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Autorité fédérale de surveillance des marchés financiers FINMA
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Circular 2016/5 Investment guidelines - insurers

Investments in the total assets and combined assets of insurance companies

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Appendix:	Supplementary Agreement of the Swiss Bankers Association

Addressees

BankG			VAG			FINIG						FinfraG						KAG						MLA		Other	
Banks	Financial groups and conglomerates	Other intermediaries	Insurer	Insurance groups and conglomerates	Intermediary	Asset manager	Trustees	Manager of coll. assets	Fund management companies	Account-holding investment firms	Non-accounting Investment firms	Trading venues	Central counterparties	Central securities depository	Trade repository	Payment systems	Participants	SICAV	KmG for KKA	SICAF	Custodian banks	Representative of foreign KKA	Other intermediaries	SRO	SRO supervisors	Audit firms	Rating agencies
			X																								

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I. Subject matter

This circular specifies the regulations on the investment activities of supervised insurance companies. Chapters II and III set out FINMA's expectations with regard to the overall investment activity of all supervised insurance companies and, in particular, the general requirements in connection with the designation of tied assets (Art. 17 of the Insurance Supervision Act [ISA; SR 961.01]). Chapters IV and V explain the requirements for the permissible assets in tied assets (Art. 79 of the Supervision Ordinance [SO; SR 961.011]). 1

II General principles for total assets

A. Investment principles

When selecting its investments, the insurance company takes into account the structure and development of the obligations (*asset liability management*, ALM), the security of the investments, appropriate diversification and the insurance company's foreseeable need for liquid assets. 2

B. Derivative financial instruments

a) Use of derivative financial instruments

Insurance companies may only use derivative financial instruments to reduce the risks on the investments or on their obligations to the insured persons or to manage the investments efficiently (Art. 100 SO). 3

When using derivatives, the insurance company may not take any risks that are inappropriate to the scope of business and risk capacity of the insurance company. The use of derivatives should also be aimed at achieving a sustainable effect. 4

b) Obligation to provide cover when using derivatives

In accordance with Art. 100 para. 2 SO, all obligations that may arise from derivative financial transactions must be covered. The obligations must be covered at all times and in full (contract volume / *notional value)* either by the underlying assets on which the derivatives are based (in the case of derivatives with an obligation to sell) or by liquidity (in the case of derivatives with an obligation to buy). 5

Liquidity can include both cash and cash equivalents. Cash equivalents 6
Cash deposits in accordance with margin nos. 181-185 and government bonds with a minimum credit rating of 2 and very good liquidity are considered funds. In addition, the funds mentioned in margin no. 114

Receivables that are exempt from the counterparty limit are regarded as cash equivalents.

The obligation is covered at all times and in full if: 7

- the liquidity or cash equivalents are available; 8
- the underlying assets are held by the insurance company and are available without restriction - *securities lending* in relation to the underlying assets and repurchase agreements (repo, reverse repo) in connection with derivative transactions are not permitted. Lent securities are an exception if the short-term recall of these securities is possible without restriction. The increased operational risks arising from these transactions must be taken into account; 9
- double use of liquidity or underlying assets to cover several transactions is excluded - underlying assets or liquidity can be used simultaneously to cover derivative positions if these involve several risks (e.g. a market, credit or currency risk) but relate to the same underlying assets; 10
- the market value of the cash equivalents or the number of underlying assets covers the entire obligation, whereby cash equivalents - with the exception of cash deposits in accordance with margin nos. 181-185 - may only be used as cover to the extent of 90% of the market value. 11

In the case of derivatives with a purchase or acceptance obligation (e.g. *long futures*, *long forwards*, *short puts*) of an underlying asset, such as a share, a financial index, a currency or an interest rate, the liquidity required to fulfill the obligation must be available at all times. 12

In the case of derivatives with an obligation to sell or deliver (e.g. *short futures*, *short forwards*, *short calls*) an underlying asset, such as a share, a currency or an interest rate, the underlying investment must be available at all times and without restriction to fulfill the obligation. In the case of index derivatives, the obligations are deemed to be covered if there is an extensive and stable correlation between the underlying assets held and the index. 13

If there is a contractual right to satisfy an obligation entered into by means of a cash payment instead of delivery of the deliverable underlying, the physically deliverable underlying must nevertheless be held. 14

If *cash settlement is* mandatory for underlyings that cannot be physically delivered (e.g. underlyings for weather derivatives), the necessary liquidity must be maintained in full at all times in the event of an obligation to sell such derivatives. 15

In the case of derivatives with an obligation to exchange cash flows (e.g. interest rate swaps), the cash flow to be paid must be ensured with the necessary liquidity or *underlying.* 16
become.

In the case of combinations of derivatives, the obligations of the entire combination for the fulfillment of the obligations must be covered at all times by underlying assets or liquidity available in the assets. The *underlyings* of the combinations must be identical to the underlyings used as cover. 17

c) Organization, know-how and investment process

Insurance undertakings that use derivative financial instruments must have qualified and knowledgeable staff, an appropriately designed investment strategy, an investment management system tailored to their specific needs, a fully implemented and documented investment process, a suitable risk management system and an adequate system infrastructure (margin no. 76). 18

The provisions of margin nos. 57-87 must also be observed mutatis mutandis when using derivative financial instruments. 19

d) Analysis of the risks associated with the use of derivative financial instruments

The counterparty risks resulting from derivative transactions must be taken into account before derivative financial instruments are used. The risks must be analyzed as often as the situation requires, but at least once a week for market risks and once a month for credit risks. The analysis of market and credit risks consists, among other things, of evaluating the open positions and comparing them with the defined limits of risk exposure. The result of the risk analysis must be presented to the Executive Board as often as the situation requires, but at least once a month for market risks and at least once every three months for credit risks (Art. 104 SO). 20

The insurance company's risk management ensures that the derivative strategies of different divisions are recorded centrally and analyzed for interdependencies. To this end, various relevant scenario calculations must be carried out to ensure that the overall use of derivatives does not jeopardize the value of the assets or the solvency of the company. The insurance company ensures that the economic impact on assets and solvency in connection with derivative transactions is correctly shown in the various reports to FINMA. 21

According to Art. 108 SO, an activity report on the use of derivative financial instruments must be submitted to the Board of Directors at least every six months. 22

III General principles for tied assets

A. Definition, purpose and obligation to appoint

The values in the tied assets represent based on the 23
The assets secure the claims of the insured persons based on the reported technical

provisions. The

Tied assets are of great importance in the event of a portfolio transfer and especially in the event of insolvency and the subsequent liquidation of the insurance company. The tied assets provide the insured persons with a liability substrate that ensures that their claims are satisfied with priority over other creditors in the event of the insurance company's bankruptcy.

The assets allocated to the tied assets must be secure, unencumbered property of the insurance company and realizable in the event of the bankruptcy of the insurance company in Switzerland. To ensure that the claims of the insured persons are effectively secured, attention must be paid to the intrinsic value and stability of value when allocating assets to tied assets. 24

B. Principles

a) Investment principles

aa) Security

The investments in tied assets must be selected in such a way that the claims arising from insurance contracts can be met at all times. 25

The security of investments is guaranteed if they are economically and legally secure. Economic security is understood to mean the preservation of the value of the capital or assets; the legal security of the investments is measured by their availability and saleability. The requirement of economic and legal security applies to both direct and indirect investments. 26

The following criteria in particular must be observed with regard to maintaining the value of assets: 27

- the fluctuation in value of the total tied assets, whereby the extent of the fluctuation in value that can be tolerated depends on the level of overfunding of the tied assets;
- the quality of the system;
- a reliable valuation method for the system.

The legal security of the system relates in particular to the following criteria: 28

- unrestricted power of disposal;
- the unrestricted saleability and transferability of the assets, in particular in the event of the insurance company's bankruptcy.

Assets that jeopardize the intrinsic value of the tied assets (e.g. assets that give rise to additional funding obligations at the expense of the tied assets) are not permitted. 29
assets).

bb) Orientation towards obligations (*Asset Liability Management*, ALM)

The order of the tied assets must be based on the structure and expected development of the insurance obligations to be secured. Appropriate account must be taken of both the performance of investments and liabilities and the expected cash flows from investments and obligations. 30

cc) Profitability

The insurance company selects investments that generate a return in line with the market. 31

dd) Diversification

Each tied asset must be sufficiently and appropriately diversified. Cluster risks must be excluded. An appropriate mix in relation to the various investment categories and a spread of investments in relation to the debtors of the assets must be achieved. 32

An appropriate mix of investments with regard to the various investment categories takes into account the following criteria in particular: 33

- the specific risk profile and default risk or impairment risk of the investments;
- the investment horizon (i.e. investment period) of the investment;
- the correlation of asset classes.

An appropriate diversification of investments takes into account at least the following criteria: 34

- various counterparties;
- different geographical regions;
- different industries and segments.

Investments in high-risk investments may only be made as a cautious addition to and appropriate diversification of the total tied assets. The risk capacity of the insurance company must always be taken into account. Investments in securities with a credit rating of 5 are only permitted if there is corresponding technical expertise in the area of credit risks. 35

ee) Liquidity

In principle, the insurance company must choose investments that can be realized quickly if necessary, especially in the event of the insurance company's bankruptcy. 36

The realizability of an investment depends, among other things, on the term of an investment (e.g. bonds, fixed-term deposits) or the possibility of assigning (selling) the investment on the market or on a stock exchange. 37

b) Prohibition of charging and offsetting

The value of the tied assets must be unencumbered (Art. 84 para. 2 SO). In principle, the tied assets may not be encumbered by liens, rights of retention, rights of set-off or similar rights. No additional funding obligations may be created to the detriment of the tied assets. Exceptions are set out in Chapters IV and V. 38

c) Realization in bankruptcy

The assets in tied assets serve solely to secure claims arising from insurance contracts in the event of the insolvency and liquidation of the insurance company under bankruptcy law. It must therefore be ensured that the assets flow into the bankruptcy estate and can be liquidated in Swiss bankruptcy proceedings. 39

The recoverability in bankruptcy must be ensured by the insurance company, whereby proof can be provided as follows: 40

- The investment is securitized and traded on a market so that a market price can be determined; or 41

- the legal system applicable to the investment recognizes FINMA's insolvency proceedings and the priority privilege of tied assets under Swiss law, so that special executions or other interventions by an authority or third parties are not possible. 42

At FINMA's request, the possibility of realizability in Swiss bankruptcy must be demonstrated. 43

d) Obligation to provide cover at all times

The insurance company shall take suitable organizational measures to ensure that the current debit amount pursuant to Art. 56 and 57 or 68 SO is covered at all times by permissible assets pursuant to Art. 68 para. 2, 79 and 81 SO. The amount of the current target amount is determined on the basis of the current provisions if a statement of account were prepared at that time. 44

Instead of a concrete calculation of the current provisions, well-founded and prudent estimates can also be used during the year, provided that it can be demonstrated with a high degree of certainty that the current target amount is actually covered by the calculated values. 45

This ensures that even after events and developments occurring during the year that require further technical provisions and require a 46
have an influence on the target amount (e.g. unexpected claims, need for additional reserves),

acquisition of new business or business growth) sufficient assets are available to cover the target amount of the tied assets.

e) Order

The insurance company establishes the tied assets by allocating assets. It records and identifies these assets in such a way that it can prove at any time without delay which assets belong to the tied assets and that the target amount of each tied asset is covered (Art. 76 para. 1 AVO). 47

f) Criteria for the allocation of assets to restricted assets

An asset can be allocated to restricted assets if: 48

- the investment is an admissible value in accordance with Art. 79 or Art. 68 para. 2 SO and is eligible in accordance with this Circular. Partial crediting of investments (e.g. due to non-creditable parts or increased risks) is not permitted. Partial offsetting of the investment is only possible if the exception is explicitly described in this circular (e.g. mortgages, margin no. 312); 49
- the investment can generally be valued without any problems; 50
- the investment has a high level of liquidity in relation to the corresponding investment category; 51
- the necessary expertise is available and appropriate processes and systems are applied that are necessary for the professional selection, management and control of the investment made (margin no. 76); 52
- The effects of the investment and its individual risk components are understood so that the financial, legal and operational risks can be assessed at all times; 53
- the debtor's creditworthiness is verifiable (margin no. 139-152); 54
- the asset is neither encumbered nor can it be offset against third-party claims (margin no. 38). 55

These principles are specified for each investment category in Chapters IV and V. 56

C. Investment strategy

The Executive Board determines the investment strategy and submits it to the Board of Directors for approval (Art. 78 para. 1 let. a, Art. 101 SO). 57

The investment strategy takes appropriate account of the type and complexity of the business conducted, in particular the insurance business (Art. 102 para. 1 SO). 58

The framework conditions for the use of the various investment categories must be defined in the investment strategy. All investments must be anchored in the investment strategy of the company as a whole. 59

The limits of risk exposure must be set in accordance with the financial and organizational capacities of the insurance company. 60

D. Investment regulations

The investment regulations are issued by the Executive Board or a member of the Executive Board or the general representative and define the entire investment activity (Art. 78 para. 1 let. b, Art. 106 para. 1 SO). The investment activity is comprehensively described in a document, whereby specific references to other internal directives are possible. 61

The requirements for the investment regulations are based on the complexity of the investments in the investment universe defined by the insurance company. 62

The insurance company regulates at least the following topics in the investment regulations: 63

