

WAC 284-13-930 Guidelines and internal control procedures. (1)

Before engaging in a derivative transaction, an insurance company must establish written guidelines approved by the commissioner, that must be used for effecting and maintaining derivative transactions. The guidelines must:

(a) Specify insurance company objectives for engaging in derivative transactions and derivative strategies and all applicable risk constraints, including credit risk limits;

(b) Establish counterparty exposure limits and credit quality standards;

(c) Identify permissible derivative transactions and the relationship of those transactions to insurance company operations; for example, a precise identification of the risks being hedged by a derivative transaction; and

(d) Require compliance with internal control procedures.

(2) An insurance company must have a written methodology for determining whether a derivative instrument used for hedging has been effective using cash flow testing or other appropriate analysis.

(3) An insurance company must have written policies and procedures describing the credit risk management process and a credit risk management system for over-the-counter derivative transactions that measures credit risk exposure using the counterparty exposure amount.

(4) An insurance company's board of directors must, in accordance with RCW 48.13.051:

(a) Approve the written guidelines, methodology and policies, and procedures required by subsections (1), (2), and (3) of this section and the systems required by subsection (2) and (3) of this section;

(b) Determine whether the insurance company has adequate professional personnel, technical expertise, and systems to implement investment practices involving derivatives;

(c) Review whether derivatives transactions have been made in accordance with the approved guidelines and consistent with stated objectives; and

(d) Take action to correct any deficiencies in internal controls relative to derivative transactions.

[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), § 284-13-930, filed 10/15/14, effective 11/15/14.]