



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

**Bulletin No. FS-2**  
**April 30, 2002**

**TO: ALL DOMESTIC INSURANCE COMPANIES**

**RE: CUSTODY OF SECURITIES**

This bulletin supersedes Insurance Department Bulletin FS-2a of September 15, 1971 and Bulletin FS-2b of July 8, 1982.

### **I. DEFINITIONS.**

As used in this bulletin, the following terms have the respective meanings set forth below:

“Agent” means a national bank, state bank or trust company that maintains an account in its name in a Clearing Corporation or that is a member of the Federal Reserve System and through which a Custodian participates in a Clearing Corporation or the Federal Reserve Book-Entry System, except that with respect to Securities issued by institutions organized or existing under the laws of a foreign country or Securities used to meet the deposit requirements pursuant to the laws of a foreign country as a condition of doing business therein. “Agent” shall include a corporation that is organized or existing under the laws of a foreign country and legally qualified under those laws to accept custody of Securities.

“Clearing Corporation” means a corporation as defined in section 42a-8-102(3) of the Connecticut General Statutes that is organized for the purpose of effecting transactions in Securities by computerized book-entry, except that with respect to Securities (i) issued by institutions organized or existing under the laws of a foreign country, (ii) used to meet the deposit requirements pursuant to the laws of a foreign country as a condition of doing business therein, or (iii) issued in a foreign country by a United States domiciled issuer. “Clearing Corporation” shall include a corporation that is organized or existing under the laws of a foreign country and legally qualified under the laws of such foreign country to effect transactions in Securities by computerized book-entry.

“Commissioner” means the Insurance Commissioner of the State of Connecticut.

“Custodian” means a national bank, state bank or trust company, including an affiliate of the Insurer, that shall at all times during which it acts as a custodian pursuant to this bulletin be (a) no less than adequately capitalized as determined by the standards adopted by United States banking regulators, (b) regulated by either state banking laws or a member of the Federal Reserve System, and (c) legally qualified to accept custody of Securities in accordance with the standards of this bulletin, except that with respect to Securities (i) issued by institutions organized or existing under the laws of a foreign country, (ii) used to meet the deposit requirements pursuant to the laws of a foreign country as a condition of doing business therein,

or (iii) issued in a foreign country by a United States domiciled issuer. "Custodian" shall include a bank or trust company incorporated or organized under the laws of a country other than the United States that is regulated as such by that country's government or an agency thereof that shall at all times during which it acts as a custodian pursuant to this bulletin be no less than adequately capitalized as determined by the standards adopted by international banking authorities and legally qualified to accept custody of Securities.

"Custodied Securities" shall have the meaning set forth in Section II of this bulletin.

"Federal Reserve Book-Entry System" means the computerized systems sponsored by the United States Department of the Treasury and certain agencies and instrumentalities of the United States for holding and transferring Securities of the United States government and such agencies and instrumentalities in Federal Reserve Banks through banks that are members of the Federal Reserve System or that otherwise have access to such computerized systems.

"Insurer" means an insurance company or other entity organized and existing under the laws of the State of Connecticut and subject to the jurisdiction of the State of Connecticut Insurance Department.

"Reciprocal State" means, unless otherwise permitted by the Commissioner, any state, other than Connecticut, that (a) requires the insurance commissioner or equivalent official of such state to be the receiver of a delinquent insurer; (b) directs the receiver to take possession of the assets of such insurer and to administer them under the general supervision of the court; (c) vests in the receiver, by operation of law, title to all of the property, contracts, rights of action and books and records of such insurer, *provided* that with respect to any insurer domiciled in Connecticut, such title, other than with respect to special deposits and security on secured claims, is vested in the Commissioner or equivalent official of the State of Connecticut; and (d) provides for the avoidance of fraudulent conveyances and preferential transfers.

"Securities" means certificated securities and uncertificated securities as defined in clauses (a) and (b) of section 42a-8-102 of the Connecticut General Statutes; *provided*, that "Securities" shall not include (i) securities that mature in 397 days or less from the date of purchase; (ii) securities that are to be disposed of within 180 days, (iii) securities deposited with any governmental agency, as required by law, ruling or regulation; (iv) securities custodied in a foreign country, *provided* that such securities do not exceed ten percent of the Insurer's admitted assets (securities held by a Clearing Corporation located in a foreign country shall not be included in the determination of such ten percent); (v) securities used to meet deposit requirements as a condition of doing business in a jurisdiction (including, without limitation, a foreign country) that is different from the jurisdiction the laws of which regulate the Custodian; and (vi) investments in investment companies registered under the Investment Company Act of 1940, as amended from time to time.

## **II. CUSTODY; APPROVAL.**

Effective April 30, 2002, an Insurer may, by written agreement with a Custodian, provide for custody of its Securities by such Custodian or its Agent. Securities in the custody of a

Custodian or its Agent are referred to in this bulletin as “Custodied Securities”. Each custody agreement shall comply with the requirements set forth in this bulletin and shall be subject to the prior approval of the Commissioner. Insurers are granted to July 1, 2003, to revise existing agreements for compliance with this Bulletin. Such compliance will be verified as part of the Insurance Department financial examination of an Insurer.

