

**Nguyen, Trangkieu**

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**From:** Diaz, Thelma  
**Sent:** Monday, January 10, 2011 1:03 PM  
**To:** CapMargin  
**Subject:** FW: Collateral Used by Life Insurers in Derivatives Transactions-Implementation of Dodd-Frank Act  
**Attachments:** Letter to CFTC Staff on Collateral.pdf



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January 5, 2011

Mr. David E. Aron, Esq.  
Office of the General Counsel  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20851

Dear Mr. Aron:

As the Dodd-Frank implementation rapidly advances, life insurers are vitally interested in the CFTC's consideration and development of standards for acceptable collateral in derivatives transactions. Several of our member companies have preliminarily discussed these matters during visits with the CFTC staff on other issues. This letter and attachment address the collateral that life insurers customarily use with their counterparties in OTC derivatives transactions. As we recently discussed by phone, could you please share this letter and attachment with your CFTC colleagues handling the implementation of regulations dealing with collateral?

A brief introductory background may provide useful context to this issue. Life insurers are significant *end-users* of derivative instruments utilized to prudently manage the risks of their assets and liabilities, as permitted under state insurance codes and regulations. Life insurers' financial products protect millions of individuals, families, and businesses through guaranteed lifetime income, life insurance, long-term care, and disability income insurance. The long-term nature of these products requires insurers to match long-term obligations with assets of a longer duration than most other financial institutions. Derivatives allow life insurers to prudently manage the credit and market risk of their portfolios and to fulfill their obligations to policy and contract owners. The regulatory status of derivatives transactions, therefore, is critically important to the life insurance industry.

In managing the risks of their assets and liabilities, life insurers use a diverse group of financial derivatives, from standardized derivatives, like single name Credit Default Swaps ("CDS"), to customized derivatives, such as structured interest rate and currency swap transactions. Life insurers execute their customized derivatives with prudent credit agreements that require counterparty exposures to be netted and collateral to be posted between the parties. In this manner, insurers and their counterparties are able to effectively reduce and control the counterparty credit risk arising from customized OTC derivatives.

Currently, life insurers' collateral arrangements with their direct OTC counterparties normally allow for the posting as collateral of a range of investment securities typically held by insurers, such as corporate bonds (subject to an appropriate "haircut" to reflect the counterparty's evaluation of the collateral credit risk). It is very important for life insurers to continue to be able to post as collateral this range of instruments.

For informational purposes, we have aggregated the attached list highlighting the different collateral commonly used by life insurers. We extracted this data from credit support annex (CSA) documents used by life insurers in their contractual agreements with derivatives counterparties.

With this information at hand, we thought it would provide constructive background as the CFTC continues its promulgation of rules implementing the Dodd-Frank Act. We would like to continue an ongoing dialog with the CFTC staff on these important issues concerning acceptable collateral.

Thank you for your courteous attention to this letter and attachment. Please let me know if you, or your colleagues, have any questions.

Best regards.

Sincerely,

A handwritten signature in cursive script that reads "Carl B. Wilkerson".

Carl B. Wilkerson

CC: Mr. Julian Hammar, Assistant General Counsel  
CFTC Office of General Counsel

Collateral Used by Life Insurers in Transactions with Derivatives Counterparties

<b>Collateral</b>	<b>Min. Rating (Moody's/S&amp;P)</b>	<b>Maturity</b>	<b>Valuation %</b>
Agency Bonds	N/S	N/S	100.0%
Agency Bonds	N/S	N/S	95.0%
Agency Bonds	N/S	N/S	95.0%
Agency Bonds	Aaa / AAA	N/S	93.0%
Agency Bonds	N/S	N/S	90.0%
Agency Bonds	N/S	Less than 1 year	100.0%
Agency Bonds	N/S	Less than 1 year	99.0%
Agency Bonds	N/S	1 year to 5 years	98.5%
Agency Bonds	N/S	1 year to 5 years	98.0%
Agency Bonds	N/S	5 years to 10 years	97.5%
Agency Bonds	N/S	5 years to 10 years	97.0%
Agency Bonds	N/S	5 years to 10 years	96.0%
Agency Bonds	N/S	Less than 10 years	97.0%
Agency Bonds	N/S	Less than 10 years	95.0%
Agency Bonds	N/S	10 years or greater	95.0%
Agency Bonds	N/S	10 years or greater	94.0%
Agency Bonds	AAA	Less than 15 years	95.0%
Agency Bonds	N/S	10 years to 30 years	96.0%
Agency Bonds	N/S	10 years to 30 years	95.0%
Agency CMO/REMIC	N/S	N/S	92.0%
Agency CMOS	N/S	5 years or less	95.0%
Agency CMOS	N/S	5 years to 10 years	95.0%
Agency CMOS	N/S	More than 10 years	95.0%
Agency CMOs	N/S	N/S	93.0%
Agency Mortgage-Backed Securities	N/S	N/S	95.0%
Agency Mortgage-Backed Securities	N/S	Less than 5 years	97.0%
Agency Mortgage-Backed Securities	N/S	5 years to 10 years	96.0%
Agency Mortgage-Backed Securities	N/S	10 years or greater	95.0%
Agency Pass-Through Bonds	N/S	N/S	95.0%
Asset-Backed Bonds	Aaa / AAA	N/S	95.0%
Asset-Backed Bonds	Aaa / AAA	N/S	87.0%
Cash	N/S	N/S	100.0%
Commercial Paper	P1 / A-1+	N/S	80.0%
Corporate Bonds	A3 / A-	N/S	90.0%
Corporate Bonds	A2 / A	N/S	87.0%
Corporate Bonds	A3 / A-	N/S	85.0%
Corporate Bonds	Aa3 / AA-	N/S	80.0%
Corporate Bonds	A3 / A-	N/S	75.0%
Corporate Bonds	N/S	Less than 1 year	98.0%
Corporate Bonds	N/S	1 year to 5 years	94.0%
Corporate Bonds	Aa2 / AA	Less than 5 years	95.0%
Corporate Bonds	A2 / A	Less than 5 years	92.0%
Corporate Bonds	Baa1 / BBB+	Less than 5 years	87.0%
Corporate Bonds	Baa3 / BBB-	Less than 5 years	84.0%
Corporate Bonds	A3 / A-	Less than 10 years	95.0%
Corporate Bonds	Aa2 / AA	5 years to 10 years	92.0%
Corporate Bonds	A3 / A-	Less than 10 years	90.0%
Corporate Bonds	A2 / A	5 years to 10 years	89.0%
Corporate Bonds	N/S	5 years to 10 years	88.0%
Corporate Bonds	A2 / A	Less than 10 years	87.0%

