DATE: February 4, 2009

TO: Insurance Companies Required to Complete the Life Risk-Based Capital Report

FROM: Philip Barlow
           Chair, Life Risk-Based Capital Working Group

SUBJECT: Treatment of Derivative Instrument Collateral for the Year-End 2008 Life Risk-Based Capital Report

For the year-end 2008 Life Risk-Based Capital calculation, the Life Risk-Based Capital Working Group is providing guidance on an alternative option for the completion of LR012 Miscellaneous Assets. The source for Line 6.2 of LR012 indicates the use of a derivative amount that is net of collateral. For 2008, Line 6.2 may be overridden to use the amount of derivatives included in the Page 2 Line 9 "Aggregate write-ins for invested assets" value.

Similarly, the instructions for Lines 8-14 of LR012 indicate that derivative amounts included are net of acceptable collateral. For 2008, if line 6.2 uses a gross amount, Lines 8-14 should be overridden to add back collateral amounts that do not appear on the company's balance sheet and/or to which the company's access to assets backing on-balance sheet collateral is restricted in the event of counterparty nonperformance. Collateral amounts that appear on the company's balance sheet, are subject to an appropriate asset charge in the RBC formula, and to which the company's access to assets backing on-balance sheet collateral is unrestricted in the event of counterparty nonperformance should continue to be deducted from the derivative amounts on lines 8-14.

Attached are copies of instructions reflecting the guidance. If you have any questions, please contact Dan Swanson at (816)783-8412 or dswanson@naic.org.

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MISCELLANEOUS ASSETS
LR012

Basis of Factors

Lines (1) through (3.5)
The pre-tax factor for cash is 0.4 percent. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. The 0.4 percent pre-tax factor, equivalent to a Class 1 bond, reflects the short-term nature of this risk.

The short-term investments to be included here are those not reflected elsewhere in the formula. Commercial paper, repurchase agreements, collateralized mortgage obligations (CMOs), mortgage participation certificates (MPCs), interest-only and principal-only certificates (IOs and POs), and equipment trust certificates should be included in appropriate bond classifications (Class 1 through Class 6) on LR002 Bonds and should be excluded from short-term investments. The 0.4 percent pre-tax factor is equal to the factor for cash.

Lines (4) through (7)
Premium notes, receivables for securities and write-ins for invested assets are generally a small proportion of total portfolio value. A pre-tax factor of 6.8 percent is consistent with other risk-based capital formulas studied by the working group. **NOTE: For year-end 2008, the amount of derivatives included in Line 6.1 may be excluded on Line 6.2, rather than the amount of derivatives net of collateral that appears on Line 33, Column 1, of the Asset Valuation Reserve Default Component.**

Lines (8) through (15)
Derivative instrument book/adjusted carrying value exposure net of **acceptable** collateral **held on the balance sheet and subject to an appropriate asset charge in the RBC formula**, for each SVO rating class, is subject to the bond RBC factor for that category to reflect the amount held on the balance sheet exposed to loss upon default of the Over the Counter (OTC) counterparty or exchange. **"Acceptable collateral" is defined in the** *NAIC Annual Statement Instructions* **for Schedule DB Part E Section 1 Column 3. NOTE: For year-end 2008, derivative instrument book/adjusted carrying value should be gross of collateral if a gross amount is used in Line 6.2, unless the insurance company has unrestricted access to acceptable collateral in the event of counterparty nonperformance, and such collateral is both reported on its balance sheet, and subject to an appropriate asset charge on that collateral in the RBC formula.**

MISCELLANEOUS ASSETS

	Annual Statement Source	(1) Book / Adjusted Carrying Value	Factor	(2) RBC Requirement
Miscellaneous				
(1) Cash	Page 2 Line 5, inside amount 1		X 0.004 =	
(2.1) Cash Equivalents	Page 2 Line 5, inside amount 2			
(2.2) Less Cash Equivalent Bonds Already Included with Page LR002 Bonds	Schedule E Part 2 Column 6 Line **60**99999, in part			
(2.3) Net Cash Equivalents	Line (2.1) - Line (2.2)		X 0.004 =	
(3.1) Short-Term Investments	Page 2 Line 5, inside amount 3			
(3.2) Less Short-Term Bonds	Schedule DA Part 1 Column 7 Line 6099999			
(3.3) Less Exempt Money Market Funds	Schedule DA Part 1 Column 7 Line 7999999			
(3.4) Less Class One Money Market Funds	Schedule DA Part 1 Column 7 Line 8099999			
(3.5) Net Short-Term Investments	Lines (3.1) - (3.2) - (3.3) - (3.4)		X 0.004 =	
(4) Premium Notes	Page 2 Line 6 first inside amount		X 0.068 =	
(5) Receivable for Securities	Page 2 Column 3 Line 8		X 0.068 =	
(6.1) Aggregate Write-ins for Invested Assets	Page 2 Column 3 Line 9			
(6.2) Less Derivative Instruments	**Page 2 Column 3 Line 9, Derivatives reported as part of total**			
(6.3) Net Write-ins for Invested Assets	Line (6.1) - Line (6.2)		X 0.068 =	
(7) Total Miscellaneous Excluding Derivative Instruments	Lines (1) + (2.3) + (3.5) + (4) + (5) + (6.3)			
Derivative Instruments				
(8) Exchange Traded	Asset Valuation Reserve Default Component Column 1 Line 26, **in part**		X 0.004 =	
(9) Over the Counter Class 1	Asset Valuation Reserve Default Component Column 1 Line 27, **in part**		X 0.004 =	
(10) Over the Counter Class 2	Asset Valuation Reserve Default Component Column 1 Line 28, **in part**		X 0.013 =	
(11) Over the Counter Class 3	Asset Valuation Reserve Default Component Column 1 Line 29, **in part**		X 0.046 =	
(12) Over the Counter Class 4	Asset Valuation Reserve Default Component Column 1 Line 30, **in part**		X 0.100 =	
(13) Over the Counter Class 5	Asset Valuation Reserve Default Component Column 1 Line 31, **in part**		X 0.230 =	
(14) Over the Counter Class 6	Asset Valuation Reserve Default Component Column 1 Line 32, **in part**		X 0.300 =	
(15) Total Derivative Instruments	Sum of Lines (8) through (14)			
	~~(Column (1) should equal Asset Valuation Reserve Default Component Column 1 Line 33)~~			
(16) Total Miscellaneous Assets (pre-MODCO/Funds Withheld)	Lines (7) + (15)			
(17) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)			
(18) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)			
(19) Total Miscellaneous Assets (including MODCO/Funds Withheld.)	Lines (16) - (17) + (18)			

      Denotes items that must be manually entered on the filing software.