

PortMan

The complete Schedule D solution

Wednesday January 3, 2018

Greetings all,

May these words find you in good health and refreshed as we close 2017.

Following are notes and instructions to assist you in finishing your 2017 investment responsibilities using PortMan. I know you're busy, but PLEASE take a few minutes to read this letter prior to processing your year-end Schedule D. It will save you time in the end.

Also, we would like to make you aware that if the year-end or monthly activities are becoming too cumbersome Accurate Business Systems provides out-sourcing services to do the monthly and year-end procedures for you. We subscribe to a financial data source system so that we have the information needed to ensure that all securities are reported correctly and in the appropriate categories. Please don't hesitate to get in touch if you'd like more information.

You will need to download the latest version of the PortMan program from our web site to implement the changes and transfer your data to your annual statement software. Instructions will be sent in a separate email. You can install the update before or after you process December transactions but you must get the new version before you export the data to your annual statement software.

Please understand the following:

Do Not run YEAR END until all data is in the statement software and is verified and approved. Run Year-End only when you are ready to enter January, 2018.

Process December using the Monthly Workflow on the following page. You really should save the Workflow and use it every month. You will greatly increase your efficiency by following these steps. The workflow can also be accessed and printed by choosing Help, Monthly Workflow from the Main Menu.

You can use the PortMan version 2017.01.01 or greater to process December transactions **but you will need to download version 2018.01.00 or greater to finish this process and transfer the data to your annual statement software.** A separate email will announce its availability.

PortMan

Monthly System Workflow

Processing the steps below in the order given will help ensure accurate and successful data entry.

1) VERIFY

- a) Prior to entering data for the intended month verify that Month-end processing has been completed for the prior month. You can do this by clicking Utilities, Utility Screen which will display the Utility Settings window. The transactions you intend to enter should be dated within the month displayed in the **Current Month** field. If that is the case then proceed to step 2. Otherwise, If you find that the Current Month is the month prior to your intended transactions, you will need to skip to step 6 or step 7 as needed and complete the prior month before starting the new month.

2) PROCESS PURCHASES

- a) **Add** Purchases and Acquisitions
- b) **Pre-Post** acquisition transactions to verify accuracy. Check off Pre-Post report and statement.
- c) **Post** acquisition transactions

3) PROCESS INCOME

- a) **Enter** interest, dividend, and principal reduction transactions using Transactions, Income.
- b) **Pre-Post** income transactions to verify accuracy. Check off Pre-Post report and statement.
- c) **Post** Income Transactions

4) PROCESS DISPOSALS

- a) **Enter** Sales, Maturities and Calls using Transactions, Calls, Maturities, Sales.
- b) **Pre-Post** disposal transactions to verify accuracy. Check off Pre-Post report and statement.
- c) **Post** disposal transactions

5) VERIFY

- a) **Print** Portfolio Report
 - i) Compare with Custodial Statements. Par and Shares need to match.
- b) **Process**
 - i) Accrual
 - ii) Amortization
 - iii) Verify Pre-Post report, then Post amortization transactions.
 - iv) Update Market Prices and Designations from the Market Screen (Manually or import)
 - v) Book Value Adjustments from the Programs menu choice on the Main Menu.
 - vi) View Year End Procedures (Below) for extra year end responsibilities.

6) Print Reports

- a) Reconciliation
- b) GL Summary
- c) GL Detail
- d) Working Schedule D
- e) Others as desired

NOTE: At Year end, you must print all reports and transfer data to the Annual Statement software before you process step 7.

7) Month-End/Year-End

- a) **Run Year-End** - The YEAR END program will process actions needed to close the Month of December as well as prepare the database for 2018.

***Do Not run Step 7 until you are ready to start January. You must run all December 31 reports and transfer files to the annual statement software before you run the Year-End program.*

Note concerning 2017 NAIC Changes

The NAIC has mandated that **Money Market funds are no longer to be reported on Schedule DA**, but on **Schedule E, Part 2, Cash Equivalents**. You need to sell any Money Markets you have on Schedule DA or Schedule D, Part 2, Section, 2 and Purchase your 12/31/17 balance as a Cash Equivalent on E, Part 2. You will Sell and Purchase so both Schedule DA and Schedule E, Part 2 will roll forward and the Verifications work from 2016 to 2017.

When entering the new CE (Cash Equivalent) security with the same CUSIP you may find that a Short Term Detail screen is opened. If that happens please change the **ST** in the Category field to **CE**. You will only have to make the manual change this time and it will work correctly going forward in 2018.