- Internal investment principles and objectives (incl. ALM); 64
- Description of the investment universe (permitted investments / restrictions); 65
- Investment techniques and their area of application/purpose (e.g. use of derivative financial instruments, securities lending, repurchase agreements); 66
- Description of the investment process, monitoring and controls (definition of tasks, responsibilities, competencies, accountability and escalation mechanisms); 67
- Staff requirements (e.g. specialist knowledge, experience, integrity). 68

E. Organization and control

The administration (investment management) and control (risk management) of the investment activity must be carried out by persons who are independent of each other and must be organizationally appropriate to the complexity of the business and investment activity (Art. 78, 106 SO). 69

The staff must have adequate qualifications and knowledge of the asset classes invested in and, in the case of investments in riskier investments, appropriate expertise (Art. 78 para. 1 let. c, Art. 107 SO). 70

The systems used should be appropriate to the size and complexity of the investment portfolio, be monitored and have the necessary stability (Art. 106 para. 2 SO). 71

The administration (investment management) must ensure and perform at least the following tasks: 72

- the implementation of the investment strategy and the investment regulations; 73
- the definition and documentation of the strategic and tactical *asset allocation*, which is adapted to the risk capacity, size and complexity of the insurance company, whereby the allocation is made in relation to asset classes and other important characteristics such as duration, sectors, creditworthiness and investment styles; 74
- setting a limit system based on individual risk capacity, monitoring limits and defining measures in the event of limit breaches; 75
- the provision of an investment process that is commensurate with the complexity of the investments. Scenario analyses must be used to ensure that the use of complex investments does not jeopardize the value of the total assets and tied assets or the solvency of the insurance company; 76
- monitoring the value of the assets; 77
- monitoring and controlling compliance with regulatory requirements; 78
- monitoring and controlling the main risks (in particular market risk, credit risk, concentration risk, liquidity risk, currency risk, operational risk, legal risk) in connection with investment activities; 79
- the measurement and evaluation of investment results; 80
- the definition of internal reporting. 81

If the insurance company commissions a third party with investment management, this does not relieve it of responsibility for compliance with the investment management regulations. In particular, the insurance company must understand the investment process, monitor the specified strategy and investment principles and be able to track all transactions in a timely manner for accounting purposes. 82

The transfer of investment management to third parties is subject to FINMA approval in accordance with Art. 4 para. 2 let. j ISA. 83

Control (risk management) must ensure and perform at least the following tasks: 84

- monitoring and controlling compliance with the investment principles and objectives in accordance with margin no. 64 and the other internal directives of the insurance company; 85
- monitoring and controlling compliance with regulatory requirements; 86

- monitoring and controlling the main risks (in particular market risk, credit risk, concentration risk, liquidity risk, currency risk, operational risk, legal risk) in connection with investment activities. 87

F. Further provisions

a) Separate tied assets

Separate tied assets are to be ordered for (Art. 77 para. 1 AVO): 88

- occupational pension insurance;
- the policyholder claims from unit-linked insurance contracts or capitalization transactions (insurance classes A2.1, A2.2, A2.3 and A6.1);
- the policyholder claims from insurance contracts or capitalization transactions that are linked to internal investment portfolios or other reference values (insurance sections A2.4, A2.5, A2.6 and A6.2).

The appointment of further tied assets is possible (Art. 77 para. 2 SO) and may be ordered by FINMA in justified cases (para. 3).

In Art. 77 para. 1 let. b and c AVO, reference is no longer made to the savings portion of the insurance contracts, but to the entire insured persons' claims. In particular, this is intended to avoid the previously separate safeguarding of the savings and guarantee components. 89

This Circular must be observed for each separate tied asset, whereby in particular the defined limits, the coverage obligations and the qualitative requirements for each tied asset must be taken into account. For the separate tied assets of unit-linked life insurance and capitalization transactions (insurance classes A2.1-A2.6 as well as A6.1 and A6.2), however, exceptions apply with regard to the limits (see margin no. 122). 90

b) Foreign insurance portfolio

The insurance undertaking is not obliged to secure its foreign insurance portfolios with tied assets if equivalent security must be provided abroad (Art. 17 para. 2 ISA). If no equivalent security has to be provided abroad, the security is provided in Switzerland, whereby the provision can be made in separate tied assets (Art. 77 para. 2 let. b SO). 91

If there is no equivalent guarantee abroad, a supplementary guarantee must be provided in Switzerland. 92

The following criteria are relevant for the equivalence check: 93

- Special assets 94

There is an obligation to cover the entire technical provisions from direct insurance through a special fund. The gross technical provisions must be covered (without taking into account claims against reinsurers). If an analogous system for offsetting the reinsured portions of the provisions (see margin nos. 160-175) exists for insurance companies that operate non-life insurance, the gross principle is deemed to be fulfilled. It must be ensured that only those contracts participate in the special fund that are fully included in the target amount.

Instead of special assets, other forms of security for insurance claims may be taken into account, provided their effect is certain even in the event of the bankruptcy of the insurance company and is equivalent to the effect of special assets. 95

For these other forms, margin nos. 97 and 98 apply mutatis mutandis. 96

- Bankruptcy privilege 97

  In the event of bankruptcy, the special assets are primarily available to satisfy claims arising from insurance contracts.

- Investment guidelines 98

  The local supervisory authority specifies investment guidelines aimed at maintaining the security and value of the investment fund.

c) Unit-linked life insurance policies

Unit-linked insurance contracts or capitalization transactions must be linked to permissible assets for the tied assets: In the case of unit-linked contracts, these are open-ended collective investment schemes that fall under the Collective Investment Schemes Act (CISA; SR 951.31) (Art. 125a SO). In the case of contracts linked to internal investment portfolios or other reference values, these are permissible values in accordance with Art. 79 SO and Art. 81 para. 2 SO. 99

The investments used as collateral must correspond to those on which the contracts are based (matching cover; Art. 81 AVO), as otherwise the insurance company bears an additional investment risk. Any guarantees must be secured with investments in accordance with Art. 79 AVO that replicate the fluctuations in value of these guarantees as well as possible. Other contractual components, non-unit-linked provisions and any supplement to the target amount must be secured with values in accordance with Art. 79 AVO. 100

In accordance with Art. *93a* AVO, investments to secure claims from unit-linked life insurance policies are valued at no more than market value, irrespective of the other capitalized values in accordance with Chapter IV. 101

d) Indirect investments: Initial acquisition, restructuring

An investment - whether as an initial acquisition or through restructuring - in so-called indirect investments (e.g. in funds, participations, structured products or *bonds* issued by special purpose vehicles [SPVs]) may not be used to circumvent the provisions on direct investments in accordance with Chapter IV. 102

This circular deals with the following indirect investments: 103

- collective investment schemes in accordance with margin nos. 484-493;
- Single investor funds according to margin nos. 494-505;
- Real estate companies in accordance with margin no. 256 (for a participation of more than 50%) or margin no. 240 (as a listed real estate company);
- structured products and securitized receivables in accordance with margin nos. 197 and 214;
- alternative investments in accordance with margin nos. 317-350.

Depending on the instrument, specific qualitative requirements and a high level of liquidity are demanded for the entire investment instrument or a so-called *look-through approach* is applied. An investment in an indirect investment that contains a non-eligible direct investment is only permitted if the specific provisions for the indirect investment are met and its characteristics mean that the disadvantages that lead to the non-eligibility of the direct investment do not affect the indirect investment. 104

Example: An investment in real estate that is relatively illiquid and difficult to value and is therefore not a permissible investment in tied assets cannot be counted as a permissible investment even if it is restructured as an indirect investment. It can only be included if the risk situation for the investor actually improves, as illustrated by the following list based on an investment in real estate. 105

106

Structure	Creditable?	Reason
Direct investment: Illiquid, Difficult to value investment in real estate	No	Usability and assessability made more difficult (margin no. 246)
Restructuring into a single investor fund	No	Look-through *approach* is applied, treatment as direct investment (margin no. 494)
Restructuring into a real estate company	No	Look-through *approach* is applied, treatment as direct investment (margin no. 283)
Construction of a structured product with participation in real estate	No	Each individual element of the structured product and the *underlyings* of the derivative transactions must be individually eligible (margin no. 199)
Justification of an alternative investment, i.e. investment in shares of a company. company, which in turn owns the property in question	No	Traditional investments that are not eligible as direct investments may not be transferred to the alternative investments category (margin no. 331)

is held as an asset.		
Justification requirements: saleability at any time in a 1 SO and s	Yes, if criteria for subordination to an	collective investment schemes are met liquid market in accordance with Art. 82 para. effective fund supervisory authority (margin no. 484). This results in a liquid, diversified and supervised real estate portfolio.

e) Additional collateral for non-chargeable assets

If an investment has a non-eligible component, the entire investment is not permitted in the tied assets. If the investment or the structure contains an additional security, the investment may only be included in the tied assets if this compensates for the deficiency relating to the non-eligible part. 107

f) Limits

aa) General

Based on Art. 83 SO, limits are set for individual investment categories. 108

An insurance company may hold no more than the percentage of the target amount of each individual tied asset specified as a limit for investments in a particular investment category. 109

Both the general limits (see margin nos. 113-122) and the special limits for each investment category must be observed. 110

Exceeding the specified limits is permitted within the scope of the excess cover of the target amount. Limits are deemed to have been exceeded if a situation can be achieved by withdrawing assets from the tied assets in which all limits are complied with and the target amount of the tied assets is still covered. 111

The insurance company shall take appropriate measures to ensure that the limits are complied with at all times. Securities that have been transferred to securities lending or repurchase agreements must be included in the calculation of the limits. 112

bb) Counterparty limits

The *exposure* to a counterparty may not exceed 5% of the target amount of the tied assets. If there is a higher *exposure* per counterparty, this must be submitted to FINMA for approval without delay. 113

Claims against the Swiss Confederation, cantons, cantonal banks with a state guarantee and Swiss mortgage bond institutions are exempt from the 5 % limit. 114
excluded. Receivables from debtors whose obligations are due at any time and

are fully guaranteed by a state with a credit rating of 1 are also excluded from this limit.

To determine the *net* exposure, all receivables and investment instruments in the tied assets vis-à-vis this party must be accumulated. If the insurance company invests in several companies within a group, the *total* exposure to this group is decisive. Guarantees issued to the insurance company, e.g. in connection with structured products, are also included in the calculation of net *exposure.* Collateral received can be deducted from the *exposure.* 115

cc) Foreign currency limits

The obligations arising from the insurance contracts should be covered by investments in matching currencies. Investments in currencies other than the reference currency are limited to 20% of the target amount of the tied assets. The reference currency is the currency in which the insurance contracts concluded by the insurance company are denominated. 116

dd) Exceptions

Upon request, an insurance undertaking may deviate from the limits for the categories equities and other listed equity securities (margin no. 244), real estate (margin nos. 266-269), mortgages (margin nos. 291-293) and the limits for *net* currency exposure (margin no. 116) and apply for its own limits for these categories. The insurance company may apply for its own limits under the following conditions: 117

- The insurance company plausibly demonstrates that no negative effects on the solvency of the company are to be expected as a result of the requested own funds. 118

- The insurance company demonstrates that it has an appropriate risk management system in place for the relevant asset classes. 119

- The insurance undertaking must be able to demonstrate at all times that the chosen limits continue to comply with the principles of this Circular on tied assets and that sufficient account is taken of the risk of a shortfall in the target amount of tied assets as a result of a significant reduction in the value of the corresponding investment category. To this end, the insurance company must demonstrate plausibly by means of regular tests that stress scenarios on the tied assets will not lead to a shortfall in the target amount of the tied assets, even if its own limits apply. The available free, unencumbered assets must also be included in these considerations. 120

- The requirements must be met at all times, even after approval. As soon as the conditions for the own limits are no longer met, the insurer must be authorized. 121
  The insurance companies must comply with the specified limits.

ee) Unit-linked life insurance

In unit-linked life insurance, the tied assets must be determined by the assets underlying the contracts. Therefore, the quantitative limits of this Circular do not apply to the separate tied assets of unit-linked life insurance (Art. 77 para. 1 let. b SO). For the separate tied assets of life insurance linked to internal investment portfolios or other reference assets (Art. 77 para. 1 let. c S O), only the limits of this circular apply. 122
"*Exposure* to a counterparty" and "Securities lending and repurchase agreements" must be observed. However, these limits may be exceeded if the policyholder has been expressly informed of the possible deviation from these limits before the contract is concluded.

g) Compliance with the investment principles for small target amounts

The investment principles of security, ALM, profitability, diversification and liquidity (see margin nos. 25-37) must also be observed by small insurance companies. 123

Small insurance undertakings with only a small debit amount of tied assets may apply for an exception to the 5% counterparty limit in justified cases (margin no. 113). In addition to the reasons for the intended deviation from the counterparty limit, the application must contain information on the debtor of the claims that account for more than 5% of the target amount of tied assets and the amount of the requested counterparty limit, taking into account the principle of appropriate diversification. 124

h)Ensuring recoverability

The insurance company must review the value of the individual investment on an ongoing basis and take into account any impairment as a result of a deterioration in creditworthiness in the valuation of the investment. If the value of an investment is at risk (need for *impairment*), the ordinary valuation method (e.g. cost amortization method for bonds) must be deviated from for inclusion in tied assets and the inclusion must be at most at market value (cf. Art. 95 para. 2 AVO). This may affect the following investment categories in particular: 125

- Cash contributions (see margin nos. 181-185) 126
- Bonds, convertible bonds (see margin nos. 186-196) 127
- Structured products (see margin nos. 197-213) 128
- Other acknowledgements of debt (see margin nos. 227-239) 129
- Mortgages (see margin nos. 288-316) 130

- Derivative financial instruments (see margin nos. 351-478) 131

i) Foreign assets

An allocation of valuable assets abroad in accordance with Chapters IV and V is possible if the requirements of margin nos. 39-43 are met or the special provisions explicitly regulate an allocation. 132

j) Group relations

Intra-Group investments - in particular equity investments, treasury shares or shares of other Group companies, treasury bonds, bonds of other Group companies, loans to Group companies, derivative financial instruments from transactions with Group companies - cannot be counted as tied assets, with the exceptions listed below. 133

Loans to investment companies that meet the conditions of Art. 82 para. 4 SO may be allocated to tied assets and credited at nominal value, provided the borrower does not have any loans to Group companies on its own books. 134

Participations in investment companies that meet the conditions of Art. 82 para. 4 SO may be included in the tied assets at *net asset value* (NAV). 135

Loans to real estate companies in which an interest of more than 50% is held can be allocated to restricted assets and recognized at nominal value, provided that liquidation of the company can be enforced and the borrower does not have any loans to Group companies on its own books. 136

Participations in real estate companies in accordance with Art. 79 para. 1 let. f SO may be included in the tied assets at NAV if the participation is more than 50% and liquidation can be enforced. 137

This is intended to prevent intragroup investments whose value is doubtful in the event of bankruptcy from being counted as tied assets. Double counting of investments (*double gearing*) is also prevented. 138

k) Credit ratings

The following credit ratings are to be used for ordering tied assets: 139

Credit rating level 1: 140

Highest grade, debtor with the highest credit rating. The debtor's ability to meet its financial obligations is outstanding. The default risk is virtually negligible, even in the longer term.

