## 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 Line 6.2, the gross amount of derivatives, rather than net, may be used for year-end 2008.

Lines (8) through (15)

Derivative instrument book/adjusted carrying value exposure net of collateral, 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. **NOTE:** For year-end 2008, derivatives book / adjusted carrying value should be gross if a gross amount is used in Line 6.2 unless the insurance company is reporting the collateral on their balance sheet and has unrestricted access to the assets in the event of counterparty non-performance.

## REPLICATION (SYNTHETIC ASSET) TRANSACTIONS AND MANDATORILY CONVERTIBLE SECURITIES

LR013

### Basis of Factors

A replication (synthetic asset) transaction is a derivative transaction entered into in conjunction with other investments in order to reproduce the investment characteristics of otherwise permissible investments. A derivative transaction entered into by an insurer as a hedging or income-generation transaction shall not be considered a replication (synthetic asset) transaction. All replication transactions must be reviewed and approved by the NAIC Securities Valuation Office and assigned an RSAT number. The transactions are disclosed in Schedule DB, Part F.

A replication (synthetic asset) transaction increases the insurer's exposure to one type of asset, the replicated (synthetic) asset, and may reduce the insurer's exposure to the asset risk associated with the cash market components of the transaction. Both effects are captured and quantified in the worksheet for replication transactions.

For the purposes of this worksheet, a mandatorily convertible security is a security that is mandatorily convertible at prices different from the market prices at the time of conversion .

Such securities are classified on the annual statement by ignoring the conversion feature. This worksheet adjusts the RBC requirement upward if the security that results from the conversion is more risky than the original security.