

191—49.3(511) Guidelines and internal control procedures.

49.3(1) Before engaging in a derivative transaction pursuant to Iowa Code section 511.8(22), an insurer shall establish written guidelines that shall be used for effecting and maintaining the transactions. The guidelines shall:

- a.* Address investment or, if applicable, underwriting objectives, risk constraints, and the factors considered in establishing risk constraints such as credit risk limits;
- b.* Address permissible transactions and the relationship of those transactions to its operations, such as a precise identification of the risks being hedged by a derivative transaction; and
- c.* Require compliance with internal control procedures.

49.3(2) An insurer shall have a system for determining whether a derivative instrument used for hedging has been effective. In so doing a company should set specific criteria at the inception of the hedge or hedge program as to what will be considered effective in measuring the hedge and individual hedges in a hedge program and then apply those criteria in the ongoing assessment based on actual hedge results.

49.3(3) An insurer shall have a credit risk management system for over-the-counter derivative transactions that measures credit risk exposure using the counterparty exposure amount as provided in rule 49.2(511).

49.3(4) The board of directors of the insurer or a committee thereof shall, in accordance with Iowa Code section 511.8(22)“f”:

- a.* Approve the guidelines required by subrule 49.3(1) and the systems required by subrules 49.3(2) and 49.3(3); and
- b.* Determine whether the insurer has adequate professional personnel, technical expertise and systems to implement investment practices involving derivatives.

49.3(5) For purposes of determining whether internal control procedures are in compliance with this rule, the insurance division may consider, but is not limited to, the following items:

- a.* That only the board or its authorized designee can approve derivative instrument transactions;
- b.* That the board or its designee exercise administrative oversight of trading functions;
- c.* That periodic reporting of open positions to chief investment officer occurs; and
- d.* That periodic assessment of the effectiveness of hedging transactions be conducted by persons designated by the board or its designees.