Credit rating level 2: 141

High grade, safe investment. The default risk is virtually negligible, but may be somewhat more difficult to assess in the longer term; the debtor's ability to meet its financial obligations is very strong.

Credit rating level 3: 142

Upper Medium grade. Safe investment, provided no unforeseen events affect the overall economy or industry. The borrower's ability to meet its financial obligations is strong, but somewhat more vulnerable to the adverse effects of changes in external circumstances and economic conditions.

Credit rating level 4: 143

Lower Medium grade, average investment. However, problems are to be expected if the overall economy deteriorates. The borrower's ability to meet its financial obligations is adequate, but more vulnerable to adverse economic conditions.

Credit rating level 5: 144

All investments that do not meet the requirements for classification in one of the credit rating categories 1-4.

For regulatory purposes, the insurance company only uses ratings from recognized rating agencies in accordance with FINMA Circular 2012/1 when assigning tied assets to the credit rating categories 145
"Rating agencies" or own credit ratings.

Own credit ratings must meet the following requirements: 146

- They are created under our own responsibility according to comprehensible criteria. 147
- They represent the assessment of the default risk from the perspective of the insurance company. 148
- The sources of information used are scrutinized in terms of how they were obtained, their objectivity and their reliability. 149
- They are reviewed on an ongoing basis and adjusted if necessary. 150
- The processes for their creation and use are documented. 151

The outsourcing of the process must be reported to FINMA in accordance with Art. 4 para. 2 let. j ISA. The insurance company remains responsible for the quality of the credit assessments. 152

G. Safekeeping of assets

a) Self-custody

The movable assets allocated to the tied assets may be held in custody by the insurance company or the Swiss branch (Art. 86 para. 1 SO). The insurance company must notify FINMA of the assets in its own custody and the exact place of custody (address, room number, safe deposit box, etc.). 153

b) Third-party custody

Third-party custody is permitted if the custodian in Switzerland is liable to the insurance undertaking for the fulfillment of the custodian obligations (Art. 87 para. 2 SO). For this purpose, the insurance company and the custodian must sign the "Supplementary Agreement" (see Appendix) for each business relationship (custody accounts/accounts). The assets in third-party custody, the custodian, the place of custody and the depositary as well as the corresponding changes must be reported to FINMA. A copy of the supplementary agreement must be submitted at the same time. 154

Assets held in custody are eligible for inclusion in tied assets as soon as the formal requirements have been met and FINMA has been notified. 155

c) Custody abroad

Own or third-party safe custody abroad is permitted if the foreign bankruptcy law guarantees the priority privilege of tied assets under Swiss law (Art. 87 para. 3 SO). The insurance company must ensure that this requirement is met in the case of safe custody abroad. 156

In the case of safe custody abroad, the insurance undertaking must prove with an official confirmation or a well-founded legal opinion that the conditions set out in margin no. 156 are met. 157

d) Type of custody

The assets allocated to the tied assets must be kept separately from the other assets of the insurance company and must be designated as tied assets. The accounts and custody accounts must be identified as belonging to the tied assets and with the specific designation of the tied assets.
characterize. 158

Custody as intermediated securities is permitted. 159

H. Receivables of non-life insurers from reinsurers

a) Principles

The reinsured portions of the provisions are offset against the tied assets of the non-life insurance companies in accordance with Art. 68 Para. 2 AVO. 160

The applications for offsetting the reinsured portions of the provisions and their approvals relate to the reinsurance companies and not to the amount of the reinsured portions. If offsetting has been approved in relation to a reinsurer, the current amount of the reinsured portions can be offset, subject to compliance with the limits in accordance with margin nos. 162-169. Offsetting of the reinsured portions of the provisions against a reinsurer can be applied for as soon as a corresponding reinsurance contract exists, regardless of whether reinsured portions of the provisions already exist. 161

b) Crediting and limits

The reinsured portions of the provisions are generally credited at 100% of the amount of the current portion; for reinsurers in *run-off,* at 75% of the amount of the current portion. In any case, the offsetting is limited as follows in accordance with the credit rating levels under margin nos. 139-144: 162

- If the reinsurer's credit rating is 2 or better: 20% of the target amount of the bundled assets. 163
- For credit rating level 3 of the reinsurer: 10% of the target amount of the tied assets. 164
- For credit rating level 4 of the reinsurer: 5% of the target amount of the tied assets. 165
- In the case of reinsurers with a credit rating of 5, the reinsured portions of the provisions cannot be offset against the tied assets. 166

These limits are reduced by 50% for reinsured portions of the provisions from contracts with insurers that belong to the same group as the insurance company. 167

When offsetting reinsured portions of provisions relating to several reinsurers belonging to the same group, the total of the offsets is limited to 1.5 times the limits (margin no. 162-166) (based on the group's credit quality step).
limited. 168

FINMA may, upon request, approve offsetting beyond the stated limits, provided this does not impair the security of the tied assets. 169

c) Special reinsurance relationships

Reinsured portions of the provisions relating to the Swiss natural hazard pool can be credited up to 10% of the target amount of the tied assets in each case. 170

d) Application and approval procedure

The form prescribed by FINMA must be used for the applications. If reinsurance contracts are concluded with branches of reinsurers, the name and registered office of the company's head office must be stated on the form. 171

In justified cases, FINMA may limit the duration of approvals, in particular approvals in accordance with margin no. 169. 172

Applications are deemed to have been approved unless FINMA initiates a review within four weeks. 173

If the conditions change, in particular the assessment of the creditworthiness of an approved reinsurer, the crediting must be adjusted in accordance with the limits set out in margin nos. 162-166 and FINMA must be notified immediately. 174

If a further reinsurer is to be approved in addition to those already approved, all reinsurers must be listed in the application. Those not yet approved must be marked. 175

I. Authorizations pursuant to Art. 79 para. 3 AVO

FINMA may, on request, allow further assets to be included in the tied assets, provided this does not impair the security of the tied assets (Art. 79 para. 3 SO). FINMA bases its assessment of these applications in particular on margin nos. 23-159 of this Circular. 176

J. Reporting to FINMA

Within three months of the end of the financial year, the insurance company shall inform the audit company of the target amount calculated at the end of the financial year for each tied asset together with the list of cover assets. Reporting to FINMA takes place within four months of the end of the financial year (Art. 72 para. 1 SO). 177

Insurance companies domiciled in Switzerland must also report on every foreign insurance portfolio for which they have to provide security abroad. 178

FINMA defines the requirements and the process for reporting tied assets on an annual basis. 179

IV. forms of investment in tied assets

In addition to the general principles listed above, the following principles apply to the systems. 180

A. Cash deposits

a) Permissible values

Cash and cash deposits, namely bank balances as well as fixed-term deposits and other money market investments are permitted. Other money market investments include short-term money market investments with a term of up to 12 months. 181

b) Special requirements

The supplementary agreement in accordance with margin no. 154 must also be signed with the counterparty for cash deposits or account balances. In particular, the supplementary agreement must exclude any lien, right of retention, right of set-off or similar right on the part of the debtor. 182

In the case of claims against a debtor domiciled abroad, margin no. 132 must be observed. 183

c) Evaluation

Investments in this category are valued at no more than their nominal value, taking into account the security and income (Art. 93 para. 2 SO). 184

Money market debt register claims are recognized at no more than market value. If they are not listed on a stock exchange, a standard market valuation method must be applied. 185

B. Bonds, convertible bonds

a) Permissible values

The following values are assigned to this category: 186

- Government bonds
- Bonds issued by cantons, cities or municipalities and other public corporations
- Bonds issued by supranational organizations

- Pfandbriefe regulated by special legislation (*covered bonds*)
- Corporate bonds (banks, finance companies and other corporate bonds)
- Medium-term notes issued by a bank licensed in Switzerland

The following types of bonds are also permitted: 187

- Convertible bonds with bond character and bonds with warrants
- Replicated bonds in accordance with margin nos. 422-431

Convertible bonds are divided into convertible bonds with the character of bonds and convertible bonds with the character of shares. If the market value of the convertible bond is higher than 130% of the nominal value, it can be assigned to the "shares" category (Art. 79 para. 1 let. e AVO). If the market value of the convertible bond subsequently falls below 130% of the nominal value, the convertible bond remains in the "shares" category. Convertible bonds that must be converted into shares (e.g. mandatory convertible bonds, *mandatory* convertible bonds*, contingent convertible bonds [CoCo bonds]*) are assigned to the "shares" category. 188

With regard to bonds from foreign issuers, margin no. 132 must be observed. 189

b)Non-permissible values

Investments that are issued as bonds but are assigned to another investment category in this circular due to their characteristics are not assignable. Examples of this are *bonds* issued by a special *purpose vehicle (*SPV) for the purpose of risk transfer and securitized receivables (ABS, CDOs, etc.). 190

Insurance-linked securities (e.g. *cat bonds*) are assigned to the category "Structured products" (margin no. 197). 191

Bonds with a conditional debt waiver *(write-off bonds)* cannot be allocated to restricted assets. 192

c) Evaluation

The maximum imputed value is determined according to the scientific or straight-line cost amortization method plus accrued interest (Art. 88 para. 1 and Art. 88a AVO). 193

With the scientific cost amortization method, the difference between the acquisition value and the redemption value must be written down or written up over the remaining term of the security on the balance sheet date to such an extent that the initial internal rate of return (yield to maturity) can be maintained. The acquisition cost excluding accrued interest (*clean price)* must be used (Art. 89 para. 1 AVO). 194

Under the straight-line cost amortization method, the difference between the acquisition value and the repayment value is amortized in equal amounts as of the balance sheet date. 195

or as a revaluation over the remaining term. This method must also use the acquisition costs excluding accrued interest (Art. 89 para. 2 AVO).

Convertible bonds, which fall into the category of bonds in accordance with margin no. 188, can be accounted for using the cost amortization method. 196

C. Structured products

a) Definition

Structured products are investments in the form of a bond or debenture in which a cash instrument (e.g. a fixed-interest security) is firmly linked to one or more derivative financial instruments to form a legal and economic unit. The derivative financial instruments refer to underlying assets (e.g. shares, bonds, interest rates, exchange rates, alternative investments). 197

b) Permissible values

The admissibility of structured products is subject to the following conditions: 198

- The individual components (e.g. cash instrument and derivative) must meet the requirements of the corresponding category of tied assets. 199
- The structured product may not give rise to any delivery or purchase obligations. 200
- There must be no additional funding obligations. 201

c) Crediting and valuation

The structured products are valued according to one of the following methods and included in the tied assets. The selected procedure must be maintained until the structured product is sold or redeemed. 202

1. structured product as a whole (overall view)

The structured product is measured as a whole at *fair value*. 203

The structured product as a whole is only allocated to one category of tied assets in accordance with the embedded risks and is subject to all the provisions of the corresponding category. 204

For example, an index certificate consisting of a money market investment and *long futures* on an equity index can be allocated as a whole to the "equities" category at market value. 205

If the structured product contains various embedded risks, it is assigned as a whole to the category with the highest requirements for allocation and recognition. 206

For example, a cash instrument combined with various derivatives that participate in both equity and commodity indices are allocated as a whole to the "alternative investments" category. 207

2. decomposition of the structured product into its individual components

If the structured product is broken down into eligible components, the individual components of the corresponding investment category are taken into account. The provisions of the respective investment category must be observed with regard to valuation and inclusion in the tied assets. 208

For example, a *zero bond* combined with a *long call option* can be split into the "bonds" and "derivatives" categories. The *zero bond is* valued at *amortized cost*, the option is used at market value. 209

d) Special requirements

The provisions relating to foreign counterparties must be taken into account (margin no. 132). 210

