OMB No. 1510-0057(A)
Expiration Date: 03/31/2015
For Paperwork Reduction Act
Statement and Burden Estimate
Statement: See Last Page of Letter

December 31, 2012

Telephone (202) 874-6850

ANNUAL LETTER TO EXECUTIVE OFFICERS OF SURETY COMPANIES REPORTING TO THE TREASURY:

PLEASE NOTE:

- **This letter and all forms are available on our website: www.fms.treas.gov/c570.**
- **A contact email address is requested for future electronic transmission of the Annual Letter.**
- **Automated Treasury Schedule F posted on our website: www.fms.treas.gov/c570.**
- **Section II: Reference to Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.**
- **Section III: Requirements for life insurance subsidiaries.**

The 2012 Annual Financial Statements and CDs of all companies holding a Treasury Certificate of Authority **must be filed with this Department no later than March 1, 2013.**

Financial statements and CDs should be filed with the Treasury Department for your company as well as for all insurance company subsidiaries shown on Schedule D. The **financial statement** should be on the property and casualty form approved by the National Association of Insurance Commissioners (NAIC). All Schedules should be filled out in complete detail. These statements should be **signed manually** (photocopied signatures are not acceptable) and sworn to by the Company's President and Secretary and be signed and sealed by a notary.

Annual Statement CDs must be in accordance with the guidelines specified in the NAIC Annual Statement Diskette Filing Specifications. Please note that this Department must be notified if the Company's CD is rejected by the NAIC or faulty in any way.

We provide all our forms on-line at http://www.fms.treas.gov/c570 that should be completed and made a part of the Company's filing. The filing should be submitted with a completed checklist. The forms are, Schedule of Excess Risks (See Section VIII in attached letter), state surety license form (See Section XIV), Treasury Schedule F (See Section VII), and a form for reporting Federal bonds written and outstanding/or Federal bonds assumed and outstanding (see paragraph below). Enclosed is a checklist of items to be submitted with the annual filing. It is also posted on our website. One complete filing of all documents due March 1 is requested, to assist us in accounting for all filings accurately and expeditiously.

To assist this Department in analyzing the volume and types of Federal surety business that is written and/or assumed by Treasury approved companies, note the following:

- **For Acceptable Sureties on Federal Bonds:** make sure that the **"Quarterly Report of Federal Business Written and Outstanding" includes assumed business.**
- **For Acceptable Reinsuring Companies: use the "Quarterly Report of Federal Business Assumed and Outstanding."**

The form is to be submitted with your annual and quarterly filings. The most current version is available on our website.

Treasury regulations at 31 C.F.R. 223.22 provide for collection of a **fee of $5,450** applicable to renewal of Certificates of Authority. The fee has not changed from last year. **It is due February 14, 2013.**

To pay your fee, go to our internet web site at http://www.fms.treas.gov/c570 and click on "PAY ONLINE" (in the right hand column). You may pay online by credit card or ACH Debit. We accept American Express, Discover, Visa and Master Card. ***If you choose to pay via ACH debit, you must first make sure that there are no restrictions on debit activity for the bank account you plan to use for your renewal fee payment. Checks are not accepted.***

The timely submission of the required data in support of the annual reporting (e.g., financial statements and related supporting documents of subsidiary companies, real estate appraisal reports, actuarial opinions, NAIC Ratios, explanatory memoranda, etc.) is the responsibility of the reporting company.

DUE MARCH 1, 2013
Documents should be mailed to:

U.S. DEPARTMENT OF THE TREASURY
FISCAL SERVICE/FMS – SURETY BOND BRANCH
3700 EAST-WEST HIGHWAY, ROOM 6F01
HYATTSVILLE, MD 20782

In the event that your Company is no longer writing or reinsuring Federal surety bonds, you are advised to notify Treasury that you wish to withdraw from Treasury's list of Certified companies.

The Annual Calendar of Filings on pages 3 & 4 will be a convenient guide to all companies for reviewing filing requirements and due dates at a glance. Annual and quarterly filing checklists are available on our website to assist you in making complete filings by the specified due dates. The checklists should be returned to this Department with your filings, as mentioned earlier.

Treasury has made changes to its instructions in recognition of the accomplishments made in the insurance industry through the codification efforts, which has resulted in a more consistent and comprehensive basis of accounting and reporting. While Treasury's policies differ from the codified statutory accounting principles and guidance in some instances, Treasury has and will continue to evaluate its policies to incorporate the codified accounting principles and guidance where deemed appropriate.

Any questions regarding these instructions may be directed to the Surety Bond Branch at (202) 874-6850. We would also appreciate any comments you may have relative to the services provided by this Branch.

