

## WORKING CAPITAL FINANCE NOTES WORK PLAN

1. Is it an appropriate invested asset for insurers?
  - a. Does it fit within the investment model laws (280 Investments of Insurers Model Act (Defined Limits Version) MDL-283 Investments of Insurers Model Act (Defined Standards Version)
  - b. Is it the type of asset that it is appropriate for US insurers, based on liquidity, volatility and the ability to properly value.
  - c. What are rights in liquidation/ default how does this compare to current permitted invested assets.
2. If yes, what are minimum standards and who should invest?
  - a. Defining what the minimum SVO underwriting would be and what are minimum promises for an acceptable program?
    - i. What are minimum legal representations of the obligor and the seller, and how should they be documented?
    - ii. Liquidation rights
    - iii. What rights are most important to secure in the program to protect the investor?
  - b. There was some discussion on the prior calls that this should be limited to only those companies that can demonstrate a minimum standard of expertise in the asset class. If so, how should that be determined and documented? Similar approved plan concepts are around in model laws for derivatives and securities lending
  - c. What happens in the event of a withdrawal of the SVO's designation, an event of default or the program otherwise no longer meeting the required criteria?
  - d. How often to file with the SVO to maintain rating?
3. Or could minimum requirements be developed where it would be appropriate for all insurance investors? (Perhaps something like the criteria for CTLs?)
  - a. Minimum promises/ rights defined
  - b. What are minimum legal representations of the obligor and the seller, and how should they be documented?
  - c. Set off issues are adequately addressed
  - d. Single obligors
  - e. Prevent Receivables from related parties
    - i. No affiliates of the insurer
    - ii. No affiliates of any of the parties in the transaction - meaning the vendor or the bank that is administering
  - f. No recycling of old receivables - they have to be for new purchases by the obligor and based on an actual sale of goods or services
  - g. They must have been created recently and current
  - h. They should be bought directly from the vendor - not sold by the vendor to the bank and bought from the bank

- i. They must be in US dollars
  - j. The vendors and the obligors must be US entities
  - k. They must be in the actual name of the obligor named in the program that the SVO approves - i.e. if SVO says Wal-Mart, it cannot be Wal-Mart Mexico
  - l. Maximum term per individual receivable not more than one year
  - m. Are there limitations on transferability
  - n. Any nonpayment of any one receivable means every receivable in the program is a nonadmitted asset.
  - o. Payments should be made into a lockbox and not commingled with a servicer's other cash accounts.
  - p. The provided documents refer to programs that involve an agent. What are the responsibilities of the agent in those programs and is that appropriate.
  - q. An outstanding question is what does "maturity" mean for these assets and what rights the insurer have when that date passes.
4. What would be the reporting? – Coordination with SAPWG and Blanks
- a. Schedule DA vs. Schedule BA
  - b. IF BA would we create a new category? If DA would we add back the column on CUSIPS etc.
  - c. Reporting details --- Presumably in lots by maturity for the program? How would we handle that? What should be reported in the description field?
  - d. How is earned income handled? Are receivables held at cost until paid? Are all transactions reported?
5. RBC issues Capital Adequacy TF
- a. What is appropriate RBC factor? How should intraperiod activity be taken into account?
  - b. What are default rates and losses given default?
  - c. What is current and prospective treatment under relevant banking guidance?
  - d. How should operational risk issues be considered?
6. Statutory Accounting Coordination with SAPWG
- a. Would need to amend SSAP No. 20 and would need to develop explicit accounting guidance
  - b. Income recognition similar to a zero coupon bond, or Held at cost until maturity then interest recognized on the difference between cost and maturity amount?
  - c. Nonadmit all receivables from the program if any one receivable in the program is [30] overdue or if the program is no longer on the approved list.
7. Impairment language