

Regulation 14. Immediate Access Security Association; Custodial Accounts.

A. INEX Insurance Exchange Immediate Access Security Association. 1. Membership in Association. As a condition of its authority to transact business on the Exchange, each syndicate shall be a member of the INEX Insurance Exchange Immediate Access Security Association (hereinafter the "Association.")

2. Access to Funds. In the event a syndicate becomes insolvent or the Exchange Board determines it is otherwise unable to meet its insurance or reinsurance obligations, the Association shall have immediate access to the custodial account held in trust for the benefit of all insureds or reinsureds maintained pursuant to subsection B below. The Exchange Board shall facilitate this access for the benefit of the Association including, but not limited to, drawing on letters of credit or surety bonds.

B. Custodial Account held in trust for insureds and reinsureds. 1. Amount required. Each Syndicate, other than limited syndicates, shall as a condition of admission to the Exchange, establish and maintain as part of its capitalization a custodial account in trust for the benefit and protection of all insureds or reinsureds of the syndicate. The total value of the assets maintained in this account shall, except by special order of the Board, equal not less than fifty percent (50%) of the syndicate's surplus as regards policyholders. If a syndicate increases or decreases its capital as of the end of any calendar quarter during the year as reflected on the statement submitted by the syndicate, the syndicate shall be required to adjust this account accordingly. For purposes of this subsection, capital is defined to mean Policyholders' Surplus less unassigned surplus. Except by special order of the Board, not less than fifty percent (50%) of the value of the assets required to be maintained in the account shall consist of cash or Marketable Securities which otherwise qualify as investments under these Regulations. The balance of the amount required hereunder shall consist of (a) cash or

marketable securities; (b) amounts drawable under acceptable letters of credit or surety bonds delivered to the Exchange for deposit in a safety deposit box to meet the requirements of Section 15.

Assets held in a Guaranty Fund Custodial Account and letters of credit or surety bonds provided to meet the requirements of Section 15 may reduce the amounts required under this subsection, provided that amounts drawable under letters of credit or surety bonds in the aggregate, do not exceed 50% of the total amount required. All cash and Marketable Securities held hereunder and amounts drawable under acceptable letters of credit or surety bonds delivered to the Exchange shall be valued at fair market values.

2. Custodial Agreement. Each syndicate required to establish an account shall enter into a written custodial agreement with an acceptable financial institution having trust powers. Such agreement and any amendments thereto shall be filed and approved by the Exchange Board prior to execution. Such agreements shall, among other things, provide that the custodian agrees to furnish to the Exchange on a monthly basis a certified schedule of cash and Marketable Securities valued at fair market values in the account at the end of the preceding month. All other assets or evidence thereof shall be deposited with the INEX Insurance Exchange in trust and shall be secured and valued in a manner acceptable to the INEX Insurance Exchange. All costs of compliance herewith shall be born by the depositing syndicate. No Financial Institution may become a custodian for a syndicate where, directly or indirectly, either the Financial Institution or the syndicate has an investment or interest of twenty percent (20%) or more in the other. Any syndicate admitted to the Exchange shall establish and maintain its custodial account at an acceptable Financial Institution in compliance with Article IX Section 133 (3) of the Illinois Insurance Code.

3. Syndicate's rights in account. Amounts maintained in a custodial account hereunder shall be Admitted Assets of the syndicate. The syndicate, except when its capital is impaired, may (i) substitute or exchange assets having a value equal to or greater than the value of those then in the account, provided that the assets in the account after such substitution or exchange meet the requirements of Section 14, subsection B, and (ii) receive the income from the cash or securities therein. The assets in the account shall not be pledged, assigned or otherwise encumbered.

4. Release of Custodial Account. Every custodial account established hereunder must be maintained as long as there is outstanding any insurance or reinsurance liabilities of the syndicate. The Exchange Board shall release the custodial account and any other assets held pursuant to a plan for voluntary withdrawal or merger approved by the Board. A syndicate may request the Exchange Board, in its discretion, to release amounts other than income held in excess of those required hereunder.

Amendment Effective Date: October 31, 2002