Sincerely,

Silva Walker
Acting Manager
Surety Bond Branch

Enclosures

ANNUAL CALENDAR OF FILINGS IN 2013 FOR COMPANIES HOLDING A TREASURY CERTIFICATE OF AUTHORITY

Due February 14

- Renewal Fee of $5,450

Due March 1

(Refer also to the Checklist posted on our website.)

- Annual Financial Statement, signed, sealed and notarized (should include all supporting data) for reporting company and all insurance company subsidiaries shown on Schedule D. A balance sheet for non-insurance subsidiaries should also be provided.

- NAIC CD for reporting company and all insurance company subsidiaries shown on Schedule D

- Schedule of Excess Risks, signed, sealed and notarized *

- Treasury Schedule F * (ceded reinsurance only). Note: The Schedule F included in the company's Annual Statement reporting assumed reinsurance is sufficient for Treasury rating purposes. However, if Schedule F – Part 1 of the company's Annual Statement showing their assumed reinsurance is not included in the company's Annual Statement filed by March 1, it can be submitted separately no later than April 1.*

- Treasury License Sheet *

- Statement of Actuarial Opinion

- Report of Federal Business Written and Outstanding during the quarter * (4th quarter 2012)
  For Certified Reinsurers: Federal Business Assumed and Outstanding* (4th quarter 2012)

- Annual checklist of items to be furnished (including contact person information and email address)*

  >> Please note, we do <u>not</u> require the Insurance Expense Exhibit to be filed or the PDF format of the Annual Financial Statement.

Due April 1

Management's Discussion and Analysis **

Due May 1

- IRIS Ratio Results (with explanations for unusual results) **

Due May 15

- Quarterly Financial Statement and CD (1st qtr. 2013)

- Schedule of Excess Risks * (1st qtr. 2013)

- Report of Federal Business Written and Outstanding during the quarter * (1st qtr. 2013)
  For Certified Reinsurers: Federal Business Assumed and Outstanding* (1st qtr. 2013)

- Quarterly checklist of items to be furnished (including contact person information and email address)*

Due June 1

- CPA Audited Financial Statements (specific to the reporting company-no consolidated statements unless approved in advance by this Department) **
- CPA Report on Internal Control
- CPA's Management Letter
- 10-K Report, if applicable

Due August 15

- Quarterly Financial Statement and CD (2nd qtr. 2013)
- Schedule of Excess Risks * (2nd qtr. 2013)
- Report of Federal Business Written and Outstanding during the quarter * (2nd qtr. 2013)
  For Certified Reinsurers: Federal Business Assumed and Outstanding * (2nd qtr. 2013)
- Quarterly checklist of items to be furnished (including contact person information and email address)*

Due November 15

- Quarterly Financial Statement and CD (3rd qtr. 2013)
- Schedule of Excess Risks * (3rd qtr. 2013)
- Report of Federal Business Written and Outstanding during the quarter * (3rd qtr. 2013)
  For Certified Reinsurers: Federal Business Assumed and Outstanding * (3rd qtr. 2013)
- Quarterly checklist of items to be furnished (including contact person information and email address)*

Due Whenever Applicable

Miscellaneous:

- Biographical Sketches of New Officers/Directors
- Information on Changes in Reinsurance Agreements
- Information on Change in Ownership or Name Changes

Due When Released by State

- State Exam Report

FAILURE TO SUBMIT THIS INFORMATION WHEN DUE MAY RESULT IN REVOCATION OF THE COMPANY'S CERTIFICATE OF AUTHORITY.

*Our forms are now available on-line at www.fms.treas.gov/c570
** These items should be sent as early as possible.

Revised 12/12

INSTRUCTIONS RELATING TO THE SUBMISSION OF ANNUAL AND QUARTERLY FINANCIAL STATEMENTS OF SURETY COMPANIES REPORTING TO THE TREASURY DEPARTMENT

These instructions are for the general guidance of surety companies seeking or holding a Treasury Certificate of Authority. The guidelines set forth below are used by the Treasury Department for valuing assets and liabilities in accordance with Department Circular No. 297, Sections 223.9 and 223.10 (31 CFR Part 223).

Please be advised that there are areas of Treasury's review that continues to be more conservative than codification. This may result in a downward adjustment to a company's policyholders' surplus, especially if the adjustments are found to be material to the company's policyholders' surplus or if the financial picture of the company causes Treasury concern over the ultimate solvency of the company. A company will be informed when adjustments are made to their policyholders' surplus or when Treasury considers their financial picture to be hazardous whereby Treasury will take action in accordance with 31 CFR 223.17.

I. Assets – General Criteria for Admissibility:

For Treasury rating purposes, property-liability insurance companies generally are limited to investments in cash items, marketable securities, mortgage loans (within certain limits), realty and computers necessary for the conduct of the company's business. **Normal account balances** such as Agents' Balances are only admissible if **collectible within 90 days**. Reinsurance recoverables, salvage, miscellaneous assets, etc., are admissible if properly supported and if they meet the criteria outlined in the following instructions.

