

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

DEPARTMENT OF STATE
No. 6974
Date MAY 20 2005

RULE NO. 81

TABLE OF CONTENTS

SECTION 1. - GENERAL PROVISIONS.....	1
SECTION 2. - DEFINITIONS	1
SECTION 3. - ESTABLISHING SEGREGATED ASSETS PLANS	4
SECTION 4. - ASSETS AND LIABILITIES.....	7
SECTION 5. - SECURITIZATION OF RISK OF SEGREGATED ASSETS PLAN COMPANIES.....	9
SECTION 6. - PARTICIPANT CONTRACTS	11
SECTION 7. - OBLIGATIONS TO CREDITORS	11
SECTION 8. - INVESTMENTS.....	13
SECTION 9. - REHABILITATION AND LIQUIDATION	14
SECTION 10. - INSURANCE BUSINESS OPERATIONS	14
SECTION 11. - APPLICABILITY OF OTHER REGULATIONS.....	15
SECTION 12. - POWERS OF THE COMMISSIONER	15
SECTION 13 - SEVERABILITY	15
SECTION 14 - EFFECTIVE DATE	15

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE
San Juan, Puerto Rico

RULE NO. 81

**STANDARDS FOR THE REGULATION OF OPERATIONS OF INTERNATIONAL
INSURERS AUTHORIZED TO OPERATE AS SEGREGATED ASSETS PLANS**

SECTION I. - GENERAL PROVISIONS

SUBSECTION 1. - AUTHORITY

The Office of the Commissioner of Insurance of the Commonwealth of Puerto Rico adopts Rule No. 81 of the Regulations of the Puerto Rico Insurance Code under Section 2.040 and Chapter 61 of Public Law No. 77, enacted on June 19, 1957, as amended, 26 LPRA, *et seq.*, known as the Puerto Rico Insurance Code, and Public Law No. 170, enacted on August 12, 1988, as amended, 3 LPRA secs. 2101, *et seq.*, known as the "Uniform Administrative Procedures Act."

SUBSECTION 2. - PURPOSE AND SCOPE

This Rule is adopted for the purpose of establishing the standards for regulating the authorization, operation and supervision of Segregated Assets Plan Companies under Section 61.160 of the International Insurers and Reinsurers Act of Puerto Rico, as such an entity is established and defined in Chapter 61 of the Puerto Rico Insurance Code.

This Rule will be applicable to all International Insurers and Reinsurers who intend to form and operate a Segregated Assets Plan Company for the purpose of providing services and products through the International Insurance Center of Puerto Rico.

SECTION 2. - DEFINITIONS

The following terms and phrases shall have the meanings set forth below:

1. "Capitalized reserve" means that with regard to any risk attributed to a segregated assets plan, the market value of the assets of the segregated assets plan, as of the date on which the insurance policies are securitized, is equal to or exceeds the risk attributable to the segregated assets plan.
2. "General account" means the assets and liabilities of a segregated assets plan company other than the segregated assets and liabilities of a segregated assets plan.
3. "Precipitating loss" means a contractual clause by means of which the release from the obligation of the issuer to return funds invested by the investors is precipitated upon the occurrence of a specific level of loss to the issuer under its insurance or reinsurance contracts, other than participant contracts.
4. "Market value" means:
 - a. With regard to cash, the amount of cash;
 - b. With regard to securities at any given time, the price of the securities on that date, obtained from a recognized source or the most recent quote obtained from such source, or, if there is no recognized source, the price of the securities as determined in good faith by the parties to the transaction,

plus accrued and not distributed income on the securities, to the degree such income has not been included in the price as of that date; and

- c. With regard to letters of credit, the unpaid face value of the letter of credit.
5. "General precipitating event" means a transaction term by which the release from the obligation of the issuer to return invested funds to the investors is precipitated exclusively due to an event or condition other than when the particular Segregated Assets Company incurs in a specific levels of loss under its insurance or reinsurance contracts, other than participant contracts.
6. "Participant" means an entity and any of its affiliates insured by a Segregated Assets Plan Company, where by means of a participant contract, the covered losses of the participant are limited to the assets of one or more of the segregated assets plans identified in such participant contract.
7. "Participant contract" means a contract in which a Segregated Assets Plan Company insures the participant's risks and limits the covered losses of each participant to the assets of one or more of the segregated assets plans identified in such participant contract.
8. "Segregated assets plan" means the identified assets and liabilities of a Segregated Assets Plan Company that are separated and isolated as provided in Chapter 61 of the Code from the remaining assets and liabilities of the Segregated Assets Plan Company.

