

December 31, 2021

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

Congress authorized the Secretary of the Treasury (the Secretary) in 31 U.S.C. §§ 9304-9305 to certify a surety company to do business with the United States if the Secretary determines that the company meets certain conditions and is able to carry out its contracts. Treasury has published its requirements for companies applying to underwrite or reinsure federal bonds at 31 C.F.R. Part 223.

Per 31 C.F.R. 223.8, the Annual Letter to Executive Heads of Surety Companies (Treasury Annual Letter) provides the timeframes and process for submitting the requisite financial data of certified companies and reinsurers.

Furthermore, 31 C.F.R. 223.9 grants authority through the Treasury Annual Letter to establish the financial analysis methodology for the valuation of assets and liabilities for participating corporate surety companies holding certificates of authority and/or recognized as admitted reinsurers. Therefore, the Treasury Annual Letter establishes the valuation methodology to ensure corporate surety companies are financially solvent and able to perform on all bonds underwritten.

PLEASE NOTE:

- This letter and all forms are available on our website: <https://www.fiscal.treasury.gov/surety-bonds/>
- Automated Treasury Schedule F posted on our website: <https://www.fiscal.treasury.gov/surety-bonds/downloads.html#schedulef>
- Section III: Requirements for insurance subsidiaries.

The 2021 Annual Statement NAIC File Upload (s.txt file only) of all companies holding a Treasury Certificate of Authority must be filed with the Department of the Treasury (Treasury) no later than **March 1, 2022**.

Annual Statement NAIC File Upload (s.txt file only) should be filed for your company as well as for all insurance company subsidiaries shown on the year-end Schedule D. The Annual Financial Statement Jurat Page must be signed and sworn to by the company's President and Secretary and notarized (facsimile signatures and notary seals are acceptable) for the reporting company and all insurance company subsidiaries shown on Schedule D.

The NAIC File Upload (s.txt file only) must be in accordance with the NAIC Annual Statement Filing Specifications. Please note Treasury must be notified if the company's Annual Statement NAIC File Upload (s.txt file only) is rejected by the NAIC or faulty in any way.

All forms are provided via the following link: <https://www.fiscal.treasury.gov/surety-bonds/downloads.html>

Forms must be completed and made a part of the company's filing that includes a completed checklist.

The forms are:

- Annual Filing Checklist – Certified Surety/Certified Reinsuring Companies
- Schedule of Excess Risks (See Section VIII in attached letter)
- Surety License Sheet (See Section XIV)
- Treasury Schedule F (See Section VII)
- Quarterly Report of Federal Business Written, Assumed, and Outstanding – to be used by Certified Surety Companies
- Quarterly Report of Federal Business Assumed and Outstanding – to be used by Certified Reinsuring Companies

Treasury regulations at 31 C.F.R. § 223.22 provide for the collection of a fee applicable to renewal of Certificates of Authority. The fee of \$6,000 is due February 15, 2022.

To pay your fee, go to the following website (<https://www.fiscal.treasury.gov/surety-bonds/>) and select "PAY ONLINE".

You may pay online by credit card or ACH Debit. We accept American Express, Discover, Visa and Master Card. If the company chooses to pay via ACH debit, the company must first make sure that there are no restrictions on debit activity for the bank account the company plans to use for their 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. All information is:

- due **March 1, 2022**, and
- sent electronically by email to surety.bonds@fiscal.treasury.gov

In the event that the company is no longer writing or reinsuring Federal surety bonds, the company is advised to notify Treasury of their intention 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 must be returned to Treasury with your filings.

Treasury has made changes to its instructions in recognition of the accomplishments made in the insurance industry through the codification efforts, resulting 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 is considering whether additional changes are appropriate.

Any questions regarding these instructions may be directed to the Surety Bond Branch at (304) 480-6635. We would also appreciate any comments you may have relative to the services provided.