Each investment (other than U.S. Government securities and securities of affiliates or subsidiaries which are valued in accordance with Instruction III) is **limited to 10 percent of total admitted assets, net of the item under consideration**. Numerous deposits with one financial institution are also limited, in total, to 10 percent of the total admitted assets, net of the item under consideration. For **miscellaneous assets** shown in the Annual Statement, only those items, which are adequately supported as to both value and convertibility within 90 days, shall be admissible for Treasury rating purposes. **Goodwill and other intangibles** are not admissible assets for Treasury rating purposes.

Please be advised that specific assets, which are admissible under codification and/or certain state permitted practices, will not necessarily be admissible under Treasury criteria.

II. Securities:

In the Annual Financial Statement, securities owned by reporting companies should be valued and reported using the following criteria:

(a) **Bonds**, **Unaffiliated Common Stocks, and Preferred Stocks** shall be valued and reported in accordance with the NAIC's Accounting Practices and Procedures Manual and in accordance with the NAIC Valuations of Securities Manual, as prepared by the Securities Valuation Office (SVO).

(b) **Notes, certificates and other evidences of indebtedness** should be based upon **market** quotations as of December 31.

When a stock, bond, or note (except securities of controlled or affiliated companies) is not rated or valued by the SVO, the company should submit a prospectus for the non-SVO valued investment to Treasury to support the quality and value of the investment(s). To be admissible, the investment must be readily marketable within 90 days (see next paragraph for detail on what constitutes marketability for Treasury-rating purposes). In addition, if the current reported value of the stock, bond, or note exceeds 10% of the total policyholders' surplus, the investment may be considered non-admissible by the Treasury. Consistent with the Dodd-Frank Wall Street Reform

and Consumer Protection Act of 2010, Public Law No. 111-203, § 939A, ratings and values of Nationally Recognized Statistical Rating Organizations, including those registered with the U.S. Securities and Exchange Commission, may not be used to substantiate the value and quality of the investment.

A security is **normally non-admissible unless it is readily marketable (may be liquidated within 90 days)**, as evidenced by it being **actively traded on an active, reliable and continuous market** (such as would be achieved by trading on a national exchange or two or more regional exchanges).

Securities not rated as high quality by the NAIC (NAIC designations 3-6), may be non-admissible for Treasury rating purposes. Securities purchased in a prior year which have been designated "Z" may also be non-admitted for Treasury rating purposes. Additionally, securities designated "U", may be non-admitted unless evidence of their marketability can be demonstrated.

(c) **Securities of controlled or affiliated companies** should be valued in accordance with Instruction III below.

(d) **Investments in foreign stocks and foreign bonds** will be permitted as long as they do not exceed a combined value of 10% of the reporting company's total admitted assets. **Foreign investments should be reported in U.S. dollars as of the date of the financial statement**.

(e) Mutual Funds are considered admissible provided they are listed in the NAIC's "List of Approved Mutual Funds".

(f) Investments reported as "other invested assets" are normally non-admissible for Treasury rating purposes as their valuation and marketability have not been adequately supported. However, Treasury will consider the admissibility of these investments on a case by case basis provided a prospectus for the investment is submitted with the sections that support the investment's marketability highlighted.

III. <u>Securities of Controlled Companies</u>:

Investments in subsidiaries, controlled and affiliated entities should be reported in accordance with the NAIC's Accounting Practices and Procedures Manual. However, Treasury may make adjustments to the valuations reported based on the criteria set forth by Treasury in this document.

Reporting companies owning securities of **other insurance companies**, which are under the same direction and control as the reporting companies, should furnish copies of the **Annual Financial Statements and the NAIC CDs** of such other companies. These statements should be submitted on the form approved by the NAIC. The CDs must be in accordance with the NAIC Annual Statement CD Filing Specifications.

The assets of the insurance subsidiary companies will also be analyzed according to the criteria set forth by Treasury in this document. Should an analysis of the financial statement of the subsidiary lead to a downward adjustment of any assets of the subsidiary, it will result in an equivalent deduction from the Treasury listed parent company's surplus for Treasury rating purposes. Each statement should be signed manually and sworn to by the President and Secretary of the controlled company and be signed and sealed by a notary.

The **common stock of insurance subsidiaries certified by Treasury, if held by other Treasury certified companies, will be considered a non-admitted asset when determining the parent company's Treasury underwriting limitation**. This valuation method is effective for certifications dated after December 31, 1988, and will be applied to **new subsidiary relationships created by a reorganization or by changes in the organizational structure of the group due to new acquisitions or combinations.**

To substantiate the value of the common stock of <u>life insurance subsidiaries</u>, Treasury requires that the company submit the annual statement for the life insurance subsidiaries that are considered material (10% or more of the parent company's policyholders' surplus), in the NAIC prescribed format for the most recent year end, as well as the statutory audited financial statements for the subsidiary.