Investments in *insurance-linked securities* are permitted insofar as these investments or the resulting risks are not positively correlated with the company's own insurance risk. 211

e) Limitations

For structured products or individual elements of structured products (when broken down), the limitations of the categories to which they are assigned in accordance with margin no. 199 apply. 212

f) Organization, know-how and investment process

Insurance companies that invest in structured products must have qualified and knowledgeable staff, an appropriately designed investment strategy, an investment management system tailored to their specific needs, a fully implemented and documented investment process, an appropriate risk management and an adequate system infrastructure (margin no. 76). 213

D. Securitized receivables

a) Definition

Securitized receivables are risk transfer instruments that transfer the credit risk from the assets transferred to a pool of receivables to the buyers of the securitized receivable. The securitized receivable can be divided into several tranches (senior, junior, *equity* tranche). The pool of receivables can have a uniform or mixed composition and consist of physical or synthetic (structured) receivables. Examples of securitized receivables are *Asset Backed Securities* (ABS), *Mortgage Backed Securities* (MBS, RMBS, CMBS) and *Collateralized Debt Obligations* (CDO, CBO, CLO, CMO, SFCDO). 214

b) Permissible values

Only investments in securitized receivables that can be assessed by the insurance company in terms of transparency, degree of complexity, recoverability (valuation) and risk are permitted. 215

c)Non-permissible values

The following values in particular are not permitted: 216

- Intragroup transactions with securitized receivables (margin no. 133-138). 217
- Investments in the high-risk tranches of a securitized receivable, i.e. in particular in the *equity tranche*, *junior tranches* and *mezzanine tranches*. Investments in higher tranches (*senior tranches*, *super-senior tranches*) are also excluded if, taking into account all relevant aspects, they do not correspond to an investment with at least credit quality step 4. This assessment must not be based on external *credit enhancements* (e.g. guarantees, pledges). The assessment of the underlying assets is therefore relevant. Structure-related *credit enhancements* (e.g. *excess spread*, reserve account, *overcollateralization*) may be included in the analysis. The assessment process must meet the requirements of margin nos. 221-224. 218
- Investments in securitized receivables whose receivables pool is actively managed (*managed* CDO), if this restricts the insurance company in its assessment of the risks and recoverability of the receivables pool. If the investment restrictions and the management of the receivables pool are designed in such a way that the insurance company can promptly track changes in the composition and determine the effects on the risks and recoverability, investments in *managed* CDOs are permitted. 219
- CDOs of CDOs and similar nested structures. 220

d) Organization, know-how and investment process

Insurance undertakings that invest in securitized receivables must have qualified and knowledgeable staff, an appropriately designed investment strategy, an investment management system tailored to their specific needs, a fully implemented and documented investment process, a suitable risk management system and an adequate system infrastructure (margin no. 76). 221

The insurance company must analyze and understand the risks of securitized receivables. If third parties are involved in the analysis, any conflicts of interest must be clarified in advance. The underlying pool of receivables must be analyzed with regard to its composition and recoverability (assumptions about the distribution of default probabilities, *recovery rates*). In order to make an assessment of the performance of a securitized receivable, it is therefore necessary to have knowledge of the markets underlying the assets in the receivables pool. It must also be taken into account whether the pool of receivables is physically present or has been created synthetically (e.g. with the help of *credit default swaps*), whether the securitization relates to *cash flows* or *market values*, whether the pool of receivables is fixed or is actively restructured, etc. A close examination of the structure is essential to determine the recoverability and risk of the securitized receivable. The analysis of the structure of the securitized receivable usually requires a breakdown into the individual stages of the securitization. At each stage, the risks and the built-in hedging measures must be closely scrutinized with regard to their effect. 222

The volume ratios of the purchased tranche and the portfolio covering this tranche (*subordination*), the size of the subordinated tranches and the waterfall structure must be examined in detail. 223

The insurance company establishes a *due diligence process* that guarantees a comprehensive and in-depth analysis of the structure, underlying risks and general conditions of the securitized receivable. This review is intended to ensure that the investment is only made in securitized receivables whose value and risks can be tracked at all times and which comply with the insurance company's risk policy. 224

e) Limitations

The investment in securitized receivables is limited to 10% of the target amount. The imputed value per investment may not exceed 1% of the target amount. 225

f) Evaluation

The securitized receivables are recognized at no more than their market value. When determining the value, the quality of the valuation (e.g. with regard to the liquidity of the securitized asset) must also be taken into account.
market) are reviewed. 226

E. Other acknowledgements of debt

a) Permissible values

Promissory note loans granted to the following borrowers may be included in this investment category: 227

- Swiss public corporations; 228
- Banks domiciled in Switzerland; 229
- Other debtors domiciled in Switzerland who have a credit rating of at least level 3. 230

The allocation of other promissory note loans to tied assets must be approved in advance by FINMA. 231

b)Non-permissible values

In particular, the following recognitions of debt may not be included in tied assets: 232

- Loans to *private equity companies* (these are to be treated as alternative investments in accordance with Art. 79 para. 1 let. h SO); 233
- Policy loans; 234
- Loans to Group companies (see notes 133-138); 235
- Guarantees, *letters of credit*, etc. 236

c) Special requirements

There must be a written, legally valid acknowledgement of debt. 237

The debtor must expressly waive all rights of set-off, retention and similar rights (margin no. 38). 238

d) Evaluation

The loan is measured at nominal value, taking into account the recoverability of the loan (see note 125). 239

F. Shares and other equity securities

a) Permissible values

Permissible are Shares, participation certificates, participation certificates, convertible bonds with the character of shares, share certificates of cooperatives and similar securities. 240

All securities in this category must be traded on a liquid, regulated market and be available for sale at short notice. Securities that are listed on a secondary exchange but are not regularly traded are not permitted. 241

Convertible bonds are divided into convertible bonds with the character of bonds and convertible bonds with the character of shares. If the market value of the convertible bond is higher than 130% of the nominal value, it can be assigned to the "shares" category. If the market value of the convertible bond subsequently falls below 130% of the nominal value, the convertible bond remains in the "shares" category. Convertible bonds that must be converted into shares (e.g. mandatory convertible bond, *mandatory convertible*) are assigned to this category. *CoCo bonds* are treated in the same way as mandatory convertible bonds. 242

b)Non-permissible values

Non-traded shares and shares in affiliated companies are not permitted investments in tied assets (see also margin nos. 133-138). 243

c) Limitations

A maximum of 30% of the target amount of the tied assets may be invested in shares and other equity securities. 244

d) Evaluation

Equity securities and convertible bonds with the character of shares are counted at market value at most (Art. 93 para. 1 and 88 para. 2 AVO). 245

G. Real estate

a) Permissible values

Tied assets include properties that are easily realizable and whose valuation is subject to little uncertainty. 246

aa) Direct investment in real estate: types of buildings

The following types of buildings in the sole ownership of the insurance company can be assigned: 247

- Residential buildings: single-family homes, apartment buildings and condominiums; 248

- Commercial buildings: Office and administration buildings; 249

- Mixed-use properties: properties with residential and commercial building shares in accordance with margin nos. 248 and 249, regardless of the amount of the shares; 250

- Mixed-use properties with non-chargeable portion. 251

Properties which, in addition to a residential or commercial building share, have a non-assignable use in accordance with margin no. 258 can be fully credited based on the total net rent of the entire property if the creditable portion is at least 70 %. 252

Properties with a sales area share of more than 30 % of the net rent can be counted if they are located in an urban center. 253

bb) Building law

If the insurance company is the grantor of building rights, an allocation can be made if 254

- the building right is recorded in the land register;
- the building lease generates a regular, long-term, contractually secured income;
- the creditworthiness of the building leaseholder is good; and
- the property only includes permitted buildings (margin no. 247-253).

If the insurance company is the building leaseholder, an allocation can be made if 255

- the building is recorded in the land register under building rights; and
- the building is permitted under building law (margin nos. 247-253).

cc) Real estate companies

Investments in companies whose sole business purpose is the acquisition, sale, rental and leasing of their own residential and commercial properties, provided that more than 50% of all shares are held and liquidation under company law (Art. 736 para. 2 CO) can be enforced. 256

b)Non-permissible values

Properties that are difficult to sell or whose valuation is subject to great uncertainty cannot be allocated to restricted assets. 257

For example, the following objects do not meet the criteria set out in margin no. 246: 258

- Building land (a plot of land on which a new building is being constructed that can be allocated in accordance with margin nos. 247-253 can, however, be taken into account)
- Buildings in progress
- Production facilities, warehouses, distribution centers
- Sports facilities
- Shopping centers, provided they are not located in urban centers
- Hotels, restaurants
- Retirement and nursing homes and senior residences
- Schools
- Collector's and luxury properties, vacation apartments or houses
- Co-owned properties
- properties in need of remediation with contaminated sites in accordance with the Contaminated Sites Ordinance (Art. 2 AltlV; SR 814.680)
- Properties from forced sale (if the insurance company has taken over the property as mortgagee)

The following are also not permitted: 259

- Real estate abroad - irrespective of whether it is held directly or indirectly in an investment company in accordance with margin no. 256. 260
- All properties that were encumbered for the purpose of mortgaging. 261

In justified cases, an exception may be granted upon request, such as in the case of 262

- Retirement and nursing homes, senior residences 263

  The potential for conversion must be demonstrated and the costs must be quantified and included in the valuation. The value after conversion minus the conversion costs is eligible.

- Properties from forced sale 264

  Details of the assessment and plausibility check must be submitted with the application.

- Properties with contaminated sites 265

  The technical report on the expected renovation costs must be included in the assessment. Both must be submitted with the application.

  If there are guarantees that the polluter or the public authorities will bear the entire remediation costs, these must be submitted with the application for an exemption permit.

c) Limitations

The crediting of real estate is limited to 25% of the debit amount. 266

The crediting of an individual object may not amount to more than 5% of the target amount. 267

The deduction of real estate and mortgages is limited to a total of 35% of the debit amount. 268

When calculating this limit, shares in real estate companies (see also margin no. 256), real estate funds and other instruments that increase or reduce the real estate *exposure* must be included. 269

d) Evaluation

aa) General principles

Real estate may be included in tied assets at a maximum of market value. 270

The market value is the amount for which the property could be sold or purchased between knowledgeable, willing parties in an arm's length transaction in the ordinary course of business. 271

The insurance company determines the market value of all properties and land on an annual basis. The principles of individual valuation and valuation continuity must be observed. 272

The principle of individual valuation means that each property in a real estate portfolio is valued at its individual market value. 273

The principle of valuation continuity means that the properties are divided into groups of comparable properties, taking into account the appropriate method for determining the market value in each case, and that the respective valuation method is applied consistently and continuously for each group. 274

bb) Direct investments

The market value of real estate can be estimated using the following valuation methods: 275

- Discounted *cash flow method* (DCF)
- Income capitalization method
- Hedonic method

It must be ensured that the valuation method used for each group of properties corresponds to the market value (margin nos. 270-274). 276

When using the hedonic method, it must be ensured that the hedonic estimate is based on recognized statistical methods and sound data. 277

If values determined and audited in accordance with IFRS / US GAAP or Swiss GAAP FER are available that correspond to a market value in accordance with margin nos. 270-274, these values are to be used. 278

Allowable building land parcels are to be counted at no more than the market value of the building land. 279

In special cases, FINMA may grant an exception upon reasoned request. 280

cc) Properties with building rights

The market value of all building rights is to be determined uniformly using the same method. 281

When determining the market value of buildings under building law, the special circumstances in connection with the building law must be taken into account. 282

dd) Real estate companies

The pro rata *net asset value* (NAV) is deemed to be the market value for investments of 50% or more. When calculating the NAV, the properties held are valued as direct investments, taking into account any liabilities. Non-accountable properties are to be taken into account with a value of zero. 283

ee) Review of the valuation

At least once every 10 years, all properties must be valued individually by a real estate valuer (including an on-site inspection) to check the market values applied. The valuation is based on the appraiser's professional expertise and is neutral. The dossier must be updated as part of the review. 284

The insurance company documents the review process and ensures that findings from the review estimates are included in the valuation of individual properties or the determination of model parameters. 285

If the insurance company has a different concept for periodic valuation, it can be submitted to FINMA for approval. 286

e) Documentation

Every insurance company must keep complete, up-to-date, comprehensible and verifiable dossiers for the objects credited. They must allow an independent third party to verify the current status, the contractual basis, the income, any
and the basis for calculating the current valuation. 287

H. Mortgage receivables

a) Permissible values

Mortgage claims (mortgages) can be allocated to tied assets if the mortgage relates to a property in accordance with margin nos. 247-253 or a permitted building under building rights (see margin nos. 254 and 255). 288

b)Non-permissible values

Mortgages whose mortgage relates to non-assignable real estate are not assignable. Exceptions are governed by the provisions on real estate (margin nos. 257-258, 260). 289

Mortgages cannot be assigned to tied assets if they are subordinate to other claims secured by mortgage. An exception exists in the case of subsequently registered statutory mortgages and mortgages that are included in the same tied assets. 290

c) Limitations

The offsetting of mortgages is limited to 25% of the debit amount. 291

The offsetting of an individual mortgage is limited to 5% of the debit amount. 292

The deduction of real estate and mortgages is limited to a total of 35% of the debit amount. 293

d) Credit assessment and affordability

Before granting a loan, the insurance company is obliged to carry out a credit check. This includes checking the creditworthiness of the debtor (creditworthiness and credit capacity) as well as assessing the collateral. These must be clearly and conclusively defined by the insurance company in internal regulations. 294

The basis for calculating affordability is the borrower's sustainable income and expenditure in the case of owner-occupied residential property or income and cost components in the case of investment properties. The assessments must be documented and kept for the term of the mortgage. 295

