



ADMINISTRATIVE RULES OF MONTANA

6.6.4022 GUIDELINES AND INTERNAL CONTROL PROCEDURES

- (1) Before engaging in a derivative transaction, an insurer shall establish written guidelines, approved by the commissioner, that shall be used for effecting and maintaining derivative transactions. The guidelines shall:
 - (a) specify the insurer's objectives for engaging in derivative transactions, derivative strategies, and all applicable risk constraints, including credit risk limits;
 - (b) establish counterparty exposure limits and credit equity standards;
 - (c) identify permissible derivative transactions and the relationship of those transactions to insurer operations; for example, a precise identification of the risks being hedged by a derivative transaction; and
 - (d) require compliance with internal control procedures.
- (2) An insurer shall have a written methodology for determining whether a derivative instrument used for hedging has been effective.
- (3) An insurer shall have written policies and procedures describing the credit risk management process and a credit risk management system for over-the-counter derivative transactions that measures credit risk exposure using the counterparty exposure amount.
- (4) An insurer's board of directors shall, in accordance with 33-12-104, MCA:
 - (a) approve the written guidelines, methodology, policies and procedures, and systems required by this rule;
 - (b) determine whether the insurer has adequate professional personnel, technical expertise, and systems to implement investment practices involving derivatives;
 - (c) review whether derivatives transactions have been made in accordance with the approved guidelines, and consistent with the stated objectives; and
 - (d) take action to correct any deficiencies in internal controls relative to derivative transactions.

Authorizing statute(s): 33-1-313, 33-12-111, MCA

Implementing statute(s): 33-12-210, 33-12-310, MCA

History: NEW, 2011 MAR p.1303, Eff. 7/15/11.