Melvin Saunders
Manager
Surety Bond Branch

Enclosures

SURETY BOND BRANCH ~ 200 THIRD ST ~ RM. 1010
PARKERSBURG, WV 26106
<https://www.fiscal.treasury.gov/surety-bonds/>

ANNUAL CALENDAR - 2022 FILINGS FOR COMPANIES HOLDING A TREASURY CERTIFICATE OF AUTHORITY

Due February 15 (or the following business day if the 15th falls on a weekend)

- Renewal Fee of \$6,000 (Proof of payment to be emailed with the filing to the Surety Bond Branch)

Due March 1 (or the following business day if the 1st falls on a weekend)

(Refer to the checklist posted on our website as well)

- Annual Financial Statement Jurat Page signed and notarized for reporting company and all insurance company subsidiaries shown on Schedule D
- NAIC File Upload (s.txt file only) for reporting company and all insurance company subsidiaries shown on Schedule D
- Schedule of Excess Risks* – signed and notarized. The Schedule of Excess Risks must be submitted in two forms - a PDF (signed and notarized) and an MS Excel document
- Treasury Schedule F* (ceded reinsurance only). The Treasury Schedule F should be submitted as an MS Excel document. 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.
- Surety License Sheet* (including the state Certificate of Authority for any new states added)
- Statement of Actuarial Opinion
- Report of Federal Business, Written, Assumed, and Outstanding during the quarter* (4th quarter 2021) For Certified Reinsuring Companies: Federal Business Assumed and Outstanding* (4th quarter 2021)
- A completed annual checklist* of the items furnished (including contact name, phone number and email address), and ensure that all items checked have been provided with the filing. Please note, we do not require the Insurance Expense Exhibit to be filed or the PDF format of the Annual Financial Statement.

Due Apr 1

- **Management Discussion and Analysis (MD&A)**

Due May 1 (or the following business day if the 1st falls on a weekend)

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

Due May 15 (or the following business day if the 15th falls on a weekend)

- Signed and notarized quarterly Jurat (1st qtr. 2022)
- Quarterly Financial Statement NAIC File Upload (s.txt file only) (1stqtr. 2022)
- Schedule of Excess Risks* (1st qtr.2022)
- Report of Federal Business Written, Assumed, and Outstanding during the quarter* (1st qtr. 2022) For Certified Reinsuring Companies: Federal Business Assumed and Outstanding* (1st qtr. 2022)
- A completed quarterly checklist* of the items furnished (including contact person information and email address) Please ensure that all items checked have been provided with the filing.

Due June 1 (or the following business day if the 1st falls on a weekend)

- CPA Audited Financial Statements** (specific to the reporting company- Consolidated statements will

not be accepted unless approved in advance by the Surety Bond Branch)

- CPA Report on Internal Control
- CPA's Management Letter/10-K Report, if applicable

Due August 15 (or the following business day if the 15th falls on a weekend)

- Signed and notarized quarterly Jurat (2nd qtr. 2022)
- Quarterly Financial Statement NAIC File Upload (s.txt file only) (2nd qtr. 2022)
- Schedule of Excess Risk* (2nd qtr. 2022)
- Report of Federal Business Written and Outstanding during the quarter* (2nd qtr. 2022)
For Certified Reinsuring Companies: Federal Business Assumed and Outstanding* (2nd qtr. 2022)
- A completed quarterly checklist* of the items furnished (including contact person information and email address)
Please ensure that all items checked have been provided with the filing.

Due November 15 (or the following business day if the 15th falls on a weekend)

- Signed and notarized quarterly Jurat (3rd qtr. 2022)
- Quarterly Financial Statement NAIC File Upload (s.txt file only) (3rd qtr. 2022)
- Schedule of Excess Risks* (3rd qtr. 2022)
- Report of Federal Business Written and Outstanding during the quarter* (3rd qtr. 2022)
For Certified Reinsuring Companies: Federal Business Assumed and Outstanding* (3rd qtr. 2022)
- A completed quarterly checklist of the items furnished (including contact person information and email address)*
Please ensure that all items checked have been provided with the filing.

Due December 31 (or the following business day if the 31st falls on a weekend)

Request for filing consolidated CPA reports, if applicable

Due Whenever Applicable

Miscellaneous:

- NAIC Biographical Affidavits of New Officers/Directors (marked with a “#” on each new period’s Jurat)
- Information on Changes in Reinsurance Agreements
- Information on Ownership or Name Changes
- Any additional data requested by Treasury

Due When Released by State

- State Exam Report

FAILURE TO SUBMIT THIS AND/OR ANY OTHER REQUESTED INFORMATION WHEN DUE MAY RESULT IN REVOCATION OR NON-RENEWAL OF THE COMPANY'S CERTIFICATE OF AUTHORITY.