Reporting companies owning securities of subsidiary companies **other than insurance companies**, which are under the same direction and control as the reporting companies, should also **furnish copies of the financial statements** of such companies as of the reporting date. These statements should be either independently audited or be certified by an officer of the controlling company. **The assets of these subsidiary companies will also be analyzed according to the criteria set forth by Treasury in this document. Should an analysis of the balance sheet of the subsidiary lead to a downward adjustment of any assets of the subsidiary, it will result in an equivalent deduction from the Treasury listed parent company's surplus for Treasury rating purposes.** Accordingly, the assets reported in such balance sheets should be supported in the **same detail as required in the form prescribed by the NAIC for insurance companies**. As an example, if the balance sheet shows mortgages owned, data supporting the value of such mortgages should be furnished in the same manner called for in Schedule B of the NAIC form, including appraisals as covered in Instruction IV below.

The Treasury **normally non-admits debt instruments of affiliated companies** because such instruments generally constitute **a direct or indirect loan to a substantial stockholder** (see Instruction V).

IV. <u>Real Estate and Mortgages - Appraisals Required</u>:

Values shown for these items in the Annual Financial Statement will be considered in accordance with the following criteria:

(a) Real Estate - only realty essential to the operating needs of the company for conducting its business is admissible for Treasury rating purposes i.e., realty that is reported as property or properties occupied by the company on the company's Annual Statement. However, the total of all realty that is reported as occupied by the company on the company's annual financial statement will be admissible only to the extent that the total reported value does not exceed 20% of policyholders' surplus, as of the date of the financial statement, i.e., the realty that meets this standard is admissible to the extent of reported value, or 20% of policyholder surplus, whichever is less. Real Estate should be valued in accordance with the NAIC's Practices and Procedures Manual (generally at cost less depreciation and net of encumbrances).

The value of each parcel of **real estate must be supported by an acceptable appraisal** as defined in item (c) of this Instruction. In the case of a home office being constructed, an acceptable appraisal will be required upon completion of the construction.

Real Estate held solely as an investment is non-admissible for Treasury rating purposes (i.e. real estate that is reported as property or properties held for the production of income on the Company's Annual Statement). In addition, real estate that is reported as being **held or listed for sale** is considered non-admissible; however, if the real estate reported as being held or listed for sale was reported in the prior reporting period as a property occupied by the company for conducting its business and was considered admissible by Treasury in the prior year, that property will be considered admissible for a period of **one year** to allow for its disposition.

Improved or unimproved salvage realty is normally admissible (if supported by a competent appraisal) for a period of **two years** to permit its disposition. **Land contracts are normally non-admissible**.

b) Mortgages - conventional **first mortgage loans on unencumbered, improved, or productive real estate located within the United States are admissible.** Mortgage loans meeting this criteria should be valued and reported in accordance with the NAIC's Practices and Procedures Manual. Mortgage loans considered to be impaired as defined by the NAIC's Practices and Procedures Manual may be considered non-admissible for Treasury rating purposes. The mortgaged property should be supported by a competent appraisal, as defined in item (c) of this Instruction and should be protected by adequate fire insurance. For this purpose **"improved" property means land on which there has been substantial building**. Thus, mortgage loans on undeveloped land, construction loans, and loans on properties not being used for purposes for which they were valued are not admissible for Treasury rating purposes. Chattel mortgages and related instruments, whether carried as mortgages, secured notes, or collateral loans, are also normally non-admissible for Treasury rating purposes.

(c) Appraisals - An **appraisal report** which includes the information and computations normally used in arriving at a competent appraisal value based upon: (1) the property's cost; (2) market value; and/or (3) income-producing capability, as applicable, **must be furnished to support the value of each mortgage investment made and each new parcel of real estate acquired** during the calendar year. If an appraisal is furnished covering land purchased on which the company later constructs a company office building, it is not necessary to submit a subsequent appraisal covering construction costs of the building. **Appraisals need not be furnished covering** direct mortgage loans or participation certificates in mortgages fully insured by the **FHA, VA or other instrumentality of the United States**. In such cases, Schedule B of the Annual Financial Statement should specify which Federal agency is insuring the loan.

V. Miscellaneous Assets:

Complete information must be furnished relative to any salvage or miscellaneous assets included in the balance sheet, and the value of such items must be satisfactorily supported, otherwise, such items will not be allowed as admitted assets for rating purposes. **Salvage**, if satisfactorily supported, is **normally admissible** for a period of **two years** to permit its disposition. **Direct or indirect loans to officers, directors, substantial stockholders** (corporate or individual), or members of their families, whether secured or not, **will not be considered as admitted assets** for rating purposes. Loans secured by the company's own stock are also non-admissible.