The insurance company must ensure that the assessment of creditworthiness and affordability is carried out systematically. 296

The insurance company defines the procedure in internal regulations. These stipulate how creditworthiness and affordability are to be verified and documented. They also specify the long-term imputed mortgage interest rate to be used and the corresponding maximum limits for the affordability calculation. 297

e) Valuation of the mortgage

The insurance company determines the market value of its mortgage collateral carefully, systematically and periodically in accordance with uniform principles and taking into account all relevant information. 298

If the purchase price is higher than the market value, the market value is decisive. 299

aa) Authorized investigation proceedings

The market value of the mortgaged property is estimated by a real estate valuer. The appraisal is based on the appraiser's professional expertise and is neutral and independent of instructions. 300

The market value of the mortgaged property can be estimated as follows: 301

- Discounted *cash flow method* (DCF)
- Income capitalization method
- Hedonic method
- Practitioner method

bb) Mortgages on properties with building rights

When determining the market value of properties with building rights, the special circumstances must be taken into account. 302

f) Credit monitoring

aa) Reassessment of creditworthiness and affordability

If events relevant to creditworthiness become known, a new review must be carried out and suitable measures must be derived from this. 303

bb) Monitoring and reviewing the market values of mortgaged properties

The insurance company periodically (at least every 10 years in full) reviews the Market values of mortgaged properties with a loan-to-value ratio of over 20% or over CHF 100,000. The periodicity and methodology are based on objective criteria, which the 304 insurance company internally. The insurance company documents the review process internally.

g) Valuation and crediting

aa) At nominal value

Mortgages are valued and recognized at a maximum of their nominal value. 305

bb) Loan-to-value limits

Full crediting to the tied assets can be made for each property up to the following loan-to-value limits: 306

- 66 2/3 % of the market value of the mortgage for residential or commercial buildings in accordance with margin nos. 248 and 249. 307
- 66 2/3 % of the market value of the mortgage for residential and commercial buildings with mixed use in accordance with margin no. 250, provided that the non-allocable use (based on income value) is 30 % or lower. 308
- 66 2/3 % of the market value of the mortgage for mixed-use residential and commercial buildings in urban centers with a sales area share of more than 30 % of the net rent in accordance with margin no. 253, whereby the increased credit risks of such properties must be taken into account. 309
- 80 % of the market value of the mortgage for residential buildings with a minimum residential share of 70 %, if a regular, standard market amortization has been agreed for the portion above 66 2/3 %. The amortization can also be indirect. 310
- over 80 % of the market value of the mortgage for residential properties with a minimum residential share of 70 %, if additional collateral (e.g. pledged policies) is provided for the portion above 80 % and, after deduction of the additional collateral, regular amortization at market rates has been agreed for the portion above 66 2/3 %. The surrender values of the additional collateral must not be subject to negative fluctuations in value. 311

cc) Adjusted imputed value

If the senior and pari passu mortgages exceed the loan-to-value limits in accordance with margin nos. 306-311, the mortgage can only be partially offset up to the loan-to-value limit. 312

If the mortgage debtor is more than 7 months in arrears with the agreed interest and amortization payments, a corresponding value adjustment must be made. 313

In the event of a delay of more than 12 months, the corresponding mortgage is no longer eligible. 314

h) documentation

The credit relationship must be documented in a dossier in a complete, up-to-date, comprehensible and verifiable manner. This applies to all documents on which the granting, monitoring and renewal of the loan was based, i.e. both the relevant documents on the borrower's personal situation and information on the mortgage (incl. valuation method and result) must be available and accessible in the dossier. 315

The results of the review of the borrower's creditworthiness and the periodic valuation of the mortgage must be recorded. The documents must allow a third party to form a reliable opinion about the mortgage, the credit decision and credit monitoring. 316

I. Alternative investments

a) Definition

Alternative investments can be summarized as investment opportunities that go beyond traditional investments. They are characterized by their alternative investment character, i.e. more flexible investment options such as short selling, borrowing, the use of more complex strategies and investments in less liquid assets. In general, alternative investments are subject to less supervision and often have lower liquidity and transparency. 317

Alternative systems give the insurance company the opportunity to diversify the investment portfolio more broadly. 318

Due to the special features, the general principles of tied assets only apply to alternative investments to a limited extent. Alternative investments do not have to be securitized, have a liquid market or be subject to effective supervision. 319

b) Permissible values

aa) Permissible investment universe

The following sub-categories are allocated to alternative investments: 320

- *Hedge funds*
- *Private equity*

- *Private debt*, incl. *senior secured loans*
- Commodities, incl. gold

Investments in infrastructure can be made in the alternative investments investment category in the form of *private equity* and/or *private debt.* Infrastructure investments can also be allocated to tied assets in other investment categories if the corresponding conditions are met. 321

bb) Structure of the systems

Investments in fund solutions are permitted. Investments in the listed sub-categories may be made with collective investment schemes pursuant to Art. 71 CISA (other funds for alternative investments) and foreign (on- and offshore) fund structures. 322

Investments based on indices, *exchange-traded funds* (ETFs) and *baskets* are permitted, provided the investments are broadly diversified and highly liquid. Transparency with regard to the underlying regulatory system of the investment must be guaranteed so that the special requirements mentioned in margin nos. 334-342 can also be fulfilled analogously for these investments. 323

Structured products linked to alternative investments are permitted. 324

Gold bars that comply with the *Good Delivery Rules* of the London Bullion Market Association may be allocated to the tied assets. The gold bars must be kept separately for each tied asset in the case of own or third-party custody and must be identifiable via the manufacturer, the serial number and the year of melting. 325

Investments in other investment structures must be applied for and approved in advance by FINMA. The insurance company must prove to FINMA that all the provisions listed in margin nos. 317-350 are fully complied with. 326

cc) Special properties

In order to be allocated to tied assets, the alternative investments must have the following characteristics: 327

- Investments in alternative investments can be made under the subcategories listed in margin no. 320. The individual sub-categories must be diversified in themselves, with the exception of investments in gold. 328

- An exit from the individual alternative investments is possible within the usual market periods and within a maximum of 24 months. Longer periods are permitted for investments in *private equity* and *private debt.* However, care must be taken to ensure that the *commitments* entered into are taken into account in the liquidity planning so that sufficient liquidity is available at all times.
  liquidity is available. 329

- The insurance company may not incur any additional funding obligations or other liabilities from the investment in alternative investments. This also applies in the event of insolvency. The possibility of offsetting against debts of the insurance company must also be excluded. *Commitments that are* contractually entered into and limited in amount do not count as additional funding obligations. 330

c)Non-permissible values

Investments in other (traditional) investment categories without an alternative investment character or investments that do not meet the criteria of this Circular cannot be allocated to the tied assets as alternative investments. 331

Direct investments (e.g. in individual *private equity* or infrastructure companies) cannot be allocated. 332

Physical investments in commodities are not permitted, with the exception of gold. 333

d) Special requirements

aa) Concept for alternative investments

Any insurance company wishing to invest in alternative investments must submit a concept for alternative investments to FINMA in advance, showing how the provisions and requirements of this Circular will be met. 334

The insurance company must define in the concept which alternative investments are made. 335

Material changes to a concept that has already been submitted must be reported to FINMA before the internal directives by means of which the concept is implemented internally enter into force. 336

bb) Organization, know-how and investment process

Insurance companies that invest in alternative investments must have qualified and knowledgeable staff, an appropriately designed investment strategy, an investment management system tailored to their specific needs, a fully implemented and documented investment process, a suitable risk management system and an adequate system infrastructure (see margin no. 76). 337

Investments in *single funds* require higher standards in terms of organization, know-how and investment process than investments in diversified *fund of funds structures*. 338

cc) Due diligence

Investments in specialized *investment managers*, such as *hedge funds* and *private equity*, require a comprehensive and in-depth review. The review process includes a 339 investment-specific and operational *due diligence*. The insurance company conducts a structured survey of the investment manager and assesses the documentation of the product and the risks. A due *diligence report* summarizes the findings and results. A *due diligence questionnaire* is generally not sufficient for this.

The insurance company has quantitative analysis tools and a documented *due diligence concept to ensure that* both the selection and the ongoing monitoring of the investment are carried out in accordance with recognized and proven standards. 340

It must be ensured that the conditions specified in margin nos. 317-350 can actually be met. 341

Due diligence can also be carried out by external specialists. 342

e) Limitations

The following limits apply to this investment category: 343

- The value of all alternative investments included in the tied assets may not exceed 15% of the target amount. 344
- The imputed value per subcategory (margin no. 320) may not exceed 10% of the target amount. 345
- The imputed value per *fund of funds* may not exceed 5% of the target amount. 346
- For all other investments, the imputed value per investment may not exceed 1% of the target amount. This limit does not apply to physical gold. 347

Care must be taken to ensure that commitments made in subsequent years do not lead to these limits being exceeded. 348

f) Evaluation

Pursuant to Art. 93 para. 1 SO, alternative investments are recognized at no more than market value. It must be ensured that the insurance company receives net asset values (NAV) for *hedge funds on* at least a monthly basis and for *private equity* and *private debt on* a quarterly basis. 349

g) Foreign assets

The general provisions on foreign assets (margin no. 132) do not have to be complied with for investments in alternative investments. 350

J. Derivative financial instruments

a) General provisions on the permissible values

aa) Permitted derivatives

According to Art. 79 SO, derivatives are permitted in tied assets if 351

- the underlying assets on which the derivatives are based are permitted as investments in accordance with Art. 79 (1) SO. 352

  Permissible underlying assets for derivatives in tied assets include not only direct investments (e.g. equities or receivables), but also assets that track indices or interest rates. The condition that the underlying asset on which the derivative is based must be permissible for the tied assets must also be met for index transactions. 353

  Credit default swaps (CDS) are only permitted as part of tied assets for the strategies defined in margin nos. 373-446. Other credit derivatives may not be allocated to tied assets. The market liquidity of the respective CDS must be checked before it is used and throughout its term. 354

- they do not have a leverage effect on the tied assets, subject to the provisions of Art. 79 para. 2 SO. 355

  A leverage effect occurs when the relative change in value of the derivative is greater than the relative change in value of the underlying. 356

  Derivatives must be covered by liquidity or existing underlying assets in order to prevent the financial impact of leverage effects on tied assets. 357

  A negative leverage effect on the tied assets must be ruled out, 358
  i.e. any sale of the bond used as cover must not lead to a shortfall in the target amount of the tied assets.

- they comply with the principles formulated in margin no. 3-22. 359

bb) Permitted combinations

It is permissible to combine several basic forms of derivatives that are based on the same underlying instrument(s). The following conditions apply: 360

- The various components of the combination must be broken down and evaluated separately. 361

- It must be possible to allocate the individual components of the combination - after they have been broken down - to one of the strategies mentioned below (margin nos. 373-446). 362
- The coverage obligation pursuant to margin no. 5-17 must be complied with. 363

cc)Non-permissible values and transactions

The following derivative transactions and transactions may not be allocated to tied assets: 364

- Derivatives that are not covered by underlying assets or liquidity. 365
- Derivatives that are derived from an inadmissible underlying pursuant to Art. 79 para. 1 SO. 366
- Short sales, i.e. forward sales of underlying assets without owning them when the contract is concluded. 367
- Transactions that have an overall leverage effect on the tied assets, subject to the provisions of Art. 79 para. 2 SO. 368

dd) Attribution of *exposures* to limits of the *underlyings*

Derivatives must be taken into account in the limits for the corresponding underlying assets. The limits for derivative transactions must be complied with cumulatively with the other limits for tied assets. 369

ee) Evaluation

Derivative financial instruments may be included in tied assets at no more than their market value. For *exchange-traded derivatives (ETDs*), the market value is the exchange value; for *over-the-counter* derivatives *(*OTC derivatives), the market value is the value at which an open derivative position can be closed out again (closing out). The positive or negative replacement value is therefore added to the tied assets. 370

If no current prices are available for derivatives or if no market prices are available for OTC derivatives, they must be valued using valuation models that are appropriate and recognized in practice based on the market values of the underlying assets from which the derivatives are derived. The valuations must be documented and comprehensible at all times. 371

The recognized position of the derivative and the underlying must correspond to the actual position at all times. 372
value of the position: In the case of *short* call *options,* for example, at least the negative value of the derivative i s deducted from the underlying. The combination of

The maximum amount of the underlying security that may be included in the tied assets is the exercise or strike price.

b) Derivatives for hedging asset portfolios

aa) Permitted derivatives

The *hedging strategy* serves to reduce or eliminate the risks to the value of the assets resulting from price fluctuations, insolvency or currency fluctuations. 373

Derivative instruments for hedging purposes are only permitted if they fulfill the following conditions: 374

- The hedged underlying is included in the tied assets. 375
- The obligations entered into are covered at all times by the underlying assets in the tied assets. 376
- The fluctuations in the market are tracked by recognizing the underlying in the combined assets. For derivatives related to interest rate risk and credit risk, see margin nos. 386-399 and margin nos. 400-405. 377
- The hedging instrument used enables effective hedging of the market value of the underlying, i.e. the absolute change in the market value of the underlying is compensated for by the absolute change in the price of the hedging instrument. No short positions (short sales) may be built up through the use of derivatives on a net basis, i.e. after offsetting the underlying and derivative holdings (there must be no *overhedge*). 378
- The instruments used have no leverage effect on the tied assets. 379

The following instruments, which can be used to effectively hedge a *downside exposure*, are permitted: 380

- *Long* put *options*
- *Short futures*
- *Short forwards*
- *Swaps*

This category does not include instruments that are used to finance the hedge but do not themselves constitute an effective hedge, such as *short* call *options* (see margin nos. 438-442). 381

Strategies that constitute hedging in their entirety (e.g. *risk reversals, put spreads*) can be allocated provided the following conditions are met: 382

- The underlying asset of the *long* and short *option* is identical;
- The term of the short options is shorter than or equal to that of the long put (hedging) options;
- The net position from the underlying instrument and the hedging strategy may not lead to a net *short* position at any time;
- The counterparties to the strategy's options transactions are identical and the transactions are subject to the same *netting agreement*.

