

February 10, 2012

Robert E. Feldman, Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve  
System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

John G. Walsh  
Acting Comptroller of the Currency  
Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 2-3  
Washington, DC 20219

Re: Docket ID OCC-2011-14, Docket No. R-1432, RIN 7100-AD82, RIN 3064-AD85, S7-41-11: Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds

Dear Sirs and Madams:

We write on behalf of the National Association of Insurance Commissioners (NAIC) regarding the Federal Deposit Insurance Corporation, the Federal Reserve, the Securities and Exchange Commission, and the Office of the Comptroller of the Currency's (collectively the "agencies") notice and proposed rulemaking on "Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds." Founded in 1871, the NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and the five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S. The NAIC respectfully submits the following comment to the Notice of Proposed Rulemaking and Request for Comment published in the November 7, 2011 issue of the Federal Register.

Section 619 of the Dodd-Frank Act (the "Volcker Rule") prohibits any bank or an affiliate of a bank from engaging in proprietary trading or from acquiring or retaining an ownership interest in, or sponsoring, or having certain relationships with a hedge fund or private equity fund. It also subjects non-bank financial companies designated by the Financial Stability Oversight Council (FSOC) to additional capital requirements, quantitative limits, and other restrictions. Importantly, in passing the Volcker Rule, Congressional intent was clear—the Volcker rule's prohibitions should not extend to the investments of a regulated insurance company. To this end, certain insurance investment activities are exempt from the prohibition of the Volcker Rule including trading for the general account of an

insurance company, trading in separate accounts on behalf of customers, and engaging in risk mitigating hedging activities.<sup>1</sup>

We believe that the agencies' proposed rule is generally consistent with Congressional intent in this regard. Nevertheless, we do have some specific concerns and set forth are NAIC comments relating to four specific areas: 1) the proposed implementation of the exemption for insurance company investments for the general account, 2) the proposed implementation exemption for trading on behalf of customers, 3) the proposed implementation of the prohibition in investments in private equity and hedge funds, and 4) the proposed implementation of the reporting and recordkeeping requirements as they relate to insurance companies affiliated with banks.

### **Exemption for Insurance Company Investments for the General Account**

We were pleased to see that the agencies implemented the exemption for insurance company investments for the general account as set forth in the statute. We also agree with the agencies that it is unnecessary to examine whether any state's insurance investment law would threaten the financial stability of the banking entity or the United States. As investments are critical to the insurance business model, and are necessary to maintain an insurer's solvency, insurance companies are subject to conservative accounting and significant disclosure requirements, practices restricted by state insurance laws and regulations, and ongoing solvency oversight of operations. Investment laws and regulations provide limits on the type and extent of insurer investments, and examination of insurer investment portfolios to ensure compliance with such laws is part of the ongoing oversight by state insurance departments. As such, we do not think a review of such investment laws by the federal government would ever be necessary.<sup>2</sup>

### **Exemption for Insurance Company Investments in Separate Accounts**

As with the exemption for insurer investments for the general account, we were equally pleased to see that the federal financial agencies recognize that insurance company separate accounts should also be exempted from the proprietary trading prohibitions. However, we do seek clarification in the final rule regarding two issues. First, the term "insurance policies" in the rule is undefined. The agencies have exempted trading for the separate account on behalf of insurance policyholders only if the company purchases or sells the covered financial position solely for a separate account in connection with one or more "insurance policies" issued by the company. Regulated insurance companies sell separate account products beyond insurance policies including variable annuities, guaranteed investment contracts, deposit-type contracts, for example and such separate account products should be considered insurance products for the purpose of the exemption.

We, therefore, respectfully request that the agencies define insurance policies to include any products sold by regulated insurance companies including but not limited to insurance policies and annuities.

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<sup>1</sup> See, 12 U.S.C. 1851(d)(1)(D) and (F).

<sup>2</sup> We also note that the proposed rule contemplates a role for the Treasury Department's Federal Insurance Office if such a review were to take place. While we appreciate the role FIO plays as an additional resource regarding insurance matters, it is equally critical that such agencies consult with state insurance regulators through the NAIC. Since its inception, the NAIC has served as the collective voice of the state insurance regulators and has provided the federal financial agencies valuable expertise regarding insurance regulatory matters.