9. "Segregated assets plan account" means a specifically identified bank or custody account, established by a Segregated Assets Plan Company for the purpose of separating the assets of a segregated assets plan from the assets of another segregated assets plan and from the assets of the general account of the Segregated Assets Plan Company.
10. "Assets of the segregated assets plan" means all the assets, contractual rights, and intangible assets in general, that are identified and attributed to a specific segregated assets plan of a Segregated Assets Plan Company.
11. "Segregated Assets Plan Company" means an International Insurer that has one or more segregated assets plans.
12. "Securitization of risk of a Segregated Assets Plan Company" means the issuing of debt instruments by a Segregated Assets Company, the proceeds of which support the exposure attributable to the segregated assets plan, where the repayment of principal or payment of interest, or both, to the investors under the terms of the transaction depends on the occurrence of an event with regard to which the Segregated Assets Company is exposed to loss under an insurance or reinsurance contract (including other risk-transfer arrangements) executed by the Company, other than participant contracts.
13. "Liabilities of a segregated assets plan" means all liabilities and other obligations identified and attributed to a specific segregated assets plan of a Segregated Assets Plan Company.

Furthermore, for the purposes of this Rule, all other terms that have been defined in Chapter 61 of the Code and Rule No. 80 regarding International Insurers and Reinsurers shall have the same meanings in this Rule.

SECTION 3. - ESTABLISHING SEGREGATED ASSETS PLANS

1. A Segregated Assets Plan Company may establish one or more segregated assets plans with the prior written consent of the Commissioner to an operational plan or amendments filed by the Segregated Assets Plan Company with regard to each segregated assets plan. When the Commissioner has approved the operational plan in writing, which plan shall include, but not be limited to, the specific business objectives and investment guidelines for the segregated assets plan, the Segregated Assets Plan Company, according to the operational plan, may assign obligations and assets to the segregated assets plan to back obligations related to the insurance business and obligations related to the securitization of risks or Participant Contracts.
2. The segregated assets plan will have its own name or designation, which will include the phrase "segregated assets plan" or its equivalent in Spanish or English. The Segregated Assets Company will transfer, or cause to be transferred, all assets that are attributable to a segregated assets plan to one or more separately established accounts that are identified as accounts of the segregated assets plan bearing the name or designation of such segregated

- assets plan. The assets of the segregated assets plan shall be kept in accounts of the segregated assets plans for the purpose of satisfying the obligations of said segregated assets plan.
3. If the operation plan of a Segregated Assets Plan Company approved by the Commissioner so provides, one or more segregated assets plans of said Company may be managed by its own directors and officers or other managers, who are not part of said Company, in a manner that is consistent with the constitutive documents of the Company.
 4. Any attribution of assets and liabilities between the segregated assets plan and the general account shall be carried out according to the operational plan approved by the Commissioner. No other attribution of assets or liabilities may be made by a Segregated Assets Plan Company between the general account of the Segregated Assets Company and its segregated assets plans without the approval of the Commissioner, further to filing of an amended operational plan. Any attribution of assets and liabilities between the general account and a segregated assets plan or investors, in the form of principal of a debt instrument issued by a Segregated Assets Plan Company related to the securitization of risk of a Segregated Assets Plan Company, shall be in cash or through letters of credit or negotiable securities whose value has been established in the market or any other assets or contract or transaction transferring or protecting against risk as may be permitted by the Commissioner.
 5. A Segregated Assets Plan Company may allow the assets of a segregated assets plan or the account of a segregated assets plan to be used as security in

favor of a creditor of the segregated assets plan and as permitted under applicable law.

