

Listing Insurance Related Securities

The Bermuda Market

Bermuda is now the world's largest offshore insurance market with approximately 1,650 insurance companies and total assets of \$172.6 billion. The intellectual capital - some of the brightest minds in the insurance industry – live and work in Bermuda.

The Bermuda Stock Exchange (BSX) is perfectly placed to complement this indigenous industry and to help in the "securitization" process whereby the traditional capital markets are increasingly converging with the traditional insurance markets.

True convergence will be greatly simplified in the offshore world. For example, in the USA there are separate regulatory bodies and statutes to regulate securities, commodities, and insurance products.

Innovative products which cross any of these boundaries require inordinate amounts of effort to develop and may end up not suiting the true needs of the issuer or the investor. In Bermuda, these obstacles are minimized.

BSX Insurance Strategy

Adding value to Bermuda's offshore insurance market is an important focus for the BSX. Our strategy includes the following:

- Listing Bermuda-based insurance companies, such as ACE, XL, Max Re, PartnerRe, IPC Holdings, Scottish Annuity and Montpelier Re.
- Creation of the BSX Bermuda Insurance Index, which tracks the major Bermuda-based insurers, as well as other insurance/hybrid indices, benchmarks, and trigger points.
- Listing Cat Bonds and other risk securitization products.

The Listing Imperative

Most insurance companies and investment banks now state that listing will be imperative as cat bonds gain popularity. They are also supportive of developing the BSX as “the cat bond destination” for the insurance world. There are four primary reasons in favour of a BSX listing:

- **Enhanced Marketability** – As these deals are marketed more widely to institutional investors in Europe and Asia, a listing will become more important. Many capital market institutions are strictly limited in the extent to which they can invest in “unlisted” securities.
- **Systems Access** – The BSX has developed the “Bermuda Securities Depository” (BSD) an electronic clearance and settlement system to process restricted securities in a “name on register” environment that ensures that only eligible investors may hold the security.
- **Visibility** - Listing on the right exchange will raise the visibility of the securities by providing daily pricing and information on Bloomberg, Reuters, and the Internet (www.bsx.com). Many of the deals to date have not enjoyed wide price/information dissemination.
- **Convenience** - The BSX was the first stock exchange in the world to introduce a set of specific listing regulations designed exclusively for insurance securitization products. The BSX has a special, fast-track listing procedure for SPVs that restrict investment in to Qualified Investors. The BSX will list a cat bond within 7 working days at very competitive fees. Applications to list must be made with the assistance of a BSX Trading Member or Listing Sponsor (*see list attached*).

Regulations

The *BSX Insurance Related Securities Regulations* pertain to any security, the value of which is related to an insured -- or insurable -- event or an act of god (such as cat bonds, CatePuts, and other insurance securitisations).

- The issuer may be a SPV and, in the case of a securitisation program, may be listed prior to the issuance of any securities under the program.
- The debt securities must be fully negotiable and freely transferable amongst investors who are authorized to subscribe or purchase such securities.
- The issuer must restrict investment in its listed securities to Qualified Investors in a manner acceptable to the Exchange. **This means, *inter alia*, that the securities may only be marketed to Qualified Investors and may only be traded on the Exchange between Qualified Investors.**
- The issuer must maintain a paying agent in a location agreed to by the BSX for the duration of the listing.
- The insurance related securities must be eligible for deposit in a clearing and settlement system recognized for this purpose by the Exchange.

Application Procedures

The following materials must be filed with the BSX:

- Formal letter of application and fees (term sheet only for program issues).
- Draft prospectus/offering document.
- Certificate of incorporation or equivalent.
- Certified copy of issuer's constitution.
- Audited annual report and accounts (2 years or since inception).
- Certified copies of resolutions authorizing issue of the securities
- Issuer's Undertaking.
- Copy of document of title to be used for the issue.
- Certified copy of material documents referred to in the prospectus, as well as a copy of the trust deed that secures or constitutes the debt securities.

Prospectus

The draft prospectus must be reviewed by the BSX. The drafts must be "marked up" to indicate where the particular requirements have been met and any changes from previous drafts.

The prospectus must contain information that enables an investor to make an informed assessment of the issuer and securities. The regulations provide guidance on the following prospectus items:

- BSX standard disclaimer.
- General information about the issuer, its advisors, and the prospectus.
- Description of the structure of the deal, the insurance risks which are securitised and the precise terms under which the interest payments and/or principal repayments may be at risk.
- Description of any swap, option or repurchase counter-party and any provider of a material form of credit enhancement.
- Provision of documents for public inspection (including annual and interim reports; constitution; trust deed, fiscal agency agreement, or other document constituting the securities; other documents referred to in the prospectus).
- If a bearer security, the name of newspapers in which notices will be published.
- Information on the persons underwriting or guaranteeing the issue for the issuer and where not all of the issue is underwritten or guaranteed, a statement of the portion not covered.
- If a public or private offer or placing has been or is being made simultaneously on the markets of two or more countries and if a tranche has been or is being reserved for certain of these, details of any such tranche.

Continuing Obligations

Continuing obligations include:

- Prompt notification to BSX and holders of material events to allow them to evaluate the financial position of the issuer and group (or its ability to meet commitments) and to avoid the creation of a false market. Material events are circumstances that may be expected to materially affect its ability to meet its commitments.
- If in bearer form, the BSX will publicize the location and availability of the annual report and accounts.

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- If the issue carries conversion rights for -- or is guaranteed by -- another company, adequate information must be available for that company.
- If a secondary listing, the BSX must receive copies of all information filed with the primary exchange.
- Audited annual report and accounts.
- Other disclosures include: changes in the terms of debt securities; decisions to pass interest payments; purchase, redemption, or cancellation; important changes; proposed drawings or closure of books; winding-up and liquidation.

Fees

The BSX has implemented a new fee structure, as follows. Initial fees for debt securities from a new issuer are \$2,500, payable on the application for listing. Subsequent debt issues by listed issuers are \$1,000. Annual fees for each class of these issues are \$1,000.

The BSX also approves debt issuance programs with a \$500 initial fee and \$500 annual fee for all subsequent issues under a program. Subsequent issues enjoy a streamlined application procedure using a simple term sheet in lieu of the full application form.

Listing Sponsorship

Applications to list must be submitted by a Trading Member or Listing Sponsor of the BSX, please see current list attached.