Second, there are certain separate account insurance products that have minimum guarantees. As with other separate account products, the profits and losses inure to the customers, but such products guarantee the customer a minimum rate of return on their investment. These guarantees are funded through investments in the general account. We respectfully request that the federal financial agencies clarify that the separate account products with minimum guarantees will be exempted from the prohibitions of the Volcker either because 1) they are treated as investments for the insurer's general account, or 2) treated as a separate account investment made on behalf of customers.

### **Investments in Hedge Funds and Private Equity Funds**

Several insurers also invest in private equity and hedge funds. Like other insurer investments for the general account, these investments are governed by state insurance laws and permitted up to specified limits. Such investments are also required to be reported on Schedule BA of the Annual Statement (Exhibit 1). That schedule provides information such as the nature of the investment (private equity or hedge fund and strategy type), the percentage of ownership, investment income, fair value and carrying value. In reviewing the proposed rule, it was not clear whether the federal financial agencies propose to apply the insurer general account or separate account exemptions to investments in such funds even though such investments are permitted under state insurance laws. We believe that Section 619 of the statute is clear that the agencies have authority to exempt such investments from the Volcker Rule prohibitions.<sup>3</sup> Given the existence of stringent insurer investment laws and investment reporting requirements, there is no reason that insurer investments in private equity or hedge funds should be treated differently than any other investments by insurers.

The NAIC requests clarification in the final rule that such investments will be permitted provided they are conducted in compliance with state investment laws and under the same conditions that other insurer investments are permitted.

### **Reporting Requirements**

Last, we appreciate the need for the federal financial agencies to have sufficient information to ensure, as was intended by the Volcker Rule, that bank funds are not being used for proprietary trading or covered fund activities. However, we are deeply concerned that insurance companies, as affiliated "banking entities", are subject to the proposed reporting requirements. Insurance companies are highly regulated entities subject to detailed statutory reporting requirements, periodic risk focused examinations, quarterly financial analysis, prior approval of affiliate transactions, and extensive regulatory oversight especially as it relates to more volatile investment vehicles. These safeguards are designed to spot any activities that could affect the solvency of the insurer or run afoul of insurance laws designed to protect policyholder interests. The proposed reporting requirements unnecessarily increase the regulatory burden even though insurance company general and separate accounts are intended to be exempt from Volcker Rule prohibitions.

To that end, while we take no position on the reporting requirements for the banks or other affiliates of such banks, we respectfully request that the actual insurance company entities affiliated with the bank be

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<sup>3</sup> 12 U.S.C. 1851(d) provides that: "Notwithstanding the restrictions under subsection(a),[ which include investments in hedge and private equity funds], to the extent permitted by any other provision of Federal or State law, and subject to the limitations under paragraph (2) and any restrictions or limitations that the [federal financial agencies] may determine, the following activities are permitted."

exempt from additional reporting requirements beyond those already required by state insurance regulators.<sup>4</sup>

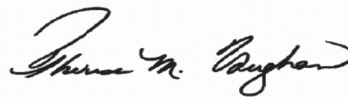
**Conclusion**

We appreciate the opportunity to comment. Should you wish to discuss this comment or any other matter relating to the NAIC’s views on this proposed rule, please do not hesitate to contact Ethan Sonnichsen, Director of Government Relations, at (202) 471-3980 or Mark Sagat, Counsel and Manager of Government Relations, at (202) 471-3987.

Sincerely,



Kevin M. McCarty  
Florida Commissioner of Insurance and  
NAIC President



Therese M. Vaughan, Ph.D.  
NAIC Chief Executive Officer

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<sup>4</sup> We note that the state insurance regulators have long worked closely with the federal banking regulators in cases where an insurer is affiliated with a bank, or otherwise in a bank or thrift holding company system. The federal banking agencies have memoranda of understanding with the insurance regulators and periodically exchange information regarding the entities they respectively regulate. We would expect that if the banking regulators had questions or concerns regarding an affiliated insurer’s investments they would raise them with the insurance entities’ regulator as they have with respect to other regulatory issues.