6. This Rule shall not be interpreted as prohibiting that a Segregated Assets Plan Company retain or make any other arrangement with an investment advisor, a commodity trading consultant or any other third party to manage the assets of a segregated assets plan, if all compensation, expenses and other recompense of the advisor or manager, not a part of the company, is paid from the assets of said segregated assets plan and not from the assets of other segregated assets plans or from the assets of the general account of the Segregated Assets Plan Company, unless so approved by the Commissioner.
7. The Segregated Assets Plan Company will establish such administrative and accounting procedures as may be necessary to adequately identify the segregated assets plan or plans of the Segregated Assets Plan Company and the assets and liabilities attributable to such segregated assets plans. The directors of the Segregated Assets Company shall maintain the assets and the liabilities of the segregated assets plan:
 - a. separate and separately identifiable from the assets and liabilities of the general account of the Segregated Assets Plan Company; and
 - b. when these are attributable to a specific segregated assets plan, separate and separately identifiable from the assets and liabilities attributable to other segregated assets plans.

8. The provisions of Chapter 61 of the Insurance Code shall be interpreted in such a manner that will allow for the identification of the assets of the segregated assets plan when such assets have been comingled with the assets of other segregated assets plans or with the assets of the general account of the Segregated Assets Plan Company, although such remedy will not be deemed to be exclusive.
9. When a segregated assets plan is established, the Segregated Assets Plan Company will attribute assets to the segregated assets plan with a value that is equal to at least the reserves and other insurance liabilities attributable to such segregated assets plan, as calculated according to the methods and procedures allowed or required by the Commissioner, consistent with the provisions of Chapter 61.

SECTION 4. - ASSETS AND LIABILITIES

1. The assets of a segregated assets plan may not be charged with liabilities arising from other business transactions of the Segregated Assets Plan Company. Any contract or other documentation showing the obligations of the segregated assets plan shall clearly indicate that only the assets of the segregated assets plan will be available to satisfy such obligations.
2. The income, and realized and unrealized profit and loss of the assets and liabilities of the segregated assets plan shall be credited or charged to the

segregated assets plan without taking into account any other income, profit or loss of the Segregated Assets Plan Company, including income, profit, and loss of other segregated assets plans. The amounts attributable to a segregated assets plan and sums accrued on such attributable amounts may be invested and reinvested, without consideration of any requirement or limitation on investments applicable to the International Insurer and to investments in one or more segregated assets plans; limitations to investments that would otherwise be applicable to the investments of the Segregated Assets Plan Company may not be applied.

3. Assets that are attributable to a segregated assets plan should be securitized at market value as of the date of securitization or if there were no easily accessible market, as provided in the contract, the rules or other written documentation as may be applicable to the segregated assets plan.
4. A segregated assets plan will have no obligation with regard to policyholders or the reinsured of the general account of the Segregated Assets Plan Company.
5. When the business operations of a segregated assets plan terminate in accordance with a plan approved by the Commissioner, the Segregated Assets Plan Company will voluntarily close the account of the segregated assets plan.
6. A segregated assets plan may use an accounting method for liabilities on a discount basis with the approval of the Commissioner.

SECTION 5. - SECURITIZATION OF RISK OF SEGREGATED ASSET PLAN COMPANIES

1. A Segregated Assets Plan Company authorized as a Class 3 or Class 4 International Insurer, with or without additional authorization as a Class 5 International Insurer, with respect to any of its segregated assets plans, may securitize insurance policies covering precipitating events, under a capitalized reserve program to back the risks of the segregated assets plan attributable to such segregated assets plan under the operational plan approved by the Commissioner. The securitization of risks of a Segregated Assets Plan Company, when the policies cover general risk, will qualify as a securitization of risk under the terms of this Rule, only with the approval of the Commissioner or after the Commissioner has promulgated additional regulations providing for the methods to establish reserves for funds to cover the portion of the risk that is unindemnified, as well as the accounting method, disclosure, risk capital management, and the evaluation of risks associated with such securitization. The securitization of risks of a Segregated Assets Plan Company that does not have capitalized reserves, whether the risk is of a precipitating event or general kind, is prohibited unless approved by the Commissioner.

