities and Exchange Commission (SEC), initiated a data collection pilot in the securities lending and repo markets aimed at improving data availability and transparency. According to the FSOC 2016 Annual Report, nine bank holding companies voluntarily participated in the pilot program, reporting trades in bilateral repos and securities lending agreements. The first part of the pilot program involved collecting data relative to bilateral repo activity, which ended in the first quarter of 2015. The second portion of the pilot involved collecting data relative to securities lending activity and was completed in the first quarter of 2016. Interestingly, the FSOC 2016 Annual Report stated that "The participating dealers [in the pilot] reported that counterparties sometimes preferred to use a securities lending contract when negotiating an exchange of cash for collateral, perhaps reflecting differences in prevailing market practice or regulatory requirements." Initial results from the data collection suggest that bilateral repo collateral is largely comprised of U.S. government securities, while securities lending collateral has more equities and corporate debt collateral (in addition to U.S. government securities accounting for the largest share of its collateral). Because of this pilot, progress has been made with regard to transaction-level data collection for bilateral repo activity —a critical sector of the overall repo market. According to a brief published by the OFR in January 2016, prior to the 2008 financial crisis, U.S. regulators and policy dets to

September 2, 2016							
Major Insurer Share Prices		Change %			Prior		
	Close	Week	QTD	YTD	Week	Quarter	Year
[illegible]							

September 2, 2016
Major Market Variables

	Change %			Prior			
			YTD	Week		Quarter	Year
3.5	3.0						

September 2, 2016
Major Insurer Bond Yields

	Company	Coupon	Maturity	Weekly Change					YTD
				Price			Spread over UST		Spread
				Current	Change	Yield	B.P.	Change	Change
				$0.22	(2)	(24)			
				$0.48	(1)				
				$1.24	196	(5)			
						Northwestern Mutual			
				(28)					
				(12)					(4)
	(10) P&C	ACE INA	5.900%	6/15/??	$0.04		72		(0)
				XL Group					
	103	(1)	(1) Other	AON	5.000%	9/15/??	$0.12		
	AIG								
	(2)			2.950%		$0.??			
	$0.17								