RIDF Section 13. Sensitivity to Assumptions

Sensitivity of the Credit Rating to Assumptions Made by Fitch as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

The major assumptions made by Fitch in determining the announced credit ratings are discussed below, along with examples that illustrate the effect of the violation of those assumptions, where determinable.

Assumption

Fitch assumes that the issuer is not subject to a material undisclosed event including, but not limited to, corporate restructuring, acquisition, asset disposal or loss event.

- *In 2013, the IFS ratings of a U.S. insurer were downgraded to 'BB' from 'A-' after the insurer announced that it was making a significant addition to its loss reserves and concurrently writing off the goodwill related to an acquired business.*

Assumption

Fitch assumes that the issuer maintains financial, operational and risk management policies (e.g. leverage, asset/liability mix, dividend, credit, liquidity, market risk, governance) broadly consistent with those currently disclosed to Fitch and/or the marketplace.

- *In 1999, the debt and IFS ratings of a U.S. insurer were downgraded multiple notches due to asset-liability mismanagement and illiquidity, investor market misjudgment and the negative effect on its financial strength. The insurer had issued a type of debt instrument known as short-term funding agreements that paid a relatively high yield with a redemption guarantee upon seven days ' notice. As a result of negative market sentiment, investors en masse requested a large amount of redemptions of these obligations all at once so that the insurer's liquid assets on hand was insufficient to cover the liabilities. The insurer was unable to liquidate assets quickly enough to meet the redemption requests without materially impairing capital and it asked to be placed under state supervision. The insurer was subsequently sold.*

Assumption

Fitch assumes that information provided by issuers and their agents, including legal opinions, and operating and financial information provided by third parties is valid, accurate and meets widely accepted levels of professional standards, subject to reasonable investigation by Fitch.

- *In 2006, a U.S. insurer abruptly announced the departure of its Chief Executive Officer, the withdrawal of its previously-published financial statements and the launching of an investigation into certain entries made to its accounting records. The insurer's IFS ratings were downgraded multiple notches and placed on Rating Watch-Negative. Eventually, after a series of additional rating actions, the ratings were withdrawn due to insufficient information.*

Assumption

Fitch assumes that the issuer/fund/manager is in possession of and continues to be in possession of all regulatory licenses, permits and authorizations required for the legal conduct of its operations.

- *Some form of licensing is required of insurers in all jurisdictions. The effort needed to obtain and maintain the license varies significantly by jurisdiction. Unless noted otherwise, Fitch assumes that the insurer is a going concern and will continue to operate, earning revenue and incurring expenses in accordance with normal trade terms. If an insurer was to lose its license to operate, a liquidation assumption might be more appropriate. Under a liquidation approach, assumptions about the recoverability of assets, deterioration of liabilities, timing of cash flows and the issuer's ability to access credit markets would be materially different. Additionally, an enterprise that lacks the proper license may find that its contracts are unenforceable and may be subject to fines and penalties that are not currently recorded as liabilities in the financial statements.*

Assumption

Fitch assumes that policyholder behaviour, performance relative to key actuarial assumptions and legal interpretations of coverage terms will remain consistent with a reasonable range of expectations based on historical trends and precedents.

- *Many of the items in insurance company financial statements (including reserves for unearned premium, losses and life insurance) are based on estimates. These estimates are developed using actuarial techniques that infer patterns from prior period events and apply those patterns to estimate future insurance cash flows. These estimates also assume that insurance contracts are enforceable and will be enforced in accordance with current interpretation of statutes and legal precedent. If these assumptions were to be invalid, financial statements would not reasonably reflect the results and financial condition of the insurers. Thus, any conclusions drawn from an analysis of that financial information would also be invalid.*