Derivatives on indices (e.g. *short SMI futures, long SMI put options*) can also be counted as hedging tied assets. It should be noted that the structure of the hedged portfolio of assets essentially corresponds to the structure of the index and that the returns of the portfolio correlate closely with the returns of the index. The hedged positions should therefore largely correlate with the index. 383

Foreign currency hedging via a third currency (*proxy hedge*) is not recognized as hedging. However, if the insurance company documents any *proxy hedge* concluded internally and can plausibly demonstrate that there is an intention to hedge, the derivative can be allocated to tied assets as an asset in the corresponding category of the reference currency. 384

bb) Limitations

There are no limits for derivatives used to hedge assets in accordance with margin nos. 373-405. 385

cc) Derivatives to hedge interest rate risk

Interest rate hedges for bonds that are valued using the cost amortization method cannot be allocated to this strategy, as they do not meet the condition relating to the tracking of market fluctuations (margin no. 377). If, in such cases, the interest rate derivatives are nevertheless managed under the same master agreement (see margin nos. 447-465) of the tied assets, the procedure under margin nos. 387-399 must be selected: 386

According to Art. 88 and 89 AVO, a fixed-interest security can be credited at a maximum of the value determined using the cost amortization method. The acquisition value of the security is written down or written up to the redemption value over the remaining term. According to Art. 79 para. 1 let. i AVO, hedging instruments that hedge an underlying security whose inclusion in the tied assets does not reflect the hedged market fluctuation are not eligible. From this it is derived that a combined inclusion of hedging instrument (derivative) and underlying security (bond) is not permitted.
may not exceed the value of the cost amortization method. 387

If the hedged market value is higher than (or equal to) the value according to the cost amortization method, the interest rate derivative can be included in the tied assets with a value of zero. This means that both Art. 79 para. 1 let. i and Art. 88 para. 1 SO are complied with. 388

If the hedged market value on conclusion of the hedging transaction is below the imputed value according to the cost amortization method, an impairment event occurs which is triggered by the purchase of the hedging instrument (see margin no. 125-131). In this case, the following options can be applied: 389

- The imputed value of the *bond* is adjusted downwards to the hedged market value. This new initial value is written down or up to the redemption value over the remaining term. The derivative is credited with a value of zero. 390
- Derivative transactions are settled via free assets. 391

When concluding a macro hedge, the correction on an individual security basis described above can lead to technical problems. In such cases, the procedure may be applied analogously at portfolio level. This is subject to the following conditions: 392

- The hedged assets are included in the tied assets. The obligations entered into are covered at all times by the underlying assets in the tied assets. The hedging instrument used enables the underlying assets to be hedged effectively (see margin no. 378). 393
- The insurance company designates the portfolio of insured bonds in the internal inventory. 394
- The derivative is recognized with a value of zero. 395
- When concluding the derivative transaction, the insurance company checks whether a sale of the hedged securities would result in a shortfall in the target amount of the tied assets. 396

This test is carried out as follows: 397

[Sum of the hedged market values*] - [Sum of all imputed values at AMC*]

* Only the *bonds* affected by the macro hedge are to be taken into account.

- If the difference of the test is negative, there must be a permanent surplus in the tied assets at least in the amount of this difference until the *hedge* is terminated. 398
- The insurance company must disclose the results of this test (with updated values) in the annual report on tied assets to FINMA. 399

dd) Derivatives to hedge credit risk

The following *credit default swaps* CDS are permitted for hedging the credit risk of asset portfolios: 400

- CDS on individual securities if the insurance company is the protection buyer (*buy protection*) 401

- CDS on index if the insurance company is the protection *buyer* (*buy protection*) 402

A CDS may only be allocated as a hedging instrument in tied assets if it is structured in such a way with regard to *credit event payment*, *credit event definition* and *reference obligation* that a high hedging effect is achieved. If a portfolio is hedged with a CDS on an index, it must be ensured that the portfolio to be hedged and the index portfolio are largely identical in terms of composition and portfolio weightings. If the portfolio to be hedged and the index portfolio differ in terms of their composition and/or portfolio weights, so that there is no stable correlation between them and the hedging effect is not ensured but can only be approximated (*proxy hedge* or *cross hedge*), this hedging instrument cannot be assigned to this strategy. 403

CDSs on individual securities are only recognized at market value if the bond (underlying security) is permanently impaired (see margin nos. 125-131) and the CDS therefore has a hedging effect. If the underlying security is valued according to the cost amortization method, the CDS is included in the tied assets at a value of zero. 404

CDSs on indices used for hedging purposes are always included in the tied assets with a value of zero. 405

c) Derivatives to hedge cash flows from underwriting obligations

aa) Permitted derivatives

aaa) Synthetic bonds

Synthetic bonds are investments with the characteristics of fixed-interest securities. They are made up of a combination of financial instruments (e.g. a fixed-term deposit with a variable interest rate and a *receiver swap*). Insurance companies can use synthetic bonds to make investments with maturities that are not available on the market in the form of fixed-interest securities. 406
are available.

The same provisions apply to synthetic bonds as to derivatives with a replicating strategy (margin nos. 422-431). 407

bbb) Other derivatives

Swaptions and options that function similarly to a *long swaption* (options on bonds with a fixed coupon) can be allocated to tied assets. 408

The permitted options can be assigned under the following conditions: 409

- The expected underwriting obligations are hedged. The need for hedging instruments can be determined as a lump sum on the portfolio (*macro hedge*). 410

- It is likely that the derivatives can be held until maturity. Derivatives that are closed out before maturity must be justified in internal reporting. 411

- FINMA is notified of the transaction and documentation is submitted. In particular, this documentation must state that there is no *overhedge* when the transaction is concluded. 412

- The use of these derivatives must be geared towards a sustainable effect; in particular, derivative contracts may not be concluded for the purpose of speculation. 413

The inclusion of other instruments is only permitted with prior notification to FINMA and submission of a concept. 414

bb) Limitations

The premiums for open derivative financial instruments to hedge cash flows from technical obligations (options in accordance with margin nos. 408-414) are limited to 5% of the target amount of the tied assets. 415

cc) Assessment

Swaptions and similar derivatives used to hedge technical obligations are recognized at no more than the value of the cost amortization method (amortization runs from the date of acquisition to the date of exercise). 416

The replicating strategies pursuant to margin nos. 406-407 and 422-431 are valued in accordance with the categories to which they are assigned. 417

In the case of synthetic bonds, the fixed-term deposit may be valued and recognized at no more than its nominal value. They are recognized separately in a sub-category of fixed-income securities. The *receiver swap* is measured using the cost amortization method. (Art. 88 para. 3 AVO). If the *receiver swap* has a value of zero on conclusion, 418 it must be recognized at zero for the entire term. However, the swap can be settled under the same *netting agreement* as the other derivatives of the tied assets.

d) Derivatives for acquisition preparation

aa) Permitted derivatives

The derivative strategy can either provide for the acquisition of certain underlying assets at a future date (preparation for acquisition, margin nos. 420, 421) or replace the acquisition of an underlying asset with derivatives to replicate the strategy (replicating strategy; liquidity combined with derivative, margin nos. 422-431). 419

aaa) Preparation for employment

The obligation to provide liquidity cover in accordance with margin no. 5-17 must be fulfilled. 420

The following instruments are permitted: 421

- *Long* call *options*
- *Short* put *options*

bbb) Replicating strategy

Only derivatives that meet the following conditions are permitted to replicate the strategy: 422

- The combination of derivative and liquidity has a similar market risk profile and at least the same market liquidity as the replicated investment. 423
- The purpose of acquiring the derivative is to replicate the underlying assets. The strategy must be defined and documented internally by the insurance company. The combination of derivative and liquidity is assigned to the corresponding category (e.g. the combination of a money market investment and equity futures is assigned to the equities category). 424
- The contract volume or the nominal value is 100 % covered by liquidity (margin no. 5- 17). 425
- The transaction through the use of derivatives does not generate any additional costs compared to the purchase of a direct investment. 426

Specifically, the following instruments are permitted: 427

- *Long futures*
- *Long Forwards*
- *Swaps*

The following instruments are specifically permitted for the purpose of replicating a corporate bond or a portfolio of corporate bonds: 428

- CDS on individual securities if the insurance company is the protection *seller* (*sell protection*) 429

- CDS on index if the insurance company is the protection *seller* (*sell protection*) 430

As an instrument of a replicating strategy, a CDS may only be allocated to tied assets if it is structured with regard to *credit event payment*, *credit event definition* and *reference obligation* in such a way that a corporate bond or a portfolio of corporate bonds is replicated with sufficient accuracy. When selecting the respective CDS or CDS index, the insurance company must ensure that the resulting position corresponds to the investment policy of the insurance company. In particular, the resulting synthetic corporate bond or portfolio of corporate bonds must have a minimum credit rating of 4. 431

bb) Limitations

The open derivative financial instruments for acquisition preparation purposes (margin nos. 419-431) and income generation purposes (margin nos. 438-442) are limited to a total of 10% of the target amount of the tied assets. 432

Derivatives for replicating the strategy (margin nos. 422-431), synthetic bonds (margin nos. 406-414) and derivative financial instruments within hedging strategies are exempt from this limit if all the conditions of margin no. 382 are met. 433

The limit of 10% relates to the open contract volumes or the nominal values of the underlyings. The amount of the contract volume is calculated by multiplying the market value of the underlying, the number of contracts and the multiplier. A *delta adjustment* can be made to take account of the option values. 434

Synthetic bonds are classified as fixed-income securities. To calculate the counterparty risk (*net* exposure to a debtor, margin nos. 113-115), the value of the fixed-term deposit and any positive replacement value of the swap must be taken into account. 435

cc) Assessment

The values from replicating strategies in accordance with margin nos. 406, 407 and 422-431 are valued in accordance with the categories to which they are allocated. 436

In the case of synthetic bonds, the fixed-term deposit may be valued and recognized at no more than its nominal value. They are recognized separately in a sub-category of fixed-income securities. The *receiver swap* is recognized using the cost amortization method (amortization runs from the date of acquisition to the date of maturity). 437
If the *receiver swap* has a value of zero at the time of conclusion, it will be zero for the entire term.

with zero. However, the swap can be settled under the same *netting agreement* as the other derivatives of the tied assets.

e) Derivatives to increase earnings

aa) Permitted derivatives

The purpose of the income growth strategy is to generate additional income on existing assets. For this purpose, only derivative contracts that are covered at all times in accordance with margin no. 3-17 are permitted: 438

The following instruments are permitted: 439

- Call and put *options* 440
- CDS on individual securities if the insurance company is in the position of the protection *buyer* (*buy protection*) and the CDS does not qualify as a hedge. 441
- CDS on index if the insurance company is in the position of the protection *buyer* (*buy protection*) and the CDS does not qualify as a hedge. 442

bb) Limitations

The open derivative financial instruments for acquisition preparation purposes (margin nos. 419-431) and income generation purposes (margin nos. 438-442) are limited to a total of 10% of the target amount of the tied assets. 443

Derivatives for replicating the strategy (margin nos. 422-431), synthetic bonds (margin nos. 406-414) and derivative financial instruments within hedging strategies are exempt from this limit if all the conditions of margin no. 382 are met. 444

The limit of 10% relates to the open contract volumes or the nominal values of the underlyings. The amount of the contract volume is calculated by multiplying the market value of the underlying, the number of contracts and the multiplier. A *delta adjustment* can be made to take account of the option values. 445

Synthetic bonds are classified as fixed-interest securities. For the calculation of the counterparty risk (*net* exposure to a debtor: 5% limit), the value of the fixed-term deposit and any positive replacement value of the synthetic bond are taken into account. 446
swaps must be taken into account.

f) General conditions

aa) Exchange Traded Derivatives, ETD

Insurance companies are exempt from compliance with the provisions of margin nos. 448-475 if they only trade in derivatives (*exchange-traded derivatives*, ETD) on a regulated exchange. 447

bb) *Over-the-counter* (OTC) derivatives

The provisions of margin nos. 449-475 also apply to OTC derivatives that are not settled via a central counterparty. 448

aaa) Netting agreement

The *netting* of all derivative transactions concluded under a master agreement is only permitted if such a master agreement is concluded separately for each individual tied asset. Negative items arising from such contracts must be deducted from the tied assets. 449

The *close-out netting* provided for in an ISDA agreement is permitted for tied assets, provided that the master agreement complies with FINMA's requirements and the master agreement only relates to tied assets (Art. 91 para. 3 SO). 450

As there is a general prohibition on offsetting with regard to assets allocated to tied assets, derivative transactions from free assets may not be offset against derivative transactions from tied assets. It must therefore be clear to which master agreement the confirmations relate. 451

Collaterals and *margin accounts* that must be provided to a counterparty from tied assets in connection with the framework agreement mentioned under Art. 91 para. 3 SO do not have to be withdrawn from tied assets if they track the fluctuations of the derivative positions (*variation margins*), as the negative net position of the derivative transaction must already be deducted. 452

Collateral provided to the counterparty in the form of *collateral* and *margin accounts* from the tied assets is available to the counterparty without restriction as a realizable asset, provided that it is used exclusively to cover obligations arising from transactions for the respective tied assets that relate to the corresponding master agreement. 453

bbb) Netting opinions

Master agreements may only be concluded if *legal opinions* confirm that the *netting agreement* is enforceable under the law applicable to the transaction and the *netting* agreement. In addition 454
A framework agreement may only be concluded with a counterparty whose registered office is in a

legal system for which the enforceability of *netting* under the relevant master agreement has been demonstrated in a *legal opinion.* This also applies to Swiss counterparties, as certain special cases are excluded in the *netting opinions.* For important counterparties that are not covered by a general *opinion, there are* sometimes additional or industry-specific opinions.