<b>Collateral</b>	<b>Min. Rating (Moody's/S&amp;P)</b>	<b>Maturity</b>	<b>Valuation %</b>
Corporate Bonds	Baa1 / BBB+	5 years to 10 years	86.0%
Corporate Bonds	Baa3 / BBB-	5 years to 10 years	83.0%
Corporate Bonds	A3 / A-	10 years or greater	93.0%
Corporate Bonds	Aa2 / AA	10 years or greater	90.0%
Corporate Bonds	A2 / A	10 years or greater	87.0%
Corporate Bonds	Baa1 / BBB+	10 years or greater	84.0%
Corporate Bonds	A2 / A	Under 10 years	80.0%
Corporate Bonds	Baa3 / BBB-	10 years or greater	80.0%
Corporate Bonds	A3 / A-	Less than 30 years	85.0%
JGB	Baa3 / BBB-	N/S	95.0%
JGB	N/S	Less than 1 year	98.0%
JGB	Baa3 / BBB-	Less than 1 year	98.0%
JGB	N/S	1 year to 5 years	95.0%
JGB	N/S	More than 5 years	90.0%
JGB	Baa3 / BBB-	1 year to 10 years	96.0%
JGB	Baa3 / BBB-	10 years or greater	95.0%
Mortgage-Backed Securities	N/S	N/S	95.0%
Mortgage-Backed Securities	N/S	Under 10 years	97.0%
Mortgage-Backed Securities	N/S	10 years or greater	95.0%
Other Collateral	N/S	N/S	Variable
Other Collateral	N/S	N/S	Variable
Other Collateral	N/S	N/S	Variable
Single-Class Agency RMBS	N/S	N/S	95.0%
Single-Class Agency RMBS	N/S	N/S	93.0%
Single-Class Agency RMBS	N/S	N/S	90.0%
Single-Class Agency RMBS	N/S	5 years or less	98.0%
Single-Class Agency RMBS	N/S	5 years to 10 years	98.0%
Single-Class Agency RMBS	N/S	More than 10 years	95.0%
Treasury Bonds	N/S	N/S	100.0%
Treasury Bonds	N/S	Less than 1 year	100.0%
Treasury Bonds	N/S	Less than 1 year	99.3%
Treasury Bonds	N/S	Less than 1 year	99.0%
Treasury Bonds	N/S	Less than 1 year	98.0%
Treasury Bonds	N/S	1 year to 2 years	99.0%
Treasury Bonds	N/S	1 year to 5 years	99.0%
Treasury Bonds	N/S	1 year to 5 years	98.9%
Treasury Bonds	N/S	1 year to 5 years	98.5%
Treasury Bonds	N/S	1 year to 5 years	98.0%
Treasury Bonds	N/S	1 year to 5 years	97.5%
Treasury Bonds	N/S	1 year to 5 years	97.0%
Treasury Bonds	N/S	1 year to 5 years	95.0%
Treasury Bonds	N/S	2 years to 5 years	98.0%
Treasury Bonds	N/S	2 years to 5 years	97.0%
Treasury Bonds	N/S	1 year to 10 years	100.0%
Treasury Bonds	N/S	1 year to 10 years	98.0%
Treasury Bonds	N/S	1 year to 10 years	97.0%
Treasury Bonds	N/S	1 year to 10 years	95.0%
Treasury Bonds	N/S	5 years to 10 years	98.0%
Treasury Bonds	N/S	5 years to 10 years	97.5%
Treasury Bonds	N/S	5 years to 10 years	97.0%

<b>Collateral</b>	<b>Min. Rating (Moody's/S&amp;P)</b>	<b>Maturity</b>	<b>Valuation %</b>
Treasury Bonds	N/S	5 years to 10 years	96.5%
Treasury Bonds	N/S	5 years to 10 years	96.0%
Treasury Bonds	N/S	5 years to 10 years	95.0%
Treasury Bonds	N/S	10 years or greater	100.0%
Treasury Bonds	N/S	10 years or greater	98.0%
Treasury Bonds	N/S	10 years or greater	97.1%
Treasury Bonds	N/S	10 years or greater	96.0%
Treasury Bonds	N/S	10 years or greater	95.0%
Treasury Bonds	N/S	10 years or greater	93.0%
Treasury Bonds	N/S	10 years to 20 years	94.0%
Treasury Bonds	N/S	10 years to 30 years	95.0%
Treasury Bonds	N/S	10 years to 30 years	92.5%
Treasury Bonds	N/S	10 years to 30 years	92.0%
Treasury Bonds	N/S	10 years to 30 years	91.5%
Treasury Bonds	N/S	10 years to 30 years	90.0%
Treasury Bonds	N/S	20 years to 30 years	95.0%
Treasury Strips	N/S	N/S	90.0%