*Our forms are now available online

**These items should be sent as early as possible.

INSTRUCTIONS – ANNUAL AND QUARTERLY FINANCIAL STATEMENTS SUBMISSIONS OF SURETY COMPANIES REPORTING TO THE DEPARTMENT OF THE TREASURY

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 Treasury for valuing assets and liabilities in accordance with Treasury Circular No. 297 (31 C.F.R. Part 223). As noted in parts 223.7 and 223.9 of 31 CFR, Treasury issues instructions and guidelines to companies via Annual Letters regarding the valuation of assets (including investments) and liabilities. Treasury also requires, in 31 CFR 223.8, the submission of annual and quarterly financial statements. This Annual Letter provides specific guidance as to how Treasury evaluates the information contained in a company's financial statements and other submitted information.

The amount of paid-up capital and surplus of a company shall be determined on an insurance accounting basis from the company's financial statements and such other information as Treasury may require, as stated in 31 CFR 223.15. Please be advised that there are areas of Treasury's review that may continue to be more conservative than codification. Treasury's financial analysis will determine if a downward adjustment to a company's policyholders' surplus will be made, 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 its policyholders' surplus. This will occur when Treasury considers its financial picture to be hazardous, or when Treasury believes the company is not in compliance with its requirements.

Non-compliance with statutory, regulatory, or other requirements in this letter may result in a company's Certificate not being renewed or its Certificate being revoked.

As stated in 31 CFR 223.8, Treasury may at times require additional information or exhibits to perform its review.

I. Assets – General Criteria for Admissibility:

For Treasury rating purposes, admissible assets generally are limited to investments in cash items, marketable securities, mortgage loans (within certain limits), and realty necessary for the conduct of the company's business. Normal account balances such as agents' balances are only admissible if collectible within 90 days. Other assets may be admissible if they meet criteria described in this letter.

As stated in 31 CFR 223.7, Treasury periodically issues instructions (via Annual Letters) with respect to investments and other matters. 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 that are adequately supported as to both value and convertibility within 90 days will 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, may require additional supporting documentation in order to be admissible under Treasury criteria.

II. Securities:

In the Annual Financial Statement required by 31 CFR 223.8, 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) The value of all other securities should be based on market quotations as of December 31.

To be admissible, a security must be 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-admissible for Treasury rating purposes. Additionally, securities designated "U", may be non-admitted unless evidence of their marketability can be demonstrated.

Securities of controlled or affiliated companies must be valued in accordance with Instruction III below.

Investments in foreign stocks and foreign bonds may be admissible as long as they do not exceed a combined value of 10% of the reporting company's total admitted assets. Foreign investments must be reported in U.S. dollars as of the date of the financial statement.

Investments may be considered admissible provided:

- They are listed in the NAIC's "List of Approved Mutual Funds"; (and/or)
- The company provides a detailed, written analysis of their portfolio of investments to include the following:
 - company investment philosophy for all asset types;
 - Process company follows should investment philosophy shift for any/all asset types;
 - Process company follows if/when the asset is liquidated prior to maturity; and,
 - Historical analysis depicting investment intent (i.e. – is it typically held to maturity, how often are assets liquidated prior to reaching maturity, etc.)

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 the company can provide the written analysis required above with regards to their "other invested assets."

III. Securities of Controlled Companies:

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 company, should furnish copies of their NAIC File Upload (s.txt file only) of such other companies. The NAIC File Upload (s.txt file only) must be in accordance with the NAIC Annual Statement Filing Specifications. Each annual and quarterly statement should be signed and sworn to by the President and Secretary of the controlled company and be signed and sealed by a notary.

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.

The common stock of insurance subsidiaries certified by Treasury, if held by other Treasury certified companies, will be considered a non-admissible asset when determining the parent company's Treasury underwriting limitation. This valuation method is effective for transactions 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.

Reporting companies owning securities of non-insurance subsidiaries, 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. The financial statements of non-insurance companies should be independently audited.

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

IV. Real Estate and Mortgages - Appraisals Required:

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 aggregate 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 these 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 deemed 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. 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 covering direct mortgage loans or participation certificates in mortgages fully insured by the FHA, VA or other instrumentality of the United States need not be furnished. 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 submitted with the Annual Statement NAIC Upload File (s.txt file only).

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 Part 3 of the company's annual statement be reported on the Treasury form in accordance with instructions on the schedule.

The Treasury Schedule F is a spreadsheet that is formula driven 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 must be included and be accurately completed. Companies are required to submit the Treasury Schedule F as a MS Excel document. However, if errors are found in the document, the applicable financial analyst will request to have it accurately completed.

