



5 July 2021

Dear Stakeholders,

Re: CONSULTATION PAPER – PROPOSED AMENDMENTS TO PRUDENTIAL RULES

I. Introduction

The Bermuda Monetary Authority (Authority or BMA) wishes to thank its stakeholders for their continued engagement and support in progressing the BMA’s critical strategic initiatives. The Authority appreciates all feedback received on the consultation paper issued in March 2021 on the proposed amendments to prudential rules. The Authority remains committed to working closely with its stakeholders to ensure that the Bermuda supervisory regime is effective, proportionate and aligned with international standards.

II. Substantive Comments and the Authority's Response

Stakeholders were generally supportive of the proposed amendments to prudential rules to ensure that the Authority can adequately assess, quantify and monitor the Bermuda market's market, credit and asset-liability management risks.

Notwithstanding this general support, there were several salient issues raised that the Authority wishes to address; a summary of these comments and the Authority's response is set out below.

Comment: Reporting Requirements

The general sentiment was that the information required in the revised Schedule VI is reasonable and may be available as part of the established investment reporting. However, there remains a subset of third-party funds for which the look-through information may not be available, including metrics associated with the investment funds, such as duration. In such instances, investment accounting system reconfigurations may be costly if a proportionate approach is not adopted.

Authority Response and Resulting Action

The Authority acknowledges the concerns raised and is aware that insurers might not have the requested information on rare occasions. It is the Authority's aim that registrants complete all columns provided in the new schedules and use the sub-classes to select the appropriate asset type. If a registrant cannot provide this information, the Authority will require a note on why certain sections of the schedule are not completed. These notes will be reviewed on a case-by-case basis and responses provided through the usual channels.

Where no look-through information and investment metrics are available, due to the nature of third-party management's invested assets or involvement, the Authority will adopt a case-by-case approach, considering its core tenet of proportionality and pragmatism.

Comment: Segregated Accounts

Some stakeholders enquired if segregated accounts are to be included in the proposed new schedules.

Authority Response and Resulting Action

The Authority would like to confirm that segregated accounts, sundry assets and deposit assets and liabilities will have similar dedicated schedules as the investment portfolio.

Comment: Asset Jurisdiction

We received some comments relating to the determination of asset jurisdiction and its variability depending on the type of asset. It was primarily believed that the nature of the asset classes and available information might dictate the interpretation of "Jurisdiction."

Authority Response and Resulting Action

The Authority agreed with the following interpretations provided in the industry feedback:

- It was recommended that for unlisted bonds, securities or other alternative investments, the country of risk (i.e., principal place of business) be acceptable (in addition to the current suggestion of the jurisdiction of the exchange for traded instruments or jurisdiction of custody)
- For some alternative investments or structured securities, with no reporting available on the country of exposure for the underlying investments within the funds, it was

recommended that the country of domicile is determined based on where the fund or vehicle is located

Comment: Definition of Terms

Some stakeholders sought clarification on the definition and business context of the following terminologies referenced in the consultation paper:

- **Position Held:** Applicable to derivative instruments only. This refers to the position held in the derivative, with respect to the underlying, as applicable for the type of derivative selected. For example, “Long” and “Short”, respectively, should be selected for long and short positions in equity futures. “Long” should also be selected for call options bought or put options sold on the S&P 500 index (both positions being long with respect to the underlying index i.e., S&P 500). Similarly, “Short” should be selected for put options bought or call options sold. For swaps (or swaptions), either “Receive Fixed” or “Receive Floating” should be selected, depending on whether the position ultimately involves receiving fixed rate (i.e., paying floating) or receiving floating rate (i.e., paying fixed). For credit derivatives/credit default swap, “Sell Protection” or “Buy Protection” should be selected based on the side of the trade
- **Exposure:** Applicable to derivative instruments only. A measure describing the aggregate sensitivity of the derivative’s value, in dollar terms, to changes in the underlying risk’s value, as applicable and relevant for the type of derivative selected. For example, exposure should be dollar delta for equity derivatives, DV01 (dollar value of one basis point) for fixed income derivatives, and CS01 for credit derivatives
- **Fair Value:** The fair value of the asset is determined according to the Economic Balance Sheet rules
- **Purpose of the Asset under Real Estate:** Insurers are required to specify whether the real estate is “owner-occupied” or for “investment” purposes

The Authority would once again like to thank stakeholders for their contributions to the consultation exercise. The BMA remains committed to collaborating with Bermuda’s insurers to ensure these proposals are translated into a framework aligned with current best practice and appropriately protective of policyholders.

Sincerely,

The Bermuda Monetary Authority