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18.01.45 – Domestic Insurers Regarding Financial Futures Contracts

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CHAPTER 45

18.01.45 – DOMESTIC INSURERS REGARDING FINANCIAL FUTURES CONTRACTS

000. LEGAL AUTHORITY.
Title 41, Chapter 7, Sections 703 and 735, Idaho Code. (7-1-93)

001. TITLE AND SCOPE.
The purpose of this rule is to: (7-1-93)

01. Requirement for Relating to Participation by Domestic Insurer in Exchange Traded Financial Futures Markets. Set forth requirements and limitations relating to participation by a domestic insurance company (hereinafter "insurer") in the exchange-traded financial futures markets; and, (7-1-93)

02. Recordkeeping Requirements. To establish recordkeeping requirements concerning such transactions. (7-1-93)

002. -- 003. (RESERVED)

004. DEFINITIONS.

01. Commodity Futures Trading Commission. "Commodity Futures Trading Commission" means the federal regulatory agency charged and empowered under the Commodity Futures Trading Commission Act of 1974 (7 U.S.C.A. 2 and 4) with rule of the exchanges or any other agency of the federal government which hereafter succeeds or shares such power. (7-1-93)

02. Deferred Gains or Losses. "Deferred gains or losses" are the amounts of unrecognized increase and decrease in the value of financial futures contracts related to incompleted hedging transactions. These deferred amounts may, in some cases, result from terminated financial futures contracts. (7-1-93)

03. Exchange-Traded. "Exchange-traded" means traded on an exchange designated as a contract market regulated by the Commodity Futures Trading Commission. (7-1-93)

04. Financial Futures Contract. "Financial futures contract" means an exchange-traded agreement to make or take delivery of (or to make cash settlement in lieu thereof) a specified amount of financial instruments on or before a specified date or period of time, under terms and conditions regulated by the Commodity Futures Trading Commission. (7-1-93)

05. Financial Instrument. "Financial instrument" means a security, currency financial futures contract or index of a group of securities or currencies authorized or permitted under Title 41, Chapter 7, Sections 702, 703, 707, 708, 709, 710, 711, 713, 714, 715, 716, 717 and 727, Idaho Code. (7-1-93)

06. Hedge. "Hedge" is a positioning of a hedged item with one (1) or more hedging transactions. (7-1-93)

07. Hedged Item. "Hedged Item" is a company asset or liability, group of company assets or liabilities, or assets or liabilities or groups of assets or liabilities reasonably expected to be acquired or incurred by the company in the normal course of business. Such assets or liabilities must bear price or interest rate risk. (7-1-93)

08. Hedging Transaction. "Hedging Transaction" is the opening or closing (as such transaction may be adjusted from time to time) of one (1) or more financial futures contracts designed to produce total dollar variations which correlate (i.e., prices tend to move in a reasonably predictable relationship) with the hedged item. (7-1-93)

09. Margin. "Margin" includes initial and maintenance margins and means any type of deposit, or settlement made or required to be made with a futures commission merchant, clearinghouse, or safekeeping agent to ensure performance of the terms of the financial futures contract. For purposes of this rule maintenance margin includes a variance margin. (7-1-93)

10. Short Sales. "Short sales" means those sales of exchange traded financial futures contracts that are a duration of less than a period of two (2) weeks. Short sales are not hedging transactions. (7-1-93)

005. -- 010. (RESERVED)

011. TRANSACTIONS IN FINANCIAL FUTURES.

01. Hedging Transaction. An insurer shall not enter into financial futures contracts except as part of a hedging transaction. If during the life of a hedge, the total dollar variation between the hedged item and the hedging transaction no longer is expected to correlate, the transaction will no longer be considered a hedge and the financial futures contract must be closed. Transactions in financial futures must be evidenced by a trade confirmation or other evidence of ownership issued to the insurer by an entity authorized to do so. (7-1-93)

02. Amount. An insurer shall not have more than an aggregate amount of any form of financial futures contracts outstanding than set forth in Title 41, Chapter 7, Section 735, Idaho Code. (7-1-93)

012. ACCOUNT FOR TRANSACTIONS IN FINANCIAL FUTURES CONTRACTS.

01. Deferred Account. The initial cost, and subsequent cost(s), if any, of the hedging vehicle shall be carried in a deferred account until: (7-1-93)

a. The hedge is completed and the underlying financial instrument is acquired or sold; or (7-1-93)

b. The hedge is closed out and the anticipated underlying transaction is cancelled. (7-1-93)

02. Hedge and Transaction Considered as One. If the underlying transaction is completed, the hedge and the transaction shall be considered as one; and (7-1-93)

a. In the case of an acquisition, the gain or loss on the hedge shall be amortized over the life of the financial instrument acquired; or (7-1-93)

b. In the case of a disposition, the gain or loss of the hedge shall be combined with the gain or loss on the sale. (7-1-93)

03. Gain or Loss. If the hedge is closed out and the anticipated underlying transaction is cancelled, the gain or loss from the hedge shall be treated as investment income or expense. (7-1-93)

013. ADMINISTRATION AND RECORDKEEPING.

01. Policies and Procedures. Prior to engaging in transactions in financial futures contracts, an insurer shall develop and adequately document policies and procedures regarding investment strategies and objectives, recordkeeping needs, and reporting matters. Such policies and procedures shall address authorized investments, investment limitations, authorization and approval procedures, accounting and reporting procedures and controls, and shall provide for review of activity in financial futures contracts by the insurer's board of directors or its designee. No insurer shall engage in financial futures contracts until its guidelines shall have been submitted to this Department. (7-1-93)

02. Recordkeeping Systems. Recordkeeping systems must be sufficiently detailed to permit internal auditors and insurance department examiners to determine whether operating personnel have acted in accordance with established policies and procedures. Insurer records must identify for each hedging transaction the related financial futures contracts and the hedged items. (7-1-93)

014. SEVERABILITY.
If any provision of this rule or the application thereof to any persons or circumstances is held invalid, the remainder of the rule and application of such provision to the other persons or circumstance shall not be affected thereby. (7-1-93)

015. -- 999. (RESERVED)

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