The legal opinion regarding the *netting agreement* must confirm that the netting agreement (*close-out netting*) is recognized and enforceable under the following laws: 455

- according to the law of the country in which the counterparty has its registered office and in which an involved branch office has its registered office; 456
- under the law applicable to the transaction; and 457
- in accordance with the law applicable to the netting *agreement.* 458

The ISDA has checked the enforceability of the framework agreements for a large number of countries by 459
Confirm *legal opinions*.

ccc) Approved Master Agreements (framework agreements, MA)

Only framework agreements for which the enforceability of *close-out netting* can be demonstrated are permitted (see margin nos. 454-459, *Netting opinions*). 460

The most common standardized framework agreements in Switzerland are the "Swiss Master Agreement for *Over-the-Counter* (OTC) Derivatives" of the Swiss Bankers Association and the "ISDA Master Agreements" of the International Swaps and Derivatives Association Inc. 461

In every *master agreement* that relates to tied assets, it must be expressly stated that the counterparty waives offsetting against claims that are not the subject of the *master agreement.* This waiver must also be expressly declared as binding in the event of the insolvency of an insurance company. 462

In *the case* of a 1992 ISDA *Master Agreement*, the calculation of the 463
The *second method* must be prescribed for the close-out *amount.*

In the case of a *Master Agreement*, the Swiss party *Automatic Termination* 464
to choose.

If the provision of collateral is agreed, it must be contractually stipulated that the claim to reclaim the *collateral* belongs to the tied assets. This is not necessary if the collateral is always provided from free assets. 465

cc) Provision of collateral

Collateral must be provided by both parties for all derivative transactions. It must be ensured that the collateral is effectively available and can be fully included in the *close-out netting process.* Any third-party claims against the insurance company must not impair access to the collateral. This must also apply in the event of the insolvency of both parties. 466

When concluding derivative transactions, it is permissible to provide collateral with assets from the tied assets. This applies to both initial margin payments and variation margin payments (Art. 91a para. 1 SO). 467

Collateral may be provided in the form of a regular lien or an irregular lien under Swiss law or a law comparable to Swiss law, provided that the initial margin is deposited with an independent third-party custodian and is fully segregated from other assets. In this case, it must be contractually ensured that, in the event of bankruptcy of either of the contracting parties, the initial margin is only used to offset outstanding claims against the insurance company arising from derivatives transactions concluded by the latter via the central counterparty or the clearing broker (Art. 91a para. 2 SO). 468

The collateral received by the insurance company is pledged in the name of the insurance company. 469

The custodian (the custodian bank) for the collateral received from the insurance company must comply with the guidelines on the safekeeping of assets (margin nos. 154-159) and have signed the corresponding supplementary agreement. 470

Collateral received must comply with the investment regulations for direct investments in tied assets. The collateral must be capable of being valued and traded on a daily basis and must not have been issued by the counterparty or relate to it. 471

Collateral received may not be repledged, lent, sold or used in the context of securities lending or repurchase agreements or other derivative transactions. 472

Threshold amounts, which must be reached before any collateral has to be provided, should be kept as low as possible. Such thresholds must be set on both sides, taking into account the creditworthiness of the counterparties. 473

Minimum transfer amounts (MTA), which must be reached before collateral must be provided or reclaimed, must be kept low. If MTAs are agreed, they must always be identical for both parties. Different orders of MTAs may only be provided for due to different credit ratings of the counterparties. 474

The collateral received is allocated to the tied assets. The counterparty has an automatic right of redemption. The collateral may be taken into account when calculating the cover 475 of the tied assets, as the positive net value of all derivative transactions is already taken into account. The collateral must be designated in such a way that third parties can recognize that it belongs to the tied assets.

dd) Presentation of derivative transactions

The underlying is valued in accordance with the provisions of the AVO. 476

The individual financial derivatives allocated to tied assets are also valued in accordance with the AVO. The individual derivative transaction is listed in the inventory of tied assets (not the net amount). If the value of a derivative contract concluded under the *master agreement is* negative, this negative value must be listed in the inventory of tied assets. 477

When concluding a derivative transaction, the insurance company must specify the *master agreement* to which the corresponding transaction belongs. The insurance company must take the necessary organizational measures to ensure that the derivative transactions can always be assigned to the corresponding master *agreement.* The inventories of tied assets may only contain the derivative transactions that are the subject of a *master agreement* concluded for the corresponding tied assets. The insurance company shall ensure that the counterparties are able to distinguish the derivative transactions according to their destination. 478

K. Collective investment schemes and single investor funds

a) Permissible values

The following assets can be allocated to tied assets under this heading: 479

- Securities funds (Art. 53 ff. CISA)
- Real estate funds (Art. 58 ff. CISA)
- Other funds for traditional investments (Art. 70 CISA)
- Single investor funds (Art. 82 para. 2 SO)
- Foreign collective investment schemes

The collective investment scheme and the single-investor fund must have special asset status (segregation in favor of the investor in the event of bankruptcy). 480

For foreign collective investment schemes (e.g. UCITS funds), margin no. 479 applies mutatis mutandis. 481

Funds for alternative investments pursuant to Art. 71 CISA are deemed to be alternative investments (margin no. 322). 482

Participations in investment companies that are not traded on a regulated market can be allocated to tied assets as collective investment schemes or single-investor funds (Art. 82 para. 4 SO). 483

b) Collective capital investments

aa) Special requirements for collective investment schemes

Unit certificates in collective investment schemes may be allocated and counted as tied assets provided they are subject to effective supervision and are traded on a regulated, liquid market or can be sold at any time (Art. 79 and 82 para. 1 SO). 484

In the case of foreign collective investment schemes, supervision equivalent to that in Switzerland is required. 485

bb) Limitations

To monitor the limits applicable to tied assets, the *net asset value* of the collective investment schemes is allocated proportionately to the corresponding categories. 486

The investment per collective investment scheme is limited to 5% of the target amount. This limit does not apply if the insurance company confirms to FINMA that the following points are contractually regulated and guaranteed: 487

- The liquidity of its investments is high and the redemption and payout of units can be requested at any time. 488
- The collective investment scheme only invests in the money market, in domestic and foreign bonds with high credit ratings and in Swiss and foreign equities; foreign currency hedging in the fund is permitted. Higher-risk investments (e.g. *emerging market* equities and bonds, *high-yield bonds*, convertible bonds, real estate, *hedge funds*, *private equity*, structured products) are excluded. 489
- Compliance with the basic principles of tied assets, i.e. the exclusion of liability, the charging and offsetting of fund assets against third parties and the prohibition of borrowing, is agreed between the parties. 490
- It is contractually agreed that the asset manager has a duty to provide information to FINMA in accordance with Art. 29 FINMASA. 491
- As at the reporting date of December 31, the insurance company receives a report on the collective investment at individual share level. 492

cc) Assessment

Collective investment schemes are valued and credited at no more than market value or, if the unit certificates are not listed, at net asset value (Art. 92 SO). 493

c) Single investor funds

aa) General provisions

Single-investor funds can be allocated and counted as tied assets if they are subject to effective supervision, are held 100% by the insurance company, access to the fund's individual investments is guaranteed at all times, the investments are made in accordance with Art. 79 SO and the FINMA circulars and the safekeeping requirements under Art. 87 SO are met (Art. 82 SO). 494

The launch of a single-investor fund corresponds to an outsourcing of essential functions (Art. 4 para. 2 let. j ISA). The launch of the fund and subsequent changes to the organization and the service providers and contracts must be reported to FINMA in accordance with Art. 5 para. 2 ISA. 495

bb) Special provisions

The insurance company is responsible for ensuring that the contractual provisions take into account the provisions of insurance supervisory law and the explanations in this Circular and provides FINMA with the relevant documents for information before the fund is launched and before any changes are made. 496

The insurance company ensures the supervision of the fund and regulates the responsibility, competencies and accountability of the relevant body. 497

The insurance company remains responsible for compliance with the regulatory requirements. In particular, it ensures that the qualitative regulations and quantitative limits set out in this circular are complied with. 498

The fund management company is contractually obliged to comply with the provisions of insurance supervisory law and in particular the provisions of this circular when investing the assets. The fund management company should monitor compliance with the regulatory requirements on a daily basis and, in the event of a breach, immediately order measures to be taken and inform the insurance company. 499

The fund may not make any investments by means of debt financing. Exceptions are grants from the single investor (e.g. short-term liquidity financing). 500

The insurance company is entitled at any time to demand the redemption of the units and their payment in cash or in kind. 501

If the custodian bank is located abroad, the provisions regarding safekeeping abroad must be complied with (margin no. 156, 157). 502

The fund management company, the fund management company, the custodian bank and other service providers are obliged to provide information in accordance with Art. 29 FINMASA and also allow FINMA to carry out on-site inspections. It is contractually agreed that the fund management company, the fund management company, the custodian bank and other service providers have a duty to provide information to FINMA in accordance with Art. 29 FINMASA and that FINMA may conduct on-site inspections at the respective service providers. 503

cc) Limitations

The investments per single investor fund are not limited. The fund's direct investments are inventoried in the tied assets and allocated to the corresponding categories. They are subject to the limits for direct investments. 504

dd) Evaluation

The direct investments contained in the fund are used as the basis for the inclusion and valuation of the single investor fund (*look-through approach*). The individual investments contained in the fund must be listed in the inventory of tied assets and allocated to the categories in accordance with Art. 79 SO. The valuation is carried out in accordance with the principles set out in Art. 88-95 SO. 505

V. Supplementary provisions on tied assets

A. *Securities Lending*

a) Definition

Securities lending is a legal transaction in which the insurance company transfers securities to a borrower as a loan in kind and the borrower is obliged to pay a fee and, on maturity, to return securities of the same type, quality and quantity as well as the income accrued during the term of the legal transaction. 506

The insurance company remains the beneficial *owner* of the securities lent. Interest and dividend payments falling due during the loan are due to the lending insurance company. As the *beneficial owner,* the insurance company bears the risks of fluctuations in the securities and takes these into account in the 507
The securities that have been lent are counted as tied assets.

b) Permitted transactions

aa) General conditions

Securities lending is only possible under the following conditions: 508

- Framework agreement 509

  The insurance company concludes a framework agreement with the counterparty to the securities lending transaction (margin nos. 519-523).

- Counterparty / Borrower 510

  The insurance company only engages in securities lending with first-class supervised borrowers that are professionally active in this type of business and with authorized and recognized central counterparties and central securities depositories that guarantee the proper execution of securities lending.

- Requirements for processing 511

  - The transaction is processed promptly (step by step if possible).
  - All open positions are valued at least once a day (*mark-to-market*).
  - Net *exposures* are balanced with margin *calls* at least once a day.
  - The *collateral* is fully segregated per tied asset.

- Loanable securities 512

  The insurance company may only use securities for securities lending that can be easily valued on the basis of generally accessible information.

- Securing the recovery 513

  The insurance company's claim to the retransfer of the borrowed assets (title) must be secured by depositing a corresponding amount of money or other assets eligible for inclusion in the tied assets in favor of the insurance company (see margin nos. 524-529).

- Liquidity 514

  Securities lending is only permitted if sufficient liquidity is ensured for the insurance company.

- Runtime 515

  The insurance company may reclaim the securities lent from the counterparty at any time, subject to the respective value/delivery deadlines for the delivery of the securities.

must be taken into account. If a notice period is agreed, it may not exceed seven bank working days.

c)Non-permissible transactions

Securities accepted as collateral in the context of repurchase agreements, securities lending and similar transactions may not be used for securities lending. 516

Due to the requirement that obligations must be fully covered at all times, the underlying assets of a derivative transaction must be held in the insurance company's assets and be available without restriction. Simultaneous securities lending in relation to the same underlying assets is therefore not permitted. 517

d) Special requirements

aa) Requirements for securities lending

Insurance undertakings that engage in securities lending must have qualified and knowledgeable staff, an appropriately designed investment strategy, an investment management system tailored to their specific needs, a fully implemented and documented investment process, a suitable risk management system and an adequate system infrastructure (see margin no. 76). 518

bb) Framework agreements

The standardized framework agreement between the insurance company and the borrower must comply with the usual international standards and additionally regulate or comply with at least the following topics: 519

- The tied assets to which the framework agreement relates must be specified. In addition, the underlying assets that are available for securities lending or that are excluded from securities lending must be specified. The lending of underlyings that are held in different tied assets or in free assets under the same master agreement is not permitted. 520

- For each securities lending transaction, the provision of collateral by the borrower must be contractually agreed and the corresponding provisions for *collateral* in accordance with margin nos. 524-529 must be complied with. 521

- The agreement regulates the punctual and unrestricted remuneration of the income (dividends and interest) accruing during the loan and the compensation to be paid, the assertion of other rights (e.g. conversion and subscription rights), as well as the contractually compliant repayment of the securities lent of the same type, quantity and amount. 522
  Goodness.