### **III. CUSTODY AGREEMENT; REQUIREMENTS.**

- a) Certificated Securities held by a Custodian shall be held either separate from the Securities of the Custodian and of all of its other customers or in a fungible bulk of Securities as part of a “filing of securities by issue” arrangement.
- b) Custodied Securities held in a fungible bulk by the Custodian and Custodied Securities in a Clearing Corporation or in the Federal Reserve Book-Entry System shall be separately identified on the Custodian’s official records as being owned by the Insurer. The records shall identify which Custodied Securities are held by the Custodian or by its Agent and which Custodied Securities are in a Clearing Corporation or in the Federal Reserve Book-Entry System. If the Custodied Securities are in a Clearing Corporation or in the Federal Reserve Book-Entry System, the records shall also identify where the Custodied Securities are and if in a Clearing Corporation, the name of the Clearing Corporation and if through an Agent, the name of the Agent.
- c) All Custodied Securities that are registered shall be registered in the name of the Insurer or in the name of a nominee of the Insurer or in the name of the Custodian or its nominee or, if in a Clearing Corporation, in the name of the Clearing Corporation or its nominee.
- d) The Custodian shall be required to send or cause to be sent to the Insurer a confirmation of all transfers of Custodied Securities to or from the account of the Insurer. In addition, the Custodian shall be required to furnish to the Insurer reports of holdings of Custodied Securities at times (but not less than monthly) and containing information reasonably requested by the Insurer.
- e) The Custodian shall maintain records as required for an audit and sufficient to determine and verify information relating to Custodied Securities that may be reported in the Insurer’s Annual Statement and Schedules as filed with regulatory authorities.
- f) The Custodian shall be obligated to indemnify the Insurer for any loss of Custodied Securities occasioned by the negligence or dishonesty of the Custodian or its officers or employees, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction.
- g) In the event that there is a loss of Custodied Securities for which the Custodian shall be obligated to indemnify the Insurer as provided in clause “f” above, the Custodian shall promptly replace the Custodied Securities or the value thereof and the value of any loss of rights or privileges resulting from the loss of Custodied Securities.

- h) The custody agreement may provide that the Custodian will not be liable for a failure to take an action required under the custody agreement in the event and to the extent that the taking of the action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosion, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause beyond its reasonable control.
- i) In the event that the Custodian enters into an arrangement with a sub-custodian or gains entry in a Clearing Corporation or in the Federal Reserve Book-Entry System through an Agent, there shall be an agreement between the Custodian and the sub-custodian or Agent, as the case may be, under which the sub-custodian or Agent shall be subject to the same liability for loss of Custodied Securities as the Custodian, as set forth in clause "f" above. However, if the sub-custodian or Agent shall be subject to regulation under the laws of a jurisdiction (including, without limitation, a foreign country) that is different from the jurisdiction the laws of which regulate the Custodian, the standard of liability applicable to the sub-custodian or Agent may be different from the standard of liability set forth in clause "f" above, provided that such different standard shall include the obligation to indemnify the Insurer for any loss of Custodied Securities occasioned by the negligence or dishonesty of the sub-custodian or Agent or its officers or employees.
- j) Custodied Securities must be held subject to the instructions of the Insurer and must be withdrawable upon the demand of the Insurer.
- k) The Custodian shall secure and maintain insurance protection in an adequate amount covering the Custodian's duties and activities as Custodian for the Insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the Custodian's banking regulator.
- l) The Custodian shall provide written notification to the Commissioner if the custody agreement with the insurer has been terminated or if 100% of the account balances in all custody accounts established pursuant to the custody agreement have been withdrawn. This termination notification shall be remitted to the Commissioner within three (3) days of the custodial dissolution.

#### **IV. DEPARTMENT ACCESS.**

- a) Any representative of the State of Connecticut Insurance Department shall be entitled with written instructions from an appropriate officer of the Insurer to examine on the Custodian's premises the Custodian's records relating to Custodied Securities.
- b) Upon the Insurer becoming aware of any material problems in the handling by a Custodian or its Agent of the Custodied Securities of such Insurer, such Insurer shall immediately notify the Commissioner of such problems.

- c) The Custodian shall provide, upon written request from the Insurer, an affidavit, on a form prescribed by the Commissioner, with respect to the Custodied Securities of such Insurer held by the Custodian, whether by possession or in book entry form.

**V. DISCLOSURE OF INTERNAL AUDITS.**

Upon request of the Insurer, the Custodian shall send to the Insurer all reports that the Custodian receives from a Clearing Corporation on its system of internal accounting control and reports prepared by outside auditors with respect to systems of internal accounting control of the Custodian pertaining to Custodian record keeping.

**VI. LOCATION OF CUSTODIED SECURITIES.**

- a) Except as set forth in the definition of "Custodian", Custodied Securities may be held only in Reciprocal States.
- b) If, at any time, a state in which Custodied Securities are located is no longer a Reciprocal State, any Custodied Securities located in that state shall be relocated to another state that is a Reciprocal State or to Connecticut.

Please acknowledge receipt of this bulletin.

  
Susan F. Cogswell  
Insurance Commissioner