Notes concerning filing requirements

We strongly recommend that you subscribe to the applicable NAIC Annual Statement Instructions. Refer to the Schedule D and related Exhibits and Schedules instructions for Year End requirements. The PortMan Year End Reports and Transfer Files will enable you to be compliant if the data is set up correctly.

How PortMan populates year-end data in reports and the File Export

PortMan uses the same methodology for all data that requires categorization in the Year End export file and the Year End reports. For fields such as Code (Column 3 on filed Part 1), Bond Characteristics (Column 5 on filed Part 1), Summary Investment Category... PortMan will first look to see if the field is populated on the security Detail screen. If the field has a value PortMan will use it, if not the program will determine the value to the best of its ability by examining the rest of the data. It's best to make an Excel spreadsheet for the Summary Investment Schedule, sort it by the Category, then CUSIP to make sure the securities are in the correct buckets. If one needs to be changed you'll Edit that security, Double Click the **Sum Inv Category** field to produce a pop up window with correct values and choose the appropriate value. Re-run the report. You can also check the values of the following fields for each security by creating an **Active Spreadsheet** located on the Portfolio Reports tab. Instructions on saving spreadsheets below.

Other Year End Data Points applicable:

The **Capital Structure Code** field will be filled out as other fields that control Year-End reporting (Summary Investment Schedule...) in the system. PortMan will look to see if the field is populated on the Security Detail screen, and if it is, will use that value. If it's blank, it will look to see if there is a value in the Payment Rank field. Payment Rank is a field that can be populated with Bloomberg information. If there is a value in the Payment Rank field the export will use it to determine the correct code. If both fields are blank the export will autofill semi-annual payable securities with a Senior Unsecured code and Monthly pay securities with a Senior Secured code. Payment Rank and Capital Structure Code can be imported into PortMan from a new import feature from a spreadsheet provided by your Investment Advisor or Custodian. There will also be a report on the Year-End tab of the Print Menu that lists each security and its Capital Structure Code. **Pass the list to your investment advisor so they can confirm each security is categorized correctly.** If a code needs to be changed enter it in the Cap Structure Code field on the Security Detail Screen.

The **Issue** and **Issuer** fields have been derived from data in the system. They can be edited manually or by spreadsheet import if desired (Utilities, Data Import).

The Bond **Characteristics** field is populated in the Export file by examining the security and setting the appropriate value. Once again, it can be populated manually and PortMan will use that value if it is set.

The Schedule D Code field will be populated with a @ if it is 0 coupon bond. You will need to make sure any CD's you own under the \$250,000 FDIC limit be populated with a \$.

Industrial and Miscellaneous Mortgage and Asset Backed Collateral Type bonds must have the correct **Collateral Type** associated with their backing. The Year End tab of the Print Menu has a report named Structured Securities held per NAIC Type. The valid codes are listed on the last page of the report. If you have securities listed on this report the NAIC requires that each security have the appropriate code identification. Pass the list to your investment advisor so they can confirm each security is categorized correctly.

Fair Value - There is a field on the input screens to designate the fair value associated with each lot. If left unselected or set to Default, the system will export securities as follows

Security Type	Default Fair Value exported
BONDS, not Treasury	2
Bonds, Treasury	1
CMO	2
MBS	2
Preferred Stock	2
Common Stock	1

For securities that are denominated or Issued in **Foreign** countries.

- If your security is denominated in a foreign currency you will have to designate as such. The field name is Currency Denomination and it is located on the top of Page 1 of the Security Detail screen.
- If your security was ISSUED in a country other than the United States, you will have to designate as such. The field name is Issuing Country and it is located near the top right of Page 2 of the Security Detail screen.

The NAIC requires that you list your **Pricing Method and Pricing Source** used to produce Market Values. You can set a default for all of your securities by:

Choose Utilities, Utility Screen from the Main Menu.

Choose the method by double clicking the Pricing Method field. Choose from the provided list.

A value must be provided for the Pricing Source field if you choose method a, b or c. Double-Click on the field to select a value. If you don't see your desired choice, you can type it in.

For securities that do not follow the default:

There are two fields on the input screens that will allow you to override the defaults chosen above by designating the pricing service you use for individual security. The first field is named Pricing Method. If you fill this field with a value, then a field named Pricing Source will display to accept input.