VI. Minimum Bail Reserve Requirements:

Companies transacting surety bail business should establish a minimum reserve **(utilizing company funds)** for unearned premiums sufficient to reinsure such business in the event of insolvency. This reserve should equal the lesser of **35 percent of bail premiums in force or $7 per $1,000 of bail liability**. Bail premiums in force are those relating to the December 31 outstanding bail liability whether or not the premiums are recorded as earned when the bond is written, but are not intended to include bail agents' fees. **A schedule showing bail premiums in force and bail liability** and the associated **unearned premium reserve should be attached to the Annual Statement.**

VII. Reinsurance:

Treasury Schedule F (Treasury Form No. TFS 6314) lists the companies, pools and associations, which are recognized by the Treasury. It is requested that the information reflected in Schedule F of the company's annual statement be reported on the Treasury form in accordance with instructions on the schedule.

You can download this form from our website at http://www.fms.treas.gov/c570. The Schedule F is a spreadsheet that contains all formulas in the worksheet and automatically transfers data to the appropriate summary pages. Companies must simply enter their data and totals and data transfer between sections will occur automatically. All companies are reminded that the summary page of Schedule F should be included and be accurately completed. Companies may submit their own automated output of the Treasury Schedule F along with the summary page. However, if errors are found in the document, the Treasury form will be required.

Questions or comments on the Schedule F can be directed to the Surety Bond Branch at the following email address "Surety.Bonds@fms.treas.gov". Please indicate in the subject line: Treasury Schedule F Comments/Suggestions.

Credit may be taken for reinsurance ceded to non-Treasury authorized/recognized **subsidiaries** (Section II (A) of Treasury Schedule F), if a copy of the subsidiary's annual financial statement is provided and Treasury determines the subsidiary is solvent in accordance with the criteria set forth in this letter. However, **reinsurance ceded to a parent or an affiliated company** that is not recognized by Treasury should be listed under Section VIII of the Schedule as **Unauthorized Reinsurance**.

Companies may receive credit for unauthorized reinsurance to the extent of funds withheld or letters of credit or trust agreements from unauthorized companies, provided that the Treasury is advised as to the amount of funds held, letters of credit posted or funds secured in trust for each company. **Reinsurance payables, i.e., ceded (premium) balances payable as would be reported for the cessions on statutory statement Schedule F, Part 3, Column 16, are allowed as offsets for Treasury rating purposes provided there is a legal right of offset.**

Credit may also be taken, with prior approval from this Department, for multi-beneficiary trust agreements established and maintained in the United States by overseas accredited or trusteed reinsurers, to the extent the unauthorized ceded business is covered by those accounts.

Please note that companies recognized by the NAIC as overseas accredited trusteed reinsurers are considered to be unauthorized by Treasury. Business ceded to these reinsurers which is not covered by the Trust Account, and not otherwise offset by other funds held, will continue to be included in any applicable Schedule F penalty. In addition, please be advised that these Trust Accounts cannot be used to protect excess risks reported on FMS form 285A, Treasury's Schedule of Excess Risks.

Credit for funds held may be accomplished by including necessary information relative to the unauthorized reinsurance in Treasury Schedule F, Part 2. When **reserves are not provided for reinsurance ceded to unauthorized companies, the company's surplus will be adjusted** for Treasury rating purposes to provide such reserves.

Letters of credit issued to surety companies and reported in Schedule F, Part 2 of a company's financial statement, may be recognized as an **offset** to reinsurance recoverables and unearned premiums for reinsurance ceded to companies not recognized by the Treasury for reinsurance purposes. Such **letters of credit should be in U.S. currency and be valid for a period of not less than one year, with an option to renew thereafter, and must be clean, irrevocable, unconditional letters of credit,** (See page 14), issued by any of the banks on NAIC's current list of "Banks Meeting Credit Standards for Issuing Letters of Credit." If such LOC's are issued by more than one bank, the LOC should specify how the funds are to be drawn on. Treasury does not accept LOC's with multiple beneficiaries. Copies must be provided of Letters of Credit, Trust Agreements and Trust Account balances as of year end in support of the largest amounts reported on the Treasury Schedule F, Part 2, Cols. B and C.

Treasury considers reinsurance recoverables on paid losses, which are over 90 days past due, to be non-admitted assets. If such recoverables are of a material nature, the reduction of loss reserves for the associated unpaid recoverables and IBNR will be disallowed.

To prevent an adjustment to surplus, Treasury should be provided with detailed information concerning collection practices, corrective measures being taken, and/or other relevant information.

Treasury should also be provided an **explanation for material amounts classified as "in dispute"**.

The IBNR reported on Treasury Schedule F should agree with the IBNR reported on page 10 of the financial statement.