# **Exhibit 1**





**SCHEDULE BA – PART 3**

Showing Other Long-Term Invested Assets DISPOSED, Transferred or Repaid During the Current Year

1 CUSIP Identification	2 Name or Description	3 Location		4 State	5 Name of Purchaser or Nature of Disposal	6 Date Originally Acquired	7 Disposal Date	8 Book/Adjusted Carrying Value Less Encumbrances, Prior Year	9 Unrealized Valuation Increase (Decrease)	10 Current Year's (Depreciation) or (Amortization)/ Accretion	11 Current Year's Other Than Temporary Impairment Recognized	12 Capitalized Deferred Interest and Other	13 Total Change in B./A.C.V. (9+10-11+12)	14 Total Foreign Exchange Change in B./A.C.V.	15 Book/Adjusted Carrying Value Less Encumbrances on Disposal	16 Consideration	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Investment Income
		City																		
-199999 Totals																				



**SCHEDULE BA – PARTS 1, 2 AND 3**

**OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS**

Include only those classes of invested assets not clearly or normally includable in any other invested asset schedule. Such assets should include any assets previously written off for book purposes, but which still have a market or investment value. Give a detailed description of each investment and the underlying security. If an asset is to be recorded in Schedule BA that is normally reported in one of the other invested asset schedules, make full disclosure in the Name or Description column of the reason for recording such an asset in Schedule BA.

For accounting guidance related to foreign currency transactions and translations, refer to SSAP No. 23, Foreign Currency Transactions and Translations.

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

<u>Group or Category</u>	<u>Line Number</u>
Oil and Gas Production – Unaffiliated.....	0199999
Oil and Gas Production – Affiliated.....	0299999
Transportation Equipment – Unaffiliated.....	0399999
Transportation Equipment – Affiliated.....	0499999
Mineral Rights – Unaffiliated.....	0599999
Mineral Rights – Affiliated.....	0699999
Fixed or Variable Interest Rate Investments That Have the Underlying Characteristics of:	
Bonds – Unaffiliated.....	0799999
Bonds – Affiliated.....	0899999
Mortgage Loans – Unaffiliated.....	0999999
Mortgage Loans – Affiliated.....	1099999
Other Fixed Income Instruments – Unaffiliated.....	1199999
Other Fixed Income Instruments – Affiliated.....	1299999
Joint Venture, Partnership or Limited Liability Company Interests that have the Underlying Characteristics of:	
Fixed Income Instruments – Unaffiliated.....	1399999
Fixed Income Instruments – Affiliated.....	1499999
Common Stocks – Unaffiliated.....	1599999
Common Stocks – Affiliated.....	1699999
Real Estate – Unaffiliated.....	1799999
Real Estate – Affiliated.....	1899999
Other – Unaffiliated.....	1999999
Other – Affiliated.....	2099999
Surplus Debentures, etc. – Unaffiliated.....	2199999
Surplus Debentures, etc. – Affiliated.....	2299999
Collateral Loans – Unaffiliated.....	2399999
Collateral Loans – Affiliated.....	2499999
Non-collateral Loans – Unaffiliated.....	2599999
Non-collateral Loans – Affiliated.....	2699999
Capital Notes – Unaffiliated.....	2799999
Capital Notes – Affiliated.....	2899999
Guaranteed Federal Low Income Housing Tax Credit – Unaffiliated.....	2999999
Guaranteed Federal Low Income Housing Tax Credit – Affiliated.....	3099999
Non- Guaranteed Federal Low Income Housing Tax Credit – Unaffiliated.....	3199999
Non- Guaranteed Federal Low Income Housing Tax Credit – Affiliated.....	3299999
State Low Income Housing Tax Credit – Unaffiliated.....	3399999
State Low Income Housing Tax Credit – Affiliated.....	3499999
All Other Low Income Housing Tax Credit – Unaffiliated.....	3599999
All Other Low Income Housing Tax Credit – Affiliated.....	3699999
Any Other Class of Assets – Unaffiliated.....	3799999
Any Other Class of Assets – Affiliated.....	3899999
Subtotal – Unaffiliated.....	3999999
Subtotal – Affiliated.....	4099999
TOTALS.....	4199999

The following listing is intended to give examples of investments to be included in each category; however the list should not be considered all inclusive, and it should not be implied that any invested asset currently being reported in Schedules A, B or D is to be reclassified to Schedule BA:

### **Oil and Gas Production**

Include: Offshore oil and gas leases.

