

INSURANCE REGULATORY INITIATIVES

Advocating for a substantive risk assessment of bond ETFs

BlackRock is actively working to harmonize accounting, statutory, and capital treatment of bond ETFs and individual bonds:

Successes to Date

1

Accounting

“Systematic value,” a bond-like accounting alternative, for ETFs (2017)

- As part of a coalition of investors, industry groups and ETF sponsors, BlackRock helped drive this initiative and sought to deliver it to clients.
- This alternative valuation methodology reflects the changing composition of an ETF’s underlying bond portfolio over time without introducing noise in the form of interest rate fluctuations and market influences
- Insurers could elect to carry FI ETFs at “systematic value” starting in 2018

2

Statutory

New ETF law passes in Texas (2019)

- BlackRock worked with local insurance companies and state legislators to impart change in the accounting of bond ETFs within Texas.
- The new House Bill 2694 provides that 40 Act Bond ETFs are authorized investments for Texas insurers and provides more beneficial single issuer holding limits for Texas insurers investing in such ETFs
- Effective as of September 1, 2019

Projects in Flight

- **Engage FASB and influence change in current GAAP treatment of bond ETFs**
- **Engage additional states on ETF law akin to that of Texas**

Successes to Date (Continued.)

3

Capital Treatment

“Top 10” RBC exemption (2019)

- Coordinating across clients, industry groups, and other ETF issuers, BlackRock facilitated the NAIC’s decision to officially eliminate diversified equity and FI ETFs from the “Top 10” Rule at the 2019 Spring NAIC National Meeting.
 - Insurers are now able to experience diversified ETFs as more capitally efficient vehicles
 - Effective as of December 31, 2019
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Projects in Flight

- Engage FASB and influence change in current GAAP treatment of bond ETFs

This material does not constitute any specific legal, tax, or accounting advice. Please consult with qualified professionals for this type of advice.

NAIC-DESIGNATED BOND ETFs

Tools for insurers

BlackRock offers a comprehensive range of iShares ETFs with National Association of Insurance Commissioners (“NAIC”) Designations to help insurance companies meet their general account investment needs.

NAIC-designated bond ETFs help insurers by allowing:

- More favorable risk-based capital (RBC) requirements treatment.
- Them to consider ETFs to be “long-term bond issuer obligations” as opposed to “common stock” on statutory (Schedule D) filings.
- Favorable bond-like accounting treatment through the election of systematic value.

iShares bond ETFs provide the benefits of:

- **Simplicity** – Gain diversified access to broad and targeted bond exposures in a single trade.
- **Liquidity** – On-exchange trading of bond ETFs is independent of the cash bond market and can act as an additional source of liquidity.
- **Efficiency** – Compared to transacting in individual bonds, bond ETFs can offer significant trade cost savings.

iShares bond ETFs on the NAIC’s SVO-Identified Bond ETF List

Multi-Sector			
Fund Name	Ticker	NAIC Designation	Designation date
iShares Core U.S. Aggregate Bond ETF	AGG	Preliminary 1.F*	April 2020
iShares ESG U.S. Aggregate Bond ETF	EAGG	Preliminary 1.E*	April 2020
iShares Government/Credit Bond ETF	GBF	Preliminary 1.F*	April 2020
iShares Intermediate Government/Credit Bond ETF	GVI	Preliminary 1.F*	April 2020
iShares Liquidity Income ETF (Active Fund)	ICSH	Preliminary 1.G*	April 2020
iShares Short Maturity Bond ETF (Active Fund)	NEAR	Preliminary 2.A*	April 2020
iShares Core Short-Term USD Bond ETF	ISTB	Preliminary 2.C*	April 2020
iShares Core Long-Term USD Bond ETF	ILTB	Preliminary 2.B*	April 2020
iShares Core Total USD Bond Market ETF	IUSB	Preliminary 2.C*	April 2020
iShares Yield Optimized Bond ETF	BYLD	Preliminary 3.C*	April 2020

Credit			
Fund Name	Ticker	NAIC Designation	Designation date
iShares Aaa – A Rated Corporate Bond ETF	QLTA	Preliminary 1.G*	April 2020
iShares Floating Rate Bond ETF	FLOT	Preliminary 1.G*	April 2020
iShares iBoxx \$ Investment Grade Corporate Bond ETF	LQD	2.A	April 2020
iShares 0–5 Year Investment Grade Corporate Bond ETF	SLQD	Preliminary 2.A*	April 2020
iShares Edge Investment Grade Enhanced Bond ETF	IGEB	Preliminary 2.B*	April 2020
iShares ESG 1–5 Year USD Corporate Bond ETF	SUSB	Preliminary 2.A*	April 2020
iShares ESG USD Corporate Bond ETF	SUSC	Preliminary 2.A*	April 2020
iShares Short-Term Corporate Bond ETF	IGSB	Preliminary 2.A*	April 2020
iShares Intermediate-Term Corporate Bond ETF