

Circular No. ID 02/07

10 January 2007

To Principal Officers  
All life and composite insurers and reinsurers

Dear Sir/Madam

### **REVISION OF MAS NOTICE 319**

MAS Notice 319 specifies requirements and guidelines on the valuation of policy liabilities relating to life business. These include the requirement to use the risk-free discount rate in determining the —

- (a) liability in respect of a non-participating policy;
- (b) non-unit reserves of an investment-linked policy; and
- (c) minimum condition liability of a participating fund.

2 Currently, the Notice permits an insurer to use the market yield of SGS of a matching duration instead of the risk-free discount rate as specified in paragraph 2, Annex A of the Notice to value policy liabilities with durations of more than 10 years if they are matched by expected cash flows from debt securities held by the insurer. Some insurers suggested that we should also recognise other approaches for hedging, in particular fair value hedges.

3 MAS agrees with the suggestion and have decided to allow insurers using effective cash flow hedge or fair value hedge as defined under FRS39 of the Singapore Accounting Standards to elect to use the market yield of SGS of a matching duration to value policy liabilities with durations of more than 10 years. MAS would also like to clarify that when the hedged liabilities have a duration exceeding the maximum duration available on the SGS yield curve, the market yield of the SGS with the longest available duration should be used.

4 MAS Notice 319 has been amended (copy enclosed) to incorporate the above changes and will take immediate effect.

5 Please contact your company's liaison officer in MAS should you require further clarification. Thank you.

Yours faithfully

[sent via MASNET]

LOW KWOK MUN  
EXECUTIVE DIRECTOR  
INSURANCE SUPERVISION DEPARTMENT

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