The assets of the segregated assets plan may be used to pay interest or any

other consideration on any outstanding debt or other obligation attributable to such segregated assets plan, and nothing provided in this Rule may be interpreted as a prohibition against the Segregated Assets Plan Company entering into a reciprocal agreement such as a "swap" or other transaction to the account of the segregated assets plan having the effect of guaranteeing interest or other obligations.

2. In any securitization of risks of a Segregated Assets Plan Company, the contract or other documentation will provide the manner in which the transaction will be carried out and identify the segregated assets plan to which the transaction will be attributed. Furthermore, the contracts or other documentation shall clearly set forth that the assets of said segregated assets plan, and only such assets, will be available to defray the obligations of said segregated assets plan. Notwithstanding the provisions of this Rule, and subject to the provisions of Chapter 61 of the Code and any other applicable law or regulation, the omission of such language in the contracts or other documentation may not be used by creditors, reinsurers or other claimants as the sole grounds for circumventing the provisions of this Rule.
3. The securitization of the risks of a Segregated Assets Plan Company that is offered or issued on behalf of a person or entity in Puerto Rico, may qualify as an Involuntary Investment Company under the provisions of the Puerto Rico Investment Company Act, and the Company may therefore be

obligated to register as such with the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico. Therefore, if such securitization of risk is offered to investors located in Puerto Rico, the Segregated Assets Plan Company shall request a formal opinion from the Office of the Commissioner of Financial Institutions regarding its status as an Involuntary Investment Company and shall comply with the registration requirements established by law for companies in the Puerto Rico Investment Company Act and the Puerto Rico Uniform Securities Act. A copy of such determination or opinion shall be submitted to the Commissioner, before proceeding with the securitization of the risks in question.

SECTION 6. - PARTICIPANT CONTRACTS

1. A Segregated Assets Plan Company may establish and maintain one or more segregated assets plans to insure the risks of one or more participants under a participant contract.
2. Business written by a segregated assets plan under a participant contract will be under the same terms as allowed for the general account of the International Insurer, subject to any further limitation that the Commissioner may impose.
3. Associations, corporations, limited liability corporations, partnerships, trusts and other business entities may be participants of any segregated assets plan.

The participants need not be shareholders of the Segregated Assets Plan Company nor of any affiliate of said Company. The participants will only insure their own risk and that of their affiliates through the Segregated Assets Plan Company.

SECTION 7. -OBLIGATIONS TO CREDITORS

The provisions of Chapter 61 of the Code will be interpreted to the effect that:

1. The Assets of a segregated assets plan will only be available to the creditors of the Segregated Assets Plan Company that are creditors with respect to such segregated assets plan and therefore have a right to rely on the assets of the segregated assets plan attributable to such segregated assets plan and shall be protected from the creditors of the Segregated Assets Plan Company that are not creditors with respect to such segregated assets plan and therefore do not have the right to rely on the assets of the segregated assets plan attributable to such segregated assets plan. Creditors with respect to a segregated assets plan will not have the right to rely on the assets of the segregated assets plan of other segregated assets plans or assets of the general account of the Segregated Assets Plan Company. Creditors of a Segregated Assets Plan Company may only have access to the assets of the segregated assets plan of such company when all of the liabilities of the segregated assets plan under the operational plan of such segregated assets plan have been extinguished or otherwise settled.

2. When the obligation of a Segregated Assets Plan Company with any person arises from a transaction, or is otherwise imposed with respect to a segregated assets plan:
 - a. Said obligation of the Segregated Assets Plan Company is only extensive to the assets of the segregated assets plan attributable to such segregated assets plan, and the person, with respect to said obligation, relies solely on the assets of the segregated assets plan attributable to such segregated assets plan; and
 - b. Said obligation of the Segregated Assets Plan Company is not extensive to the assets of the segregated assets plan of any other segregated assets plan nor the assets of the general account of the Segregated Assets Plan Company, and said person, with respect to such obligation, does not have the right to rely on the assets of the segregated assets plan of any other segregated assets plan or the assets of the general account of the Segregated Assets Plan Company.
3. When any obligation of a Segregated Assets Plan Company is exclusively related to the general account, the obligation of the Segregated Assets Plan Company is only extensive to such creditor, and, with respect to such obligation the creditor has a right to rely solely on the assets of the general account of the Segregated Assets Plan Company.
4. The activities, assets and obligations related to the segregated assets plans

are not subject to the provisions of Chapters 38 and 39 of the Code and may not be encumbered by any warranty fund or association, nor may any plan be obligated to contribute to such fund or association in Puerto Rico with respect to the activities, assets or obligations of a segregated assets plan. No provision of this paragraph affects the activities or obligations of the general account of the Segregated Assets Plan Company.

