

WAC 284-13-920 Derivative transactions. (1) An insurer may, directly or indirectly through an investment subsidiary, only engage in hedging and income generation derivative transactions. Use of derivative instruments for replication, speculative or any other purpose is prohibited.

(2) An insurer may enter into hedging transactions under this section if, as a result of and after giving effect to the transaction, the insurer can demonstrate to the satisfaction of the commissioner the intended hedging characteristics and ongoing effectiveness of the derivative transaction or combination of transactions through cash flow testing or other appropriate analysis.

(3) An insurer may only enter into covered income generation transactions if, as a result of and after giving effect to the transactions, the aggregate statement value of the fixed income assets that are subject to call or that generate the cash flows for payments under the caps and floors, plus the face value of the fixed income securities underlying a derivative instrument subject to call plus the amount of the purchase obligations under the puts, does not exceed chapter 48.13 RCW limitations.

(4) An insurer must include all counterparty exposure amounts in determining compliance with general diversification requirements and medium and low-grade investment limitations under chapter 48.13 RCW.

(5) Side-letter or similar agreements that directly or indirectly alter the original derivative transaction in any way are prohibited.

[Statutory Authority: RCW 48.020.60 [48.02.060], 48.13.171 and 48.13.091. WSR 14-21-106 (Matter No. R 2014-05), § 284-13-920, filed 10/15/14, effective 11/15/14.]