VIII. Excess Risks and Quarterly Financial Statements:

Treasury regulations provide that no company authorized to do business with the United States may expose itself on a single risk in an amount exceeding 10 percent of its combined capital and surplus, as established by the Treasury, unless the excess liability is protected by one of the several means authorized in 31 CFR Part 223.11 (Treasury Circular 297). Each company should **report quarterly** to the Treasury **every risk**, which it has underwritten, either directly or through assumed reinsurance, during the **preceding three months, in excess of its Treasury underwriting limitation.** These requirements are **not limited to surety risks but apply to bonds or policies in all lines of business** (e.g. fire, marine, commercial liability, etc.), **whether or not the United States is a party to the risk**.

Quarterly reports of such **excess risks** should be made on Treasury Form TFS 285-A, **Schedule of Excess Risks**. If there are no excess risks to report, a letter to this effect is sufficient along with the same signatures as required on the form.

When an excess risk running to the United States is reinsured, **reinsurance agreement forms required by 31 CFR 223.11 should be executed and filed** in accordance with the instructions given on the forms. Use Standard Form 273 for Miller Act Performance Bonds, Standard Form 274 for Miller Act Payment Bonds and Standard Form 275 for all other Federal bonds. Should any standard form be signed by an attorney-in-fact instead of an officer of the company, a power of attorney issued by the Company authorizing the attorney-in-fact should be attached to the Schedule of Excess Risks with the relevant form.

Please be advised that letters of Credit are not considered an acceptable method of protecting excess risks. In addition, assets held in trust that are reported as an offset to the unauthorized reinsurance penalty on the Company's Treasury Schedule F cannot be used to protect excess risks reported on the Company's Schedule of Excess Risks. Separate trusteed assets that meet Treasury's admissibility requirements may be used for this purpose.

Quarterly **Financial Statements and diskettes should be submitted** to Treasury in the NAIC quarterly format and should include the **Loss Reserve Development Schedule**. The Statement and Schedule of Excess Risks should be **signed manually** and sworn to by the company's President and Secretary and signed and sealed by a notary.

IX. Capital Changes:

Where there have been **changes in paid-up capital and/or contributions to surplus**, there should be forwarded, if available, **certificates** by the insurance supervisory authorities of the company's State of incorporation, certifying to the verification of such transactions.

X. Changes in Stock Ownership:

The Treasury requires each stock surety company to **furnish a list of stockholders** in support of its **application**. It is required that each such company submit a statement signed and sworn to by the Secretary or Assistant Secretary and by the Treasurer or Assistant Treasurer of the reporting company, **each time in the future any person becomes owner of more than 5 percent** of any class of outstanding stock issued by the company, **within 10 days** after such change in ownership. Any such changes which have occurred subsequent to the submission of the original list and which have not been reported to date should be forwarded with the Annual Financial Statement. Also, whenever the **record of ownership** of a stockholder **increases or decreases by 5 percent or more** of any class of outstanding capital stock issued by the company, either in one transaction or in a series of transactions from time to time, the company should **file such changes within 10 days from the date as of which such changes aggregate 5 percent or more**.

If details related to the change in ownership raise material concerns, the Company's certification may be suspended until such time as these concerns are adequately addressed. To ensure that the Company's certification continues without interruption, it is recommended that change in ownership details be provided to Treasury prior to affecting the change.

For purposes of these Instructions, "person" is not limited to natural persons but also includes corporations, partnerships, pension funds, profit sharing funds, and any organization of whatever nature.

XI. Mergers, Transfers and Assumptions, Etc.:

The Treasury should be promptly advised regarding **proposed or effected mergers, consolidations, transfers and assumptions, name changes,** etc., in which the reporting company is involved. Copies of agreements or documents pertaining thereto, as approved by the insurance department of the company's domiciliary State, should be furnished so that the Treasury may take timely action and advise Federal bond-approving officers accordingly, where necessary.

XII. Charter & Bylaws Amendments:

In the event that the charter or bylaws of a company have been amended during the period, **a certified copy of such amendment or amended charter or amended bylaws** should be submitted, unless these papers have been previously filed with the Treasury.

XIII. Actuarial Opinion and Explanatory Memoranda - Loss Reserves, Etc.:

A statement of actuarial opinion on the adequacy of all loss reserves of the company should be provided by an independent “qualified actuary” as defined by the NAIC. The scope, format and opinion of the report should also conform to the requirements of the NAIC Annual Statement Instructions for Property and Casualty Companies.