### **Transportation Equipment**

Include: Aircraft owned under leveraged lease agreements.  
Motor Vehicle Trust Certificates.

### **Mineral Rights**

Include: Investments in extractive materials.  
Timber Deeds.

### **Fixed or Variable Interest Rate Investments that Have the Underlying Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

#### **For Life and Fraternal Insurers:**

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument which qualify for Filing Exemption or that have been reviewed and approved by the Securities Valuation Office (SVO) within this category.

Exclude: **For Life and Fraternal Insurers:**

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment, but for which the Securities Valuation Office (SVO) has not yet affirmed that the specific BA investment (identified by CUSIP) fits in this category (as identified in the Valuation of Securities product). Until affirmed by the SVO, report these BA investments in the category for "Any Other Class of Assets."

### **Joint Ventures or Partnership Interests for Which the Primary Underlying Investments are Considered to Be:**

#### **Fixed Income Instruments**

Include: Leveraged Buy-out Fund.

A fund investing in the "Z" strip of Collateralized Mortgage Obligations.

Mortgage Obligations.

#### **For Life and Fraternal Insurers:**

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments which qualify for Filing Exemption or that have been reviewed and approved by the Securities Valuation Office (SVO) within this category.

Exclude: **For Life and Fraternal Insurers:**

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments, but for which the Securities Valuation Office (SVO) has not affirmed that the specific BA investment (identified by CUSIP) fits in this subcategory. Until affirmed by the SVO, report these BA investments in the "Other" subcategory of this category.

**Common Stocks**

Include: Venture Capital Funds.

**Real Estate**

Include: Real estate development interest.

**Other**

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "Fixed Income Instruments", "Common Stocks" or "Real Estate" subcategories.

**For Life and Fraternal Insurers:**

This includes investments believed by the reporting entity to have the underlying characteristics of "Fixed Income Instruments" but which do not qualify for Filing Exemption and have not been reviewed by the SVO, as well as those that have been reviewed by the SVO and were determined to have the underlying characteristics of "Other" instruments.

**Surplus Debentures, etc.**

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness that is reported in the surplus of the issuer.

**Collateral Loans**

Include: Refer to SSAP No. 21, Other Admitted Assets, for a definition of collateral loans. In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

## Non-collateral Loans

Include: For purposes of this section, non-collateral loans are considered the unpaid portion of loans previously made to another organization or individual in which the reporting entity has a right to receive money for the loan, but for which the reporting entity has not obtained collateral to secure the loan. Non-collateral loans shall not include those instruments that meet the definition of a bond, per SSAP No. 26, Bonds, excluding, Loan-backed and Structured Securities, a mortgage loan per SSAP No. 37, Mortgage Loans, loan-backed or structured securities per SSAP No. 43R, Loan-backed and Structured Securities, or a policy or contract loan per SSAP No. 49, Policy Loans.

In the description column, the name of the actual borrower. For affiliated entities, state if the borrower is a parent, subsidiary, affiliate, officer or director. Refer to SSAP No. 20, Nonadmitted Assets and SSAP No. 25, Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties, for accounting guidance.

## Capital Notes

Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.

## Low Income Housing Tax Credit

Include: All Low Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company including those investments that have the following risk mitigation factors:

- A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.
- B. Non-guaranteed Low Income Housing Tax Credit Investments.
  - I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.
  - II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.
  - III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the all other category

### Any Other Class of Assets

Include: Investments that do not fit into one of the other categories. An example of items that may be included are reverse mortgages.

#### **For Life and Fraternal Insurers:**

This includes investments believed by the reporting entity to fit the category of “Fixed or Variable Interest Rate Investments that Have the Underlying Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument,” but which do not qualify for Filing Exemption and have not been reviewed by the SVO, as well as those that have been reviewed by the SVO and were determined to be “Any Other Class of Assets”.

