GUIDANCE NOTES IN RESPECT OF ALLOWABLE ASSETS AND LIMITS FOR THE PURPOSE OF CALCULATING MARGIN OF SOLVENCY FOR INSURERS

(Issued under Section 48 of the Financial Services Act)

At a minimum, insurers must ensure that their assets and liabilities are appropriately matched to ensure that they are able to meet claims and other obligations as they fall due. In considering whether insurers have such appropriate matching, the Commission will consider whether their asset portfolios are adequately liquid and diversified, and appropriately valued.

Notwithstanding the general allowance of the assets listed below, the Commission may require an insurer to further diversify or restrict/discount its assets for the purpose of calculating its margin of solvency.

The following assets and percentages will generally be considered allowable for solvency purposes:

1. Cash in hand and on deposit with regulated financial institutions in Anguilla, the United Kingdom and its overseas territories, and other Organisation for Economic Co-operation and Development (OECD) countries.

2. Irrevocable letters of credit issued by regulated financial institutions in the territories identified in Item 1.

3. Debt securities issued or guaranteed by the governments of the territories identified in Item 1.

4. Fully secured performing commercial loans, where the underlying security meets the conditions in Items 1 – 3.

5. Premiums receivable and accounts receivable net of provision for bad or doubtful debts not more than six months overdue.

6. Reinsurance balances receivable net of provision for bad or doubtful debts not more than six months overdue.

7. 90.0 per cent of the cost or auditor's value of real estate, to a maximum of 20 per cent of total solvency requirement (total liabilities plus the minimum margin of solvency; see guidance notes on minimum margin of solvency for insurers).

8. 90.0 per cent of the value of securities (including funds and indices), other than the securities identified in Item 3, traded on a recognised securities exchange with an investment grade rating or issued or guaranteed by an entity with an investment grade rating. An investment grade rating is a Standard & Poor's, or its equivalent, rating of BBB or above.

9. 90.0 per cent of fully secured performing commercial loans, where the underlying security meets the conditions in Item 8.

10. 75.0 per cent of performing loans granted on commercial terms to an insurer's affiliate, other than loans in Items 4 and 9. These loans should account for no more than 50 per cent of the insurer's total solvency requirement if there are 125 per cent secured by trade receivables, securities and/or inventories at current market value, or 66 per cent of the insurer's total solvency requirement if 150 per cent secured by trade receivables, inventories and/or marketable securities at current market value.

11. 70.0 per cent of the value of all securities, other than those in Item 8, traded on one of more recognised securities exchange. The Commission reserves the right to further discount or disallow these securities.

An insurer may satisfy up to 100 per cent of its solvency requirement with the assets detailed in Items 1 – 4 (individually) or a mutual fund that is invested in 10 or more securities which are traded on one or more recognised securities exchange. All other assets, unless specifically stated, will be recognised up to a maximum of 25 per cent of the insurer's solvency requirement.

Assets not included in the above list are not, by reason of such non-inclusion, disallowed but it is recommended that an insurer holding or intending to hold assets other than those listed and wishing those assets to be considered allowable for purposes of calculating its margin of solvency should seek guidance from the Commission.

Made by the Anguilla Financial Services Commission this 1 day of March 2008

Niguel S Streete
Director

Recognised Exchanges

For purposes of these guidelines member exchanges of the World Federation of Exchanges along with the following exchanges are deemed recognised securities exchanges:

The Australian Stock Exchange and any of its stock exchange subsidiaries
The Barbados Stock Exchange
The Cayman Islands Stock Exchange
The Copenhagen Stock Exchange
The Eastern Caribbean Securities Exchange
The Helsinki Stock Exchange
The Iceland Stock Exchange
The Johannesburg Stock Exchange
The Kuala Lumpur Stock Exchange
The Rio De Janeiro Stock Exchange
The Sao Paulo Stock Exchange
The Stockholm Stock Exchange

Any duly licensed securities exchange in the following countries:

Austria
Belgium
Canada
France
Germany
Guernsey
Italy
Luxembourg
Netherlands
Norway
Portugal
Spain
United Kingdom
USA

The Financial Services Commission will consider requests from insurers for recognition of securities exchanges not listed above.