OFF-BALANCE SHEET ITEMS – XR005

Off-balance sheet items, such as contingent liabilities, pose a risk to insurers. A 1% factor was chosen on a judgment basis to allow for this risk. For securities-lending programs, a reduced charge may apply to certain programs that meet the criteria as outlined below.

Specific Instructions for Application of the Formula

Line (1)
Securities-lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities-lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risk associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
    a. Documented investment guidelines between lender and investment manager, with established procedure for review of compliance.
    b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality and average life/duration requirements.
    c. Approved borrower lists and limits to allow for adequate diversification.
    d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross-currency loans).
    e. Daily mark-to-market of lent securities and obtaining additional collateral needed to maintain a margin of 102% of market.
    f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
3. A binding securities-lending agreement (standard “Master Securities Lending Agreement” from Securities Industry and Financial Markets Association) in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-rated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases, the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories Part 1, Line 22.5 of the annual statement should be included on Line (1).

Line (2)
Collateral from all other securities-lending programs should be reported in General Interrogatories Part 1, Line 22.6 and included in Line (2).

Lines (3) through (11)
Non-controlled assets are any assets reported on the balance sheet that are not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. Examples of these may be: securities subject to reverse repurchase agreement; dollar repurchase agreement; pledged as collateral; placed under an option agreement; placed under an option agreement involving “asset transfers with put options”; letter stock or otherwise restricted as to sale; or other investment securities not under the exclusive control of the company~~.~~**. For Line (7), include assets pledged as collateral reported in the General Interrogatories Part 1, Line 23.25 other than assets related to the Federal Reserve’s Term Asset Loan Facility (TALF).**

	(1)	(2)