**SCHEDULE BA – PART 1**

**OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR**

Refer to SSAP No. 23, Foreign Currency Transactions and Translations, for accounting guidance.

Column 1 – CUSIP Identification

This column must be completed by **Life and Fraternal** insurers that file Schedule BA investments with the Securities Valuation Office.

All CUSIP/PPN/CINS numbers entered in this column must conform to those as published by the Securities Valuation Office (SVO). CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate and will be identical to those used by the SVO. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard and Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard and Poor's CUSIP Bureau: <https://www.cusip.com/cusip/index.htm>.

If no CUSIP number exists, the CUSIP field should be zero-filled.

Column 2 – Name or Description

Show name of the asset, such as the name of a limited partnership. If not applicable, show description of the asset.

Column 3 – Code

If long-term invested assets are not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the symbols identified in the General Investment Schedules instructions located at the beginning of this section in this column.

Column 4 – City

For real estate partnerships or joint ventures located in the United States, list city. If the city is unknown, indicate the county. If the investment is outside the U.S., indicate city or province. For other BA asset types, use the city of incorporation. If no city of incorporation, use the city of administrative office.

Column 5 – State

For real estate partnerships or joint ventures located in the United States, list the state using the postal two-character state code. If the investment is outside the U.S., indicate the country.

Column 6 – Name of Vendor or General Partner

Provide the name of the entity from which the property was acquired, or the name of the General Partner of the fund. For internal transfers, indicate "internal transfer" in lieu of a vendor name.

Column 7 – NAIC Designation

This column must be completed by **Life and Fraternal** insurers only. All other insurers may ignore this column and its instructions.

For Schedule BA investments with the underlying characteristics of a bond or a preferred stock instrument, insert the NAIC designation, valuation indicator or market indicator as printed in the NAIC *Valuation of Securities* or its *Supplement*.

Following is a matrix of the valid combinations of designations and suffixes for bonds.

1	2	3	4	5	6
				5*	6*
1FE	2FE	3FE	4FE	5FE	6FE

Following is a matrix of the valid combinations of designations and suffixes for preferred stock.

P1A	P2A	P3A	P4A	P5A	P6A
				P5*A	P6*A
P1L	P2L	P3L	P4L	P5L	P6L
				P5*L	P6*L
P1U	P2U	P3U	P4U	P5U	P6U
				P5*U	P6*U
P1V	P2V	P3V	P4V	P5V	P6V
				P5*V	P6*V
P1LFE	P2LFE	P3LFE	P4LFE	P5LFE	P6LFE
P1UFE	P2UFE	P3UFE	P4UFE	P5UFE	P6UFE
P1VFE	P2VFE	P3VFE	P4VFE	P5VFE	P6VFE
RP1A	RP2A	RP3A	RP4A	RP5A	RP6A
				RP5*A	RP6*A
RP1L	RP2L	RP3L	RP4L	RP5L	RP6L
				RP5*L	RP6*L
RP1U	RP2U	RP3U	RP4U	RP5U	RP6U
				RP5*U	RP6*U
RP1V	RP2V	RP3V	RP4V	RP5V	RP6V
				RP5*V	RP6*V
RP1LFE	RP2LFE	RP3LFE	RP4LFE	RP5LFE	RP6LFE
RP1UFE	RP2UFE	RP3UFE	RP4UFE	RP5UFE	RP6UFE
RP1VFE	RP2VFE	RP3VFE	RP4VFE	RP5VFE	RP6VFE

If the VOS data file has a designation for a specific Schedule BA investment, that designation must be reported in this column. If the VOS data file does not provide a designation and the investment qualifies for Filing Exemption, a “FE” must follow the designation reported in this column. For the meaning and applicability of suffixes and designations, please refer to the most recent version of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office Part Three, Section 1.

The NAIC designation field should be zero filled for those Schedule BA investments with the underlying characteristics of a bond or a preferred stock instrument which have not been filed with the SVO and do not meet the requirements of Filing Exemption, as well for any other investments reported in the respective “Other” categories (non-fixed income-like BA investments).