In the event that a company has taken **significant action in any area of operation** which would not be evident from a review of the company's financial statements, such action **should be explained fully in a supporting memorandum**. For example, if during the year the company has increased loss reserves to compensate for inadequate prior years' reserves, the circumstances and amount involved should be explained (including specific advice as to the extent the incurred losses shown in Schedule P were adjusted, on the basis of a review of unpaid losses as contrasted with the payment of losses). **Where a pooling arrangement exists, an actuarial opinion on the reserve adequacy of the pool should be provided, along with a worksheet showing the percentage participation and reserves allocated to each of the individual pool members.**

Should the Treasury's review reveal that reserves for losses incurred in prior years were substantially inadequate in light of subsequent developments, the company's reported surplus will be adjusted accordingly (unless the company furnishes confirmation satisfactory to the Treasury, **from a CPA firm, independent actuary or State insurance department**, that its reserves are adequate at December 31). Accordingly, companies filing annual statements which show material adverse reserve development may wish to make plans to obtain such confirmation. **If adverse development continues to appear, such confirmation may not be accepted from the same person (CPA firm, actuary, etc.) two consecutive years.** However, if the development of the reserves is not adverse, an actuarial opinion provided by a “qualified actuary” employed by the company will suffice.

Other actions, which might require explanatory memoranda, would be the discontinuance of unprofitable lines, special reinsurance arrangements, and items of a similar nature.

XIV. State License Data:

Each company holding a Certificate of Authority **should furnish updated surety license information** each year. Surety license information will be published in the forthcoming July 1 revision of Treasury Department Circular 570.

The license sheet is now available on line. You can now download and print this form from our website at http://www.fms.treas.gov/c570. It should be completed and submitted with all current information.

XV. State Examination Reports:

If a company has been examined during the year by a State Insurance Department, a copy of the examination report, if available, **should be forwarded with the Annual Financial Statement** (provided that the Treasury has not already been furnished a copy). Copies of such reports should normally be furnished to the Treasury within 10 days after receipt by each reporting company. If recommendations or areas of concern are noted in the examination report by the examiners, the company should provide Treasury a copy of the company's response to the examiners which outlines the corrective actions that the company is taking with respect to the recommendations or areas of concern.

XVI. CPA-SEC Reports:

A copy of the company's **individual audited financial statements** should be forwarded with the Annual Statement. If the reporting Company files an individual **10-K report** with the Securities and Exchange Commission (SEC), submission of that report is appreciated. If a CPA or SEC 10-K report is **not included** with the Annual Financial Statement, it should be forwarded by June 1. Any notice provided to the domiciliary Commissioner, as a result of the audit, should also be provided to this Department.

Audited Consolidated financial statements may be filed only if prior approval from Treasury has been obtained. Requests must be submitted by December 31 of the year for which approval is being sought. **However, if a company has received permission from Treasury to file audited consolidated financial statements in the previous reporting year and the company continues to meet the criteria outlined below, the company need not request permission annually.** Approval will be granted only if the company under consideration utilizes a 100% pooling arrangement or cedes all of its direct and assumed business to the pool. The consolidated financial statement must include a columnar consolidated worksheet with each company's separate amounts and consolidating and eliminating entries and a reconciliation of the differences between the amounts shown in the individual company's amounts and the comparable amounts on the annual statement.

XVII. Management's Discussion and Analysis:

Companies should file a supplement to the Annual Statement titled **"Management's Discussion and Analysis"** by April 1, or sooner if possible, to enhance Treasury's understanding of the company's financial position, results of operations, changes in capital and surplus accounts and cash flow. Reference may be made to such Schedules, Exhibits, General Interrogatories and Five-Year Historical Data contained in the Annual Statement. The narrative should be the **same as that required by the NAIC**.

XVIII. Contingent liabilities:

Contingent liabilities are **normally deducted from policyholders' surplus** for Treasury rating purposes.

XIX. Claims - Prompt Payments:

The Treasury expects companies to honor valid Federal claims promptly (see 31 CFR 223.18-20). In addition, 31 U.S.C. 9307 provides that a **final judgment on a Federal claim** (from which no appeal or supersedes has been taken) **must be satisfied within 30 days**. **Failure to do so may result in termination of a company's Certificate of Authority**..

XX. Surplus in Excess of Capital:

A company must maintain sufficient surplus in excess of capital, to preclude the possibility of capital impairment, for Treasury rating purposes, in order for it to continue as an acceptable surety of Federal bonds. **The Treasury will consider surplus in excess of capital to be insufficient unless, after adjustment for Treasury rating purposes, it is equal to 100 percent of capital. The surplus requirement must be maintained at all times during the year; failure to do so may result in termination of a company's Certificate of Authority**.

For **mutual companies and United States branches**, the **legally required surplus or guaranty fund, which equates to capital** under the laws of the company's domiciliary state, **will be equated to capital** for Treasury rating purposes. Therefore, mutual companies and United States branches **should supply information to show the legally required surplus or guaranty fund**.

