PortMan

The complete Schedule D solution

Tuesday January 7, 2020

Greetings all,

May these words find you in good health and refreshed as we close 2019.

Following are notes and instructions to assist you in finishing your 2019 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.
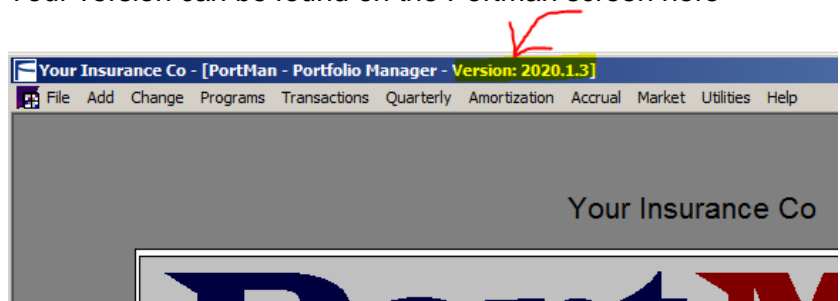
The ABSLauncher will install the latest version of the PortMan program. Once installed the 2019 End of Year changes (release notes) will be implemented which will enable you to transfer your data to your annual statement software. The update can be accomplished any time prior to exporting the data to 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, 2020.

Process December using the Monthly Workflow on the following page. We recommend that you use the Workflow each 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 2019.10.12 or greater to process December transactions **but you will need to download version 2020.1.3 or greater to finish this process and transfer the data to your annual statement software.** Your version can be found on the Portman screen here

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 2019.

**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.

Notes concerning 2019 changes

There are several changes mandated for 2019 that you may need to be aware of. The first is that Preferred Stocks listed on Schedule D Part 2 Section 1 will no longer have a P (Perpetual) or RP (Redeemable Preferred) preceding their NAIC Designation. The NAIC mandated that each have its own line number on Section 1 and have a NAIC Designation that begins with 1 through 6, the same as Bonds. The Year End update will automatically change the Line number based on the old NAIC Designation you had in the system.

The NAIC has also changed the NAIC requirements for Common Stock on Schedule D Part 2 Section 2. There won't be a market indicator anymore (L, U, …), instead the NAIC Designation will be blank for all Common Stock, except for the possibility of Mutual Funds that could have a Designation assigned by the NAIC. It's unclear this year but presumed that it relates to Mutual Funds that have Bond Characteristics that could be loaded on Schedule D Part 1.

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 Schedule D Part 1), Bond Characteristics (Column 5 on Schedule D 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 applicable 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 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 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 Detail 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 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.

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.

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2019 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 <u>c</u> or <u>e.</u> 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 12/31/19 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 the initial character 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 **<u>Structured Securities held per NAIC list</u>** 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 ***12312019P1.xls***, ***12312019P2S1.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 in your annual statement software**, you can then prepare the data database for January 2020 processing by running the Year-End process (which includes Month-End for December). You will find this option on the Main Menu; Programs. <u>If, for any reason, the Year-End generates an error message please **DO NOT** run it again. Please call us! Our support number is 502-209-6034</u>

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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:

Determine if these instructions apply to you.

  i.   Download and install PortMan version 2020.1.3 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 instructions on SSAP White Paper 43R in the NAIC Accounting Practices and Procedures Manual. If your report is empty these instructions don't apply to you, and you're finished.

If you do have securities on the report, you'll need to follow the directions below:

The first thing you'll do is buy the price grids for the securities on the report from the NAIC. The file from the NAIC will have 2 lines for every CUSIP, one for companies that maintain an AVR (Life and Fraternal companies), and one for companies that don't. The best thing to do is sort the file on the AVR or Non AVR column, then by the CUSIP column so you can easily work with the correct values for your company type.

You'll see there are Five columns for NAIC 1 through 5 Designations and a Zero Loss Column. The first thing to look at is Zero Loss Column. If it has a Y as its value you will enter a 1FM in both the Desig and RMBS Desig column for that security PortMan's Market Posting Screen. If there is a N in Zero Loss you'll determine the Designation using the multi-step process below.

Using our report from step iii above you'll compare the securities Amortized Price to the breakpoint values of the 5 columns in the NAIC modeling file. If the Amortized Price is less than the value in the NAIC 1 column your initial NAIC Designation and RMBS Designation will both be a 1FM. If

the Amortized price is greater then the value in the NAIC 1 column but less then the value in the NAIC 2 column your initial NAIC Designation and RMBS Designation will both be a 2FM. Securities that have a 1 or 2 are treated the same for both AVR and Non AVR companies. The difference going forward is due to Non AVR companies having to Carry bonds at the lower of Amortized or Market value for securities with a Designation lower than a 2, while an AVR company will Carry all bonds at Amortized value except those with a Designation of 6. You will continue to use the above method to determine the initial NAIC Designation by comparing the Amortized Price to the breakout points. If all of your initial Designations are lower than 3 for a non-AVR or lower than 6 for an AVR company, you will enter that number as the NAIC Designation and RBMS Designation and you'll be finished.

If, however, you find that you have an amortized Price that generates a 3,4,5, or 6 Initial Designation for a non-AVR company or a 6 for an AVR company, you'll have 2 more steps. First, you'll set the Designation with an FM attached in the NAIC Desig column on the Market screen. Then you'll run the Book Value Adjustments routine under Programs on the Main Menu. This will set these securities to the lower of Amortized or Market Value.

Re-run the Structured Securities held per NAIC List report from iii above. Any securities with a *Fair Value Flag* = "***" needs a second test performed. You'll do the same as above, but use the Market Price to compare with the breakpoints. If the designation changes (it will be lower, i.e. a 1FM as opposed to a 3FM for instance) you will put the new Designation in the RMBS Desig field.

Feel free to call us if you have questions or would like us to review with you.