- The possibility of offsetting the claims of all participating counterparties against the insurance company with the securities lent or with the *collateral* must be explicitly excluded. This waiver must also be expressly declared as binding in the event of the insolvency of the insurance company. 523

cc) Securing the reimbursement claim with *collateral*

- To secure uncovered claims arising from securities lending, *collateral* must be delivered to a separate custody account or account. The collateral is set up in the name of the insurance company. The *collateral* should be transferred at the same time as the securities are delivered. 524

- The custodian (custodian bank) for the collateral must comply with the guidelines for the safekeeping of assets (margin nos. 154-159) and have signed the corresponding model agreement. 525

- The value of the collateral must be appropriate and amount to at least 105% of the market value of the securities lent at all times. If bonds with a credit rating of 3 (or better) are lent and the collateral is provided in the same currency as cash or bonds with a credit rating of 1, the value of the collateral must be at least 102% of the market value of the securities lent. 526

- The collateral must comply with the investment regulations for direct investments in tied assets. The collateral must be capable of being valued and traded on a daily basis and correspond to credit quality step 3 or better and must not have been issued by the counterparty or relate to it. 527

- Collateral received may not be repledged, lent, sold or used in the context of derivative transactions, securities lending or repurchase agreements. 528

  Cash collateral can be reinvested in highly liquid, short-term money market investments and highly liquid bonds with a (residual) term of up to a maximum of twelve months. Due to the fact that the cash collateral can be recalled from the borrower at any time, the insurance company must have sufficient liquidity. Strategies and guidelines for the reinvestment of cash collateral are part of the insurance company's investment policy and risk management (including stress tests under various tighter market conditions) and are documented, periodically reviewed and adjusted as necessary.

- It must be ensured that the insurance company has full and unconditional access to the collateral if the counterparty does not return the borrowed securities, does not return them on time or only partially returns them. Any third-party claims against the insurance company must not affect access to the collateral. 529
  tainers. This must also apply in the event of insolvency.

e) Limitations

Securities lending and repo transactions are cumulatively limited to 30% of the debit amount from a gross perspective. 530

Borrowed underlying assets must be taken into account when complying with the limits in accordance with margin nos. 108-122. 531

f) Valuation, crediting and listing

In order to secure the reclaims from securities lending, the receivables and liabilities (taking into account accrued interest) as well as the income accruing to the insurance company must be valued daily at the current market price (mark-to-market) and the difference must be settled daily. 532

The underlying assets lent out remain allocated to tied assets. They are recognized at a maximum of the current market value or at a maximum of the recognition value at the time of lending, if this is lower. 533

The collateral received is allocated to the tied assets and must be identified as such. The collateral may not be taken into account when calculating the cover of the tied assets, as the securities lent are taken into account. 534

Underlying assets that have been lent are marked "lent" in the list of tied assets. The collateral received is shown in a separate note. 535

The following must be disclosed to the audit firm in an appropriate form 536

- The securities lending transactions carried out in the reporting year
- the outstanding securities lending positions and
- the collateral received

The necessary documents must also be disclosed to the audit firm so that the audit firm can verify ongoing compliance with margin no. 528. The latter is deemed to have been complied with if it can be demonstrated that the total amount of *collateral* received was at no time greater than the amount permitted for reinvestment in accordance with margin no. 528. 537
Values.

B. Repurchase agreements

a) Definition

A repo (*repurchase agreement) is* a legal transaction in which one party (lender) transfers ownership of securities to another party (borrower) in return for payment and in which the borrower undertakes to return securities of the same type, quantity and quality to the lender on maturity, as well as the income accruing during the term of the repurchase agreement. As the repurchase amount is determined in advance, the lender bears the price risk of the securities during the term of the repurchase agreement. 538

Reverse repo (*reverse repurchase agreement*): Repo from the perspective of the lender. 539

Repo interest: Difference between the selling price and the purchase price of the securities. 540

While legal ownership of the securities in a repo transaction is transferred to the lender or borrower (*legal owner*), the lender or borrower remains the beneficial *owner*. Interest and dividend payments falling due in the course of the repo transaction are due to the lender. If contractually agreed, the seller may repurchase the securities sold prematurely, whereby the respective value date/delivery deadlines must be taken into account for the delivery of the securities. As a *beneficial owner,* the pension provider bears the risks of fluctuations in the securities and takes these into account when adding the securities to the tied assets. 541

b) Purpose

The repo transaction serves the purpose of obtaining short-term liquidity. Reverse repo is a short-term collateralized investment of surplus liquidity. 542

c) Permitted transactions

Repurchase agreements are permitted under the following conditions: 543

- Framework agreement 544

  The insurance undertaking concludes the necessary framework agreements with the counterparty to the repurchase agreement (margin nos. 552-557).

- Repo trading platform and settlement system 545

  Repo transactions must be executed on an established repo trading platform that meets the following requirements:

  - central administration of the multilateral treaty system;
  - simultaneous processing of the transaction;

- mapping of processes in real time;
- daily valuation (*mark-to-market*, at least once a day) of all open repo positions and
- at least daily balancing of *net* exposures with automatic *margin transfers* (*margin calls*).

- Repo-able effects 546

  The insurance company may only use securities for repurchase transactions that can be easily valued on the basis of generally accessible information.

- Liquidity 547

  Repurchase agreements are only permitted if sufficient liquidity is ensured for the insurance company.

- Runtime 548

  Repurchase agreements with securities from tied assets may not exceed a term of 12 months.

d)Non-permissible transactions

Securities accepted as collateral in the context of reverse repos, securities lending and similar transactions may not be used for repos. 549

Due to the requirement that the obligation must be fully covered at all times, the underlying assets of a derivative transaction must be available in the assets of the insurance company and must be available without restriction. A simultaneous repurchase agreement in relation to the same underlying assets is therefore not permitted. 550

e) Special requirements

aa) Organization, know-how and investment process

Insurance undertakings that engage in repurchase transactions must have qualified and knowledgeable staff, an appropriately designed investment strategy, an investment management system tailored to their specific needs, a fully implemented and documented investment process, a suitable risk management system and an adequate system infrastructure (margin no. 76). 551

bb) Framework agreements

The standardized framework agreement between the insurance company and the counterparty must comply with the relevant international standards and regulate or comply with at least the following topics: 552

- The tied assets to which the master agreement relates must be specified. In addition, the underlying assets that are available for the repurchase transactions or that are excluded for the repurchase transactions must be specified. Repurchase agreements with underlying assets that are held in different tied assets or in free assets are not permitted under the same framework agreement. 553

- In deviation from margin no. 553, in the case of SIX/SIS SNB Repo, the tied assets for which repurchase agreements can be concluded must be specified in addition to the repo platform agreement. The underlying assets available for the repo transactions must be designated and separated for the respective tied assets. A clear and unambiguous allocation of the assets associated with a repo transaction (such as cash holdings in a SIC account and transferred underlying assets for repo transactions) to the individual tied assets must be ensured at all times. 554

- The provision of collateral by the lender has been contractually agreed for each repurchase transaction and the provisions for collateral in accordance with margin nos. 558-563 are complied with. 555

- The contract regulates the punctual and unrestricted remuneration of the income (dividends and interest) accruing during the subscription transaction and the compensation to be paid, the assertion of other rights (e.g. conversion and subscription rights) and the contractually compliant reimbursement of securities of the same type, quantity and quality. 556

- The possibility of offsetting the claims of all counterparties involved against the insurance company with the securities lent or with the *collateral* must be explicitly excluded. This exclusion must also be expressly declared as binding in the event of the insolvency of the insurance company. 557

cc) Securing the reimbursement claim with *collateral*

Collateral must be delivered to a separate securities account or account of the central settlement system to secure uncovered claims from repurchase transactions. The collateral is set up in the name of the insurance company. The *collateral* must be transferred at the same time as the securities are delivered. 558

The custodian for the *collateral* must comply with the guidelines for the safekeeping of assets (margin nos. 154-159) and have signed the corresponding model agreement. 559

The collateral must comply with the investment regulations for direct investments in tied assets. The collateral must be capable of being valued and traded on a daily basis and correspond to credit quality step 3 or better and must not have been issued by the counterparty or relate to it. 560

The assets received through reverse repo may not be repledged, lent, sold or used in the context of derivative transactions, securities lending or repo transactions. 561

Cash collateral can be reinvested in highly liquid, short-term money market investments and highly liquid bonds with a (residual) term of up to a maximum of twelve months. The insurance company must have sufficient liquidity due to the fact that the cash can be recalled by the lessee at any time. Strategies and guidelines for the reinvestment of cash collateral are part of the insurance company's investment policy and risk management (including stress tests under various tighter market conditions) and are documented, periodically reviewed and adjusted if necessary. 562

It must be ensured that the transferee has full and unconditional access to the collateral if the lender is unable to repurchase the transferred securities in full, on time or only partially as agreed. Any third-party claims against the insurance company must not impair access to the collateral. This must also apply in the event of the insolvency of one or more of the parties involved. 563

f) Limitations

Repo transactions and *securities lending are* cumulatively limited to 30% of the target amount from a gross perspective. There is no quantitative limit for reverse repo transactions. 564

Securities sold through repos must be taken into account when complying with the limits in accordance with margin nos. 108-122. 565

g) Valuation, crediting and listing

In order to secure reclaims from repurchase agreements, the receivables and liabilities (taking account of accrued interest) as well as the income accruing to the insurance company must be valued daily at the current market rate (mark-to-market) and the difference must be settled daily. 566

Securities sold through repo transactions remain allocated to tied assets. The maximum amount allocated is the current market value or the maximum amount allocated at the time the transaction was concluded, if this is lower. 567

The collateral received through reverse repo is allocated to the tied assets. However, the counterparty may repurchase the sold underlying assets at any time, subject to the notice period. The collateral may not be taken into account when calculating the cover for the tied assets. 568

Securities sold through repo transactions are marked as "retired" in the list of tied assets. Collateral received through reverse repo transactions is disclosed in a separate note. 569

The following must be disclosed to the audit firm in an appropriate form 570

- the repurchase agreements (transactions) carried out in the reporting year,
- the outstanding repurchase agreements, and
- the collateral received.

The audit firm must also be provided with the necessary documentation to enable it to verify ongoing compliance with margin no. 562. The latter is deemed to have been complied with if it can be demonstrated that the sum of the *collateral* received was at no time greater than the amount permitted for reinvestment in accordance with margin no. 562. 571

VI. Transitional provisions

Repealed 572*

If the allocation to the tied assets of reinsured units is based on a valid approval, this will continue to apply until December 31, 2016 at the latest in accordance with the conditions in the approval. 573

Adjustments regarding the allocation of reinsured portions of provisions from intra-group reinsurance relationships (margin no. 167) to tied assets must be made by December 31, 2016 at the latest. 574

If assets are held in safekeeping abroad, proof in accordance with margin no. 157 must be provided for the first time by December 31, 2016. 575

Append ix

Supplementary agreement[1]

Supplementary provisions to the business relationship (securities accounts/accounts) between Bank X (custodian bank) and Insurance Company Y (depositor) regarding the safekeeping of assets belonging to the "pooled assets" of Depositor Y

For the above-mentioned business relationships, the present agreement shall apply in addition, which shall take precedence over any deviating provisions in contracts between the parties.

1. The tied assets may be held in custody or booked by the custodian bank on its own premises, at a domestic correspondent bank, at a domestic or foreign clearing house (examples: SIS SegaInterSettle AG, Euroclear Bank, Clearstream) or at a foreign custodian, either individually or collectively (collective custody).

   With regard to assets that the Custodian Bank transfers to a correspondent bank, a clearing house or a custodian, it is liable to the Depositor for its custodian duties in accordance with the principles of Art. 399 para. 2 CO.

2. The custodian bank identifies the securities accounts or accounts with values of tied assets held with it under the heading "tied assets".

   The Custodian shall ensure that only tied assets are held in such custody accounts or accounts.

3. The Custodian Bank acknowledges that the assets held in safekeeping or booked in accordance with clause 2 are intended to secure the claims of the policyholders of the Depositor and therefore expressly declares that it will not assert any rights of lien, retention, set-off or similar rights in respect thereof, even if the Depositor becomes insolvent after the assets have been transferred or allocated to the tied assets. The assertion of such rights is reserved only for claims in connection with the management of the custody accounts or accounts (costs, fees, commissions, etc.).

   If claims are asserted by third parties (including correspondent banks, clearing houses, custodians) regarding the value of the tied assets, the Custodian Bank shall notify the Custodian immediately.

   If the Custodian wishes to book assets into custody accounts or "tied assets" accounts for which the Custodian Bank already has a security interest, the Custodian Bank may refuse the transfer, demand that the Custodian provide substitute collateral or demand that the collateral be redeemed.

4. The Depositor is solely and exclusively responsible for compliance with regulatory provisions, in particular with regard to the minimum size of the tied assets, the permissible values and their composition.

Place/date	Signature Insurance company	Signature Custodian bank
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[1] Revised supplement to Circular No. 771 D of SwissBanking dated 9.4.1987

List of changes

The circular is amended as follows:

Margin no. 572 will be repealed as of 1.1.2018.