Column 8 – Date Originally Acquired

State the date the investment was originally acquired.

Column 9 – Type and Strategy

Enter the number which best describes the investment (applies to investments such as limited partnerships and hedge funds. If none applies, leave blank):

1. Private equity: Venture capital
2. Private equity: Mezzanine financing
3. Private equity: LBOs
4. Hedge fund: Global macro
5. Hedge fund: Long/short equity
6. Hedge fund: Merger arbitrage
7. Hedge fund: Fixed income arbitrage
8. Hedge fund: Convertible arbitrage
9. Hedge fund: Futures/Options/foreign exchange arbitrage
10. Hedge fund: Sector investing
11. Hedge fund: Distressed securities
12. Hedge fund: Emerging markets
13. Hedge fund: Multi-strategy

Column 10 – Actual Cost

**Include:** The cost of acquiring the asset, including broker's commission and incidental expense of effecting delivery. Include all changes to cost subsequent to acquisition, such as additions to or reductions in investments.

**Exclude:** Amount of encumbrances.

Column 11 – Fair Value

**Include:** For all statement types: Use fair value received from a counter party when available. For example, for limited partnerships and hedge funds, the latest financial statement's fair value should be used. For other types of instruments, a quote from a broker, seller, or another counter party should be used. If such quote is not available, the reporting entity should make an estimate of fair value at which the investment could be sold to an unaffiliated third party. A record of the quote, or the methodology used to reach an estimate should be kept in file.

**Life and Fraternal** entities who have filed Schedule BA assets with the SVO must complete this column with the assigned value as printed in the NAIC *Valuation of Securities* or its *Supplement*.

Column 12 – Book/Adjusted Carrying Value Less Encumbrances

Report the balance at December 31, of the current year. It should contain the amounts included in Column 10 after any encumbrances have been subtracted. Include all changes in value during the year.

For surplus (and capital) notes, consider where appropriate the statement factor provided by the Securities Valuation Office and published on the Schedule BA Surplus Note List on the Securities Valuation Office website. (See accounting requirements for surplus notes held in the *Accounting Practices and Procedures Manual*.)

**Deduct:** Any write-downs for a decline in the fair value of a long-term invested asset that is other than temporary.

**Exclude:** Valuation allowance.



- Column 13 – Unrealized Valuation Increase (Decrease)
- The total unrealized valuation increase (decrease) for a specific security will be the change in Book/Adjusted Carrying Value that is due to carrying or having carried (in the previous year) the security at Fair Value. See SSAP No. 48, Joint Ventures, Partnerships, and Limited Liability Companies for accounting guidance.
- These amounts are to be reported as unrealized capital gains (losses) in the Exhibit of Capital Gains (Losses) and in the Capital and Surplus Account (Page 4).
- Include: The difference between the Fair Value in the previous year and the Fair Value in the current year's Book/Adjusted Carrying Value column. Calculate as **current year Fair Value minus prior year Fair Value minus current year Depreciation or Amortization/Accretion.**
- Column 14 – Current Year's (Depreciation) or (Amortization)/Accretion
- This amount represents depreciation expense for the period (where appropriate), amortization of premium and the accrual of discount. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income. See Column 13 for discussion of an unrealized valuation increase (decrease) where the real estate is carried at fair value and (depreciation) and/or (amortization)/accretion has been recorded.
- Column 15 – Current Year's Other Than Temporary Impairment Recognized
- If the asset has suffered an "other than temporary impairment," this column should contain the amount of the direct write-down recognized. The amounts in this column are to be reported as realized capital losses in the Exhibit of Capital Gains (Losses) and in the calculation of Net Income.
- Column 16 – Capitalized Deferred Interest and Other
- Include interest and other items that can be capitalized in accordance with the applicable SSAP.
- Column 17 – Total Foreign Exchange Change in Book/Adjusted Carrying Value
- Include: Enter the unrealized foreign exchange gain or loss for the current year.
- Column 18 – Investment Income
- Include: The proportionate share of interest, dividend, and other investment income received during the year on the investments reported in this schedule.
- Exclude: Distributions excess of unrealized appreciation (return of capital).
- Column 19 – Commitment for Additional Investment
- Include: Total amount of additional investment commitment, not yet invested, where the decision as to timing and whether to invest is not made by the company, but by someone else, typically by the hedge fund or limited partnership.
- Column 20 – Percentage of Ownership
- Include: The share that the company's current investment represents of the total outstanding amount of this investment. Applies only to such investments as hedge funds and limited partnerships.
- Exclude: Commitment for additional investment.