Make Excel Files for your Year End Reports

We highly recommend that you set a default folder and save your Year End reports to Excel. This will give you the detail data that makes up the Summary information of that report. Please note the bottom of the screen below. We set the Excel directory (folder) to a folder that stores all of Year End reports. We also recommend that you print all Schedule D and Year End reports to a PDF printer to the same folder so all of your Year End data is in one place for later use.

My Insurance Co. - [Print Selection]
File Help

Diagnostic Miscellaneous Quarterly Reconciliation
Portfolio Reports Schedule D Reports GL Reports Month-End **Year End** Detail Reports

AVR Report**
 IMR Report**
 Issuer Reports
 Part 1A Section 1- Quality and Maturity
 Part 1A Section 2- Maturity
 Special Deposit Report
 Summary by Country
 Summary Investment Schedule
 Unrealized Gain & Loss
 NAIC Desig Percent
 Exhibit of Net Investment Income
 Exhibit of Capital Gains (Losses)

Structured Securities held per selected NAIC Type
 Structured Securities held per NAIC List dated:12/17/2016
[update naic list](#)
 Maturity Year & Yield
 Rating Report
 Twelve Month Loss
 Variable Rate Securities
 Securities by Capital Structure Code
 Securities by Sovereign Rating List dated:
[update Sovereign Rates list](#)

Close!

Clear All Report Selections

Send Output to
 Printer
 Screen
 Excel

Process Selected Reports

Capital Structure Report description
Displays current investments with Capital Structure and Issuer data

Open Excel when export is complete

Target Printer: Adobe PDF on Ne06:

Excel Export Path: N:\PortMan\MyInsCompany\2016\12-Dec\

Schedule D Export File

There is only one export file that will be created for all annual statement vendors. The export file is named Schd.txt and it will reside in the Export folder defined on the utility screen. Choose Programs, **Export Schedule D** from the Main Menu to create the file.

2017 Year End Procedures

1. **Utility Settings**

Open the Utility Screen, Main Menu; Utility and verify the following:

Default pricing method and Source: Setting these values on this screen will eliminate the need to set them on each and every security

- **Pricing Method** – This will most likely be set to **c** or **e**. In any case, this value should reflect how your securities are priced. You can double click to select one of the 5 choices.
- **Pricing Source** – If Pricing Method has been set to **a**, **b**, or **c**, then you will need enter a value into this field, Double-Click the field to get choices
- **BackUp Directory & Export Directory** – Verify that these folders point to a valid path.
- **Close the Utility screen**

2. **Process December** as any other month, but **do not run Month End/Year End**.

3. **Import or Input Market Prices and designations** into PortMan by clicking on Market from PortMan's Main Menu. Click OK to choose 12/31/17 when asked for the pricing date. Input or import prices and designations. Please remember that all Bond, CMO, MBS and ST securities must have their NAIC Designation begin with a number between 1 & 6. Preferred Stock (PS) securities must have a number between 1 & 6 in either the second or third position of their NAIC designation. Choose Help, PortMan Manual, Market Price Import for instructions.

4. SSAP 43R compliance - Companies that own securities designated RMBS or CMBS by the NAIC SVO have another step to determine the displayed NAIC Designation as defined by **SSAP 43R**. Print the **Structured Securities held per NAIC list** report to see if you own modeled securities. If you own modeled securities, please see the PortMan Instructions for Structured Securities Reporting below.

5. **Run the Book Value Adjustments** procedure on the Programs menu. This procedure will adjust the book value on any appropriate securities based on their NAIC designations.

6. **PRINT REPORTS**

On the Print menu

- *[Schedule D Reports]* - Print the Working Schedule D parts 1 through 5 to get your final numbers. (Spreadsheets of Schedules Part 1 through 5 will automatically be created for future use by the Year End program. These files are named **12312017P1.xls**, **12312017P2S1.xls** ... and are stored in the PortMan data folder for each company.)
- *[Year End Reports]* - Print and output to Excel, the **Part 1A** reports on the print menu. These reports will be used to input the Maturity and Quality and Maturity distributions.
- *[Year End Reports]* - Print and output to Excel the **Summary Investment Schedule** report.
- *[Year End Reports]* - Print **Summary by Country** report.
- *[Year End Reports]* - Print **Exhibit of Net Investment Income** report.
- *[Year End Reports]* - Print **Exhibit of Realized Gains** report.
- *[Year End Reports]* - Print the **Issuer report** and the **NAIC Desig Percent** report. These are used in the supplemental section.
- Print any other reports on the menu that you desire.