The Treasury Schedule F can be downloaded from our website at the following address:

<https://www.fiscal.treasury.gov/surety-bonds/downloads.html#schedulef>

Please note that this form is updated annually to accurately reflect any company changes to our program, and the current version must be downloaded from our website each year prior to filling in the data. For those companies using their internal computer systems to fill in the data, we post a PDF document in addition to the Treasury Schedule F that details all the changes since the last file was published to assist when updating each internal system.

Furthermore, please reference the instructions page when inputting data. A Treasury authorized company may differ from an authorized company on the statutory financials and only includes companies within our program.

Regarding completion of the file, credit may be taken for reinsurance ceded to non-Treasury authorized/recognized parents, subsidiaries and/or affiliates (Section II (A) of Treasury Schedule F), if the parent, subsidiary and/or affiliate participate in a pooling agreement (as outlined in Footnote 26 of the Annual Financial Statement) with the Treasury authorized/recognized company and Treasury determines the pool is financially solvent. However, reinsurance ceded to a parent, subsidiary or affiliated company

that is not recognized by Treasury must be listed under Section II of the Schedule as Other Treasury Authorized Companies.

Companies may receive credit for unauthorized reinsurance to the extent of funds held or letters of credit or trust agreements from unauthorized companies, provided that the Treasury is advised of 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 17, 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 Treasury, for trust account assets associated with multi-beneficiary trust agreements established and maintained in the United States by overseas accredited or trustee reinsurers, to the extent the unauthorized ceded business is covered by these trust account assets.

Please note that companies recognized by the NAIC as overseas accredited trustee reinsurers may be considered unauthorized by Treasury. Business ceded to these reinsurers which is not covered by the aforementioned trust account assets, and not otherwise offset by other funds held, may continue to be included in any applicable Schedule F penalty. In addition, please be advised that these trust account assets cannot be used to protect excess risks reported on Fiscal Service 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 3 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 3 largest amounts reported on the Treasury Schedule F, Part 2, Cols. B and C.

Treasury considers reinsurance recoverables on paid losses that are over 90 days past due to be non-admissible assets. If such recoverables are material in nature, the reduction of loss reserves for the associated unpaid recoverables and Incurred But Not Reported (IBNR) will be disallowed.

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:

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 determined by the Treasury, unless the excess liability is protected by one of the several means authorized in 31 C.F.R. §223.11. For purposes of this part, "single risk" is defined as the total risk under one bond or policy regardless of the number of individual risks under that bond or policy. As required by 31 C.F.R. 223.13, each company must report quarterly to the Treasury every risk that it has underwritten, either directly or through assumed

reinsurance, during the preceding three months (rather than year-to-date), 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), whether or not the United States is a party to the risk.

Treasury underwriting limitations are published on our website on July 1 and are based on the most recent year-end financials. Treasury underwriting limitations are applicable, unless revoked or modified prior, beginning July 1 through June 30 of the following year. As an example, Treasury underwriting limitations published on July 1, 2022 must be referenced on the 2022 3rd and 4th quarter Schedule of Excess Risks and the 2023 1st and 2nd quarters.

Quarterly reports of such excess risks must be made on Treasury Form TFS 285-A, Schedule of Excess Risks as an MS Excel document. If there are no excess risks to report, "None" should be entered on the form or a letter provided along with the required signatures.

An important distinction to make in completing the Schedule of Excess Risk is that Treasury authorized reinsurance may differ from statutory-reported authorized reinsurance. More specifically, Treasury authorized insurance relates to those companies approved within our program.

Additionally, please note that amounts reported on the form as Treasury authorized cannot exceed each listed Treasury certified surety company's or reinsurer's Treasury underwriting limitation. In the event that they do, the remainder in excess of the Treasury underwriting limitation would need to be reported as unauthorized. Again, all Treasury underwriting limitations for certified companies and reinsurers can be found on our website. Regarding amounts reported for admitted reinsurers within our program, Treasury authorized reinsurance must not exceed 10% of their most recent year-end policyholder surplus value.

As required by 31.C.F.R. § 223.11, excess risks running to the United States must be reinsured within 45 days from the date of execution and delivery of the bond and reinsurance agreement forms should be executed and filed in accordance with the instructions given on the form. 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 trustee assets that meet Treasury's admissibility requirements may be used for this purpose.

Quarterly NAIC File Upload (s.txt file only) must be in accordance with the NAIC Annual Statement Filing Specifications for the s.txt file. The Quarterly Financial Statement's Jurat Page and Schedule of Excess Risks must be signed and sworn to by the company's President and Secretary and signed and sealed by a notary. Again, electronic signatures in line with the NAIC requirements are now acceptable.