## SCHEDULE BA – PART 2

### OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND ADDITIONS MADE DURING THE YEAR

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

This column must be completed by **Life and Fraternal** insurers that file Schedule BA investments with the Securities Valuation Office.

All CUSIP/PPN/CINS numbers entered in this column must conform to those as published by the Securities Valuation Office (SVO). CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate and will be identical to those used by the SVO. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard and Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard and Poor's CUSIP Bureau: <https://www.cusip.com/cusip/index.htm>.

If no CUSIP number exists, the CUSIP field should be zero-filled.

Column 2 – Name or Description

Show name of the asset, such as the name of a limited partnership. If not applicable, show description of the asset.

Column 3 – City

For real estate partnerships or joint ventures located in the United States, list city. If the city is unknown, indicate the county. If the investment is outside the U.S., indicate city or province. For other BA asset types, use the city of incorporation. If no city of incorporation, use the city of administrative office.

Column 4 – State

For real estate partnerships or joint ventures located in the United States, list the state using the postal two-character state code. If the investment is outside the U.S., indicate the city or province and country.

Column 5 – Name of Vendor or General Partner

Provide the name of the entity from which the property was acquired, or the name of the General Partner of the fund. For internal transfers, indicate "internal transfer" in lieu of a vendor name.

Column 6 – Date Originally Acquired

State the date the investment was originally acquired.

Column 7 – Type and Strategy

Enter the number that best describes the investment (applied to investments such as limited partnerships and hedge funds. If none applies, leave blank):

1. Private equity: Venture capital
2. Private equity: Mezzanine financing
3. Private equity: LBOs
4. Hedge fund: Global macro
5. Hedge fund: Long/short equity
6. Hedge fund: Merger arbitrage
7. Hedge fund: Fixed income arbitrage
8. Hedge fund: Convertible arbitrage
9. Hedge fund: Futures/Options/foreign exchange arbitrage
10. Hedge fund: Sector investing
11. Hedge fund: Distressed securities
12. Hedge fund: Emerging markets
13. Hedge fund: Multi-strategy

Column 8 – Actual Cost at Time of Acquisition

Include: The actual cost at the time the asset was originally acquired.

The cost of acquiring the assets, including broker's commission and incidental expenses of effecting delivery.

Exclude: Additional expenditures after the time of the initial acquisition or encumbrances or impairments.

Column 9 – Additional Investment Made After Acquisition

Include: The actual cost (including broker's commissions and incidental expenses of effecting delivery) to increase investments in the original assets.

Improvements to the assets subsequent to acquisition.

Activity on investments disposed during the year.

Column 10 – Amount of Encumbrances

Include: The reporting entity's contractual share of all encumbrances on underlying real estate held in a partnership or venture reported in this schedule. All encumbrances incurred by the partnership or venture should be included.

Column 11 – Percentage of Ownership

Include: The share that the company's current investment represents of the total outstanding amount of this investment at the date of purchase. Applies only to such investments as hedge funds and limited partnerships.

Exclude: Commitment for additional investment.

### SCHEDULE BA – PART 3

#### OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR

This schedule should reflect not only disposals of an entire “other invested asset”, but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

This column must be completed by **Life and Fraternal** insurers that file Schedule BA investments with the Securities Valuation Office.

All CUSIP/PPN/CINS numbers entered in this column must conform to those as published by the Securities Valuation Office (SVO). CUSIP numbers for all purchased publicly issued securities are available from the broker’s confirmation or the certificate and will be identical to those used by the SVO. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard and Poor’s CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard and Poor’s CUSIP Bureau: <https://www.cusip.com/cusip/index.htm>.