7. After **all data is approved** and in the statement software run Month-End from the Main Menu, to get ready for January 2018 processing. If, for any reason, the Year-End generates an error message please **DO NOT** run it again. Please call us!

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Instructions to facilitate reporting of NAIC Structured Securities in PortMan.

This document has been created to help you meet your obligations of properly reporting any structured securities in your portfolio. Following the steps below will help guide you through the process.

If you think you might have structured securities in your portfolio we strongly advise you to read the NAIC information regarding them at:

http://www.naic.org/structured_securities/index_structured_securities.htm

To further help we've provided a way to test if you have modeled Non-Agency securities. Please do the following:

- i. Determine if these instructions apply to you.
 - i. Download and install PortMan version 2018.01.00 or higher.
 - ii. Open PortMan and go the Print menu by Choosing File, Print from the Main Menu.
 - iii. Print the report titled ***Structured Securities held per NAIC List*** located in the Year End Reports tab
 - iv. If you have securities on this report you will need to purchase the modeled information from the NAIC and follow the NAIC instructions on page 3 of the following link:

http://www.naic.org/structured_securities/documents/structured_securities_modified_fe_43r_flow_chart_final.pdf

You will see that you have the possibility of having 2 NAIC designations. Using the NAIC instructions and the Security Models that you purchase from the NAIC, you will need to determine what those ratings are.

Overview of the process:

- I.** *If there is a Y in the Zero loss the rating is a IFM and you are finished. If not, goto II.*
- II.** *Determine initial NAIC designation based on breakpoints using Amortized Cost*
- II.** *Determine whether security is to be held at Amortized Cost or Fair Value*
 - A.** *For Life companies (companies with AVR)*
 - 1.** *Securities with NAIC designation 1-5 are held at Amortized Cost*
 - 2.** *Securities with NAIC designation 6 are held at the lower of Amortized Cost or Fair Value*
 - B.** *For P&C and Health companies (companies without AVR)*
 - 1.** *Securities with NAIC designation 1-2 are held at Amortized Cost*
 - 2.** *Securities with NAIC designation 3-6 are held at the lower of Amortized or Fair Value*

III. Determine the final NAIC designation

A. For securities held at Amortized Cost, keep the initial designation

B. For securities held at Fair Value, determine final NAIC designation based on breakpoints using FairValue

The remaining portion of this document relates to procedures and steps that need to be taken in Portman to properly report the securities found on your structured security report.

- A. These procedures should be used **after** all other December transaction activity is entered and posted. (After step 6 d on the Monthly System Workflow)
- B. Backup your Portman database
 - a. File; Backup Compressed, Begin Backup
 - b. Make a note of the file name that was created, should you need it later.
- C. For each security on your Structured Security Report,
 - a. Determine the designation using the Structured Securities Flow Chart Section B.
**** Append FM to the designation. (i.e. 1FM, 2FM, 3FM...)**
 - b. Enter the designation into Portman in one of the following ways
 - i. On the securities Page 2 – in the **NAIC Desig** field
 - ii. On Market Screen in the **Desig** column
**** The designation must end with FM (i.e. 1FM, 2FM, 3FM ...)**
- D. Repeat step C for every security on the structured security report.
- E. If during step C, the first character (1-6) of the designation changed on any security, or if any security has a 3,4,5,6 designation you must run Book Value Adjustments from the Main Menu of PortMan. This will set the Book Value correctly for each security based on the NAIC Designation entered in Step C.
- F. From the Print menu, Re-print the report titled **Structured Securities held per NAIC List** Using this report, any securities with a **Fair Value Flag = “***”** now have to have the second test performed using the Market Price.
 - a. If the second test results in a designation that is different from that which was determined in Step C then the new designation must be to be entered into the RMBS Desig field.
 - b. Enter the RMBS designation into Portman in one of the following ways
 - i. On the securities Page 2 – in the **RMBSDesig** field
 - ii. On Market Screen in the **RMBS Desig** column
**** The designation must end with FM (i.e. 1FM, 2FM, 3FM ...)**
 - iii. These securities **MUST** also be NAIC Type 33, 34 or 35 in order for the RMBSDesig to be reported in the Schedule D. You can determine which type they have been assigned by looking at which Schedule D group the security is listed under on the Structured Security report.
- G. When you have completed these steps, you can run the Schedule D export and the securities will be properly designated.