XXI. Financial Results and Trends:

If a Company's Annual or Quarterly Financial Statements show a deterioration in financial results as evidenced by decreasing policyholders' surplus, large underwriting or net losses, unsatisfactory ratio results, negative cash flows, etc., Treasury may take action to revoke the Company's Certificate of Authority in accordance with 31 C.F.R. 223.17.

XXII. Ratio Results:

Each company should forward a copy of its **IRIS ratio results (calculated by the NAIC)** as soon as they are available. If a company's results are not calculated by the NAIC, **Treasury should be so notified by March 1, 2013.**

In those instances where a company **ceded a substantial portion of its premiums to an affiliated company, the ratios for the consolidated statements of the company and its affiliates shall also be forwarded.**

To continue as an acceptable surety of Federal bonds, a company will be **expected to maintain usual results for the following ratios**:

RATIO	UNUSUAL VALUES EQUAL TO OR OVER	UNDER
1. Gross Premiums Written to Policyholders' Surplus	900	--
2. Net Premiums Written to Policyholders' Surplus	300	--
3. Change in Net Writings	33	-33
4. Surplus Aid to Policyholders' Surplus	15	--
5. Two-Year Overall Operating Ratio	100	--
6. Investment Yield	6.5	3.0
7. Gross Change in Policyholders' Surplus	50	-10
8. Net Change in Adjusted Policyholders' Surplus	25	-10
9. Liabilities to Liquid Assets	105	--
10. Gross Agents' Balances to Policyholders' Surplus	40	--
11. One-Year Reserve Development to Policyholders' Surplus	20	--
12. Two-Year Reserve Development to Policyholders' Surplus	20	--
13. Estimated Current Reserve Deficiency to Policyholders' Surplus	25	

In those instances where a company's ratio results do not fall within the usual ranges, the **Treasury may notify the company of its concern over the company's financial condition. The company will be**

afforded an opportunity to respond to Treasury's concern. The risk-based capital (RBC) ratio should be maintained at 200% or more at all times.

If information submitted by the company is not sufficient to satisfy the Treasury of the company's continued ability to keep and perform its contracts, Treasury will commence proceedings to terminate the company's Certificate of Authority. (See 31 CFR 223.17.)

Paperwork Reduction Act Statement

By authority of 31 U.S.C. 9304-9308, 31 CFR, Part 223, the information requested in this letter is required to retain a benefit and to enable the Assistant Commissioner, Financial Operations, Financial Management Service, Department of the Treasury, to determine if your company is maintaining compliance with the requirements of the Department of the Treasury in order for your company to remain qualified and acceptable as a surety or reinsurer of Federal bonds. Certified companies are required to file this information with Treasury once each year on March 1. Failure to provide this information will result in non-compliance with Treasury regulations and may result in revocation of your Company's authority.

Burden Estimate Statement

The estimated average burden associated with this collection is 39.75 hours per respondent or record keeper, depending on individual circumstances. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to the Financial Management Service, Administrative Programs Division, Records and Information Management Program, Room 135, 3700 East-West Highway, Hyattsville, MD 20782. THIS ADDRESS SHOULD ONLY BE USED FOR COMMENTS AND/OR SUGGESTIONS CONCERNING THE AMOUNT OF TIME SPENT TO COLLECT THIS DATA. DO NOT SEND THE COMPLETED PAPERWORK TO THE ADDRESS ABOVE FOR PROCESSING.

NOTE: FORMAT OF LETTER OF CREDIT TO BE USED BY SURETY COMPANIES DOING BUSINESS WITH THE UNITED STATES, IF APPLICABLE.

In order to be admissible for financial statement purposes, any letter of credit shall be in the format given below.

(References: 31 CFR 223.9 and 223.11 (c)(1); Treasury's Current Annual Letter to Executive Officers of Surety Companies Reporting to the Treasury, Instruction VII and VIII)

LETTERHEAD OF BANK
(Bank Must be Listed on NAIC's "Banks Meeting Credit Standards for Issuing Letters of Credit")

NAME OF BENEFICIARY:

REF: **IRREVOCABLE CLEAN LETTER OF CREDIT NO.**__________

Gentlemen:

At the request of ________ we have established our clean, Irrevocable Credit No. ____ in your favor as stated below:

AMOUNT: _______________

EXPIRING ON: _______________

If we receive here at our office, on or before the expiry hereof, your sight draft on us, mentioning our reference number, for all or part of this credit, we will promptly honor the draft. It is a condition of this Letter of Credit that it will be automatically extended for periods of one year from the then relevant expiry date unless thirty (30) days prior to that relevant expiry date the issuer, by written notice to the beneficiary, elects not to extend this Letter of Credit. Except as stated herein, this undertaking is not subject to any conditions or qualifications whatsoever. Should you have any occasion to communicate with us regarding this credit, kindly direct your communications to the attention of _______________.

Sincerely,

TELEPHONE: _______________

EMAIL ADDRESS: ____________________