If no CUSIP number exists, the CUSIP field should be zero-filled.

Column 2 – Name or Description

Show name of the asset, such as the name of a limited partnership. If not applicable, show description of the asset.

Column 3 – City

For real estate partnerships or joint ventures located in the U.S., list city. If the city is unknown, indicate the county. If the investment is outside the U.S., indicate city or province. For other BA asset types, use the city of incorporation. If no city of incorporation, use the city of administrative office.

Column 4 – State

For real estate partnerships or joint ventures located in the U.S, list the state using the postal two-character state code. If the investment is outside the U.S., indicate the country.

Column 5 – Name of Purchaser or Nature of Disposal

Provide the name of the entity or vendor to whom the investment was sold or describe how the investment was otherwise disposed of.

Column 6 – Date Originally Acquired

State the date the asset was originally acquired.

- Column 7 – Disposal Date
- State the date the investment was sold or otherwise transferred or repaid. Reporting entities may total on one line if the investment is repaid on more than one date, and should utilize the date of last repayment in those cases.
- Column 8 – Book/Adjusted Carrying Value Less Encumbrances, Prior Year
- Report the balance at December 31 of the prior year.
- Deduct: Any write-downs for a decline in the fair value of a long-term invested asset that is other than temporary.
- Exclude: Valuation allowance.
- Column 9 – Unrealized Valuation Increase (decrease)
- The total unrealized valuation increase (decrease) for a specific investment security will be the change in Book/Adjusted Carrying Value that is due to carrying or having carried (in the previous year) the security at Fair Value. This includes a reversal of the full unrealized amount at the date of disposal. See SSAP No. 48, Joint Ventures, Partnerships, and Limited Liability Companies, for accounting guidance.
- These amounts are to be reported as unrealized capital gains (losses) in the Exhibit of Capital Gains (Losses) and in the Capital and Surplus Account (Page 4).
- Include: The difference between the Fair Value in the previous year and the Fair Value in the current year's Book/Adjusted Carrying Value column. Calculate as **current year Fair Value minus prior year Fair Value minus current year (Depreciation) or (Amortization)/Accretion.**
- Column 10 – Current Year's (Depreciation) or (Amortization)/Accretion
- This amount represents depreciation expense for the period (where appropriate), amortization of premium and the accrual of discount. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income. See column 9 for discussion of an unrealized valuation increase (decrease) where the real estate is carried at fair value and (depreciation) and/or (amortization)/accretion has been recorded.
- Column 11 – Current Year's Other Than Temporary Impairment Recognized
- If the asset has suffered an "other than temporary impairment," this column should contain the amount of the direct write-down recognized. The amounts in this column are to be reported as realized capital losses in the Exhibit of Capital Gains (Losses) and in the calculation of Net Income.
- Column 12 – Capitalized Deferred Interest and Other
- Include interest and other items that can be capitalized in accordance with the applicable SSAP.
- Column 14 – Total Foreign Exchange Change in Book/Adjusted Carrying Value
- Enter the unrealized foreign exchange gain or loss during the year including the reversal of unrealized foreign exchange gains or losses previously recorded.

- Column 15 – Book /Adjusted Carrying Value Less Encumbrances on Disposal
- Include: Amount reported in Column 8 and all year-to-date changes in value to the time of disposal.
- Exclude: Valuation allowance.
- Column 16 – Consideration
- Include: Amounts received on disposal of investment.
- Column 17 – Foreign Exchange Gain (Loss) on Disposal
- Enter the foreign currency exchange gain or loss on disposal.
- Column 18 – Realized Gain (Loss) on Disposal
- Report the amount of any market gain (loss) realized from the disposal of the investment.
- Exclude: Foreign currency gain (loss) reported in Column 17.
- Column 19 – Total Gain (Loss) on Disposal
- Enter the sum of Column 17, foreign exchange gain (loss) on disposal and Column 18, realized gain (loss) on disposal.
- Column 20 – Investment Income
- Include: The proportionate share of interest, dividends and other investment income received during year on the investments reported in this schedule.
- Exclude: Distributions in excess of unrealized appreciation (return of capital).