5. The establishment of one or more segregated assets plans in and of itself does not constitute a fraudulent transaction, an effort on the part of the Segregated Assets Plan Company to defraud creditors, or a business operation with any other fraudulent purpose carried out by the Segregated Assets Plan Company, nor may it be interpreted to be such.

SECTION 8. - INVESTMENTS

Notwithstanding the remaining provisions of this Rule, the assets of two or more of two segregated assets plans may be combined for investment purposes, and such combination will not be deemed to suspend the requirement of separation of such assets for accounting or other purposes.

SECTION 9. - REHABILITATION AND LIQUIDATION

1. Notwithstanding any other provision of law or regulation, if any order is entered providing for the receivership, rehabilitation, or liquidation of a Segregated Assets Plan Company, the receiver shall administer the assets

and liabilities of the Segregated Assets Plan Company, including the assets and liabilities of the segregated assets plan, according to the requirements set forth in Chapter 40 of the Code, and it is further provided that:

- a. The assets of a segregated assets plan may not be used to pay for expenses or claims that are not attributable to such segregated assets plan; and
 - b. The capital and surplus of any Segregated Assets Plan Company shall be available at all times to defray any expense or claim against the Segregated Assets Plan Company.
2. With respect to the amounts that are recoverable under the segregated assets plan, the amount that may be recoverable by the receiver may not be reduced or diminished as a result of a receivership, rehabilitation or liquidation order with respect to the Segregated Assets Plan Company, notwithstanding any provision to the contrary in the contract or other document governing the segregated assets plan.

SECTION 10. - INSURANCE BUSINESS OPERATIONS

The securitization of the risk of a Segregated Assets Plan Company, if it is determined to be an insurance or reinsurance contract, shall not be beyond the authority of an International Insurer. It shall not be deemed that by the mere fact that an investor has invested in securitized risks of a Segregated Assets Plan Company that such investor is operating an insurance business in Puerto Rico. It shall not be

interpreted that the underwriting agents or salespersons and their associates, directors, officers, members, managers, employee, agents, representatives, and advisors related to the securitization of risk of a Segregated Assets Plan Company is operating an insurance or reinsurance, brokerage, mediation, advisory or consulting business by virtue of its activities related to such business.

SECTION 11. - APPLICABILITY OF OTHER REGULATIONS

Insofar as they are not in conflict with this Rule, Rule No. 80 and Rule No. 82 of the Regulations of the Office of the Commissioner of Insurance will be applicable to segregated assets plan companies.

SECTION 12. - POWERS OF THE COMMISSIONER

The Commissioner shall have the authority, as provided in Sections 2.030 and 61.260 of the Code, to examine and investigate any person to whom this Rule is applicable for the purpose of verifying compliance with the provisions of the rule and the appropriate and applicable provisions of the Code.

SECTION 13. - SEVERABILITY

If any court of competent jurisdiction should find any word, sentence, paragraph, clause section or part of this Rule to be invalid, the order entered by such court will not affect the remaining provisions of this Rule; i.e., the effect of the order shall be limited to the word, sentence, paragraph, clause section or part of this Rule that was determined to be invalid.

SECTION 14. - EFFECTIVE DATE

The provisions of this Rule shall enter into effect thirty (30) days after filing at the Department of State of the Commonwealth of Puerto Rico, under the provisions of Public Law No. 170, enacted on August 12, 1988, as amended, known as the "Uniform Administrative Procedures Act."

DORELISSE JUARBE-JIMÉNEZ
COMMISSIONER OF INSURANCE

Date of approval: May 19, 2005

Date of filing at the
Department of State: May 20, 2005

Date of filing at the Legislative Library: