STATE OF NEW YORK
INSURANCE DEPARTMENT
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David A. Paterson
Governor

Eric R. Dinallo
Superintendent

Circular Letter No. 16 (2008)
July 21, 2008

TO: All Authorized Insurers

RE: Securities Lending

STATUTORY REFERENCE: N.Y. Insurance Law §§ 201, 301, 1409 and 1411

It has come to the Department's attention that some insurers engaged in securities lending activity have experienced significant losses in the last six to twelve months. Specifically, cash received as collateral was reinvested into securities whose value has significantly declined. As we see increased volumes in securities lending activity, we are concerned that some insurers may not be maintaining adequate collateral and effectively managing the risks associated with the securities lending function. Insurers engaged in securities lending should ensure that they have identified all risks and have controls in place to manage those risks. The Department will place more emphasis on securities lending activity by evaluating how well insurers are managing these risks in upcoming examinations and inquiries.

Another concern of the Department is the reporting of securities lending activity. We realize the need to strengthen and clarify reporting issues, and we are involved in several initiatives to address those issues. Recently, there have been several changes adopted by the Capital Adequacy Task Force of the National Association of Insurance Commissioners (NAIC) in the reporting of securities lending activity, beginning with the 2008 annual statement. Highlights of the changes include revised risk-based capital charges and interrogatories. Also, the Statutory Accounting Working Group of the NAIC is in the process of amending Statement of Statutory Accounting Principle 91, which addresses the accounting for securities lending. The working group will clarify the definitions of "restricted" and "unrestricted", "on" and "off" balance sheet, and other terms where clarification is deemed necessary. Insurers should be aware of changes already adopted and be sure to report correctly in 2008. Additionally, insurers should keep current on future developments that may effect the reporting of securities lending.

Very truly yours,

Matti Peltonen
Bureau Chief
Capital Markets Bureau