IX. Capital Changes:

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

Additionally, a company may request that their Treasury underwriting limitation be reviewed and potentially revised after July 1 if such major changes have occurred, impacting the policyholder's surplus value. These changes would need to be reflected on a financial statement before any changes can be made.

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 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 that have occurred subsequent to the submission of the original list and that 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 the aggregate change is five (5) percent or more.

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, Assumptions, and Group/Pool Restructuring:

The Treasury should be promptly advised regarding proposed or effected mergers, consolidations, transfers, assumptions, (material) group/pool restructuring, 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.

In the event of such change(s) and upon the effective date, Treasury will work with the respective company to request updated financials reflecting the change(s). A review of the financials may lead to a revision of the company's Treasury underwriting limitation.

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:

A statement of actuarial opinion on the adequacy of all loss reserves of the company must 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, Treasury will require the company to furnish satisfactory documentation related to the reserves from a CPA firm, independent actuary or state insurance department, indicating 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 must furnish updated surety license information each year. Surety license information will be published in the forthcoming July 1 revision of Treasury Circular 570.

The license sheet is available online and can be downloaded and printed from our website at <https://www.fiscal.treasury.gov/surety-bonds/downloads.html#sheet>. A completed copy must be submitted with the 4th quarter submission. If a company has expanded into new states since the prior year’s submission, a State issued Certificate of Authority for each new state is required along with the form.

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, must 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. Contingent liabilities:

Contingent liabilities may create an adjustment to policyholders’ surplus for Treasury rating purposes.

XVII. Claims - Prompt Payments:

The Treasury expects companies to honor valid Federal claims promptly. In addition, 31 U.S.C. § 9305 provides that a final judgment on a Federal claim (from which no appeal or supersedeas has been taken) must be satisfied within 30 days. Failure to do so may result in revocation or non-renewal of a company’s Certificate of Authority.

XVIII. Risk-Based Capital (RBC):

Risk-Based Capital (RBC) is a method of measuring the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. RBC limits the amount of risk a company can take and requires a company with a higher amount of risk to hold a higher amount of capital. Capital provides a cushion to a company against insolvency. RBC is intended to be a minimum capital standard and not necessarily the full amount of capital that an insurer would want to hold to meet its safety and competitive objectives.

The RBC formula was developed as an additional tool to assist in the financial analysis of insurance companies. The purpose of the formula is to establish a minimum capital requirement based on the types of risks to which a company is exposed. Separate RBC models have been developed for each of the primary insurance types: Life, Property/Casualty, Health and Fraternal. This reflects the differences in the economic environments facing these companies. The risk factors for the NAIC’s RBC formulas focus on three major areas: 1) Asset Risk, 2) Underwriting Risk, and 3) Other Risk.

RBC is not designed to be used as a stand-alone tool in determining the financial solvency of an insurance

company. As such, Treasury uses as part of its valuation of a company's assets and liabilities pursuant to 31 CFR 223.9. Treasury uses RBC in conjunction with a company's overall financial results, ratios and trends to evaluate its financial strength and solvency. The RBC ratio should be maintained at 200% or more at all times. If a company's RBC ratio falls below this threshold or otherwise exhibits a concerning trend, Treasury may require the company to take corrective action to maintain its certification.

XIX. Financial Results and Trends:

If a company's Annual or Quarterly Financial Statements required by 31 CFR 223.8 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 notify the company of its concern and request additional information. A company that fails to respond satisfactorily to such an inquiry may have its application for renewal of its Certificate of Authority denied or have its Certificate revoked by Treasury.

XX. Ratio Results:

Each company should email 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, 2022**.

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

UNUSUAL VALUES EQUAL TO OR RATIO	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	5.5	2.0
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	

When a company's ratio results do not fall within the usual ranges, 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 insufficient to satisfy the Treasury of the company's compliance or its continued ability to keep and perform its contracts, Treasury may commence proceedings to revoke the company's Certificate of Authority. (See 31 CFR 223.19.)

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, Fiscal Accounting, Bureau of the Fiscal 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 a loss of your company's authority to act as a surety or reinsurer of Federal bonds.

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 Bureau of the Fiscal Service, Forms Management Officer, Parkersburg, WV 26106-1328. **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 DEPARTMENT OF THE TREASURY, 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. _____

Sir / Madam:

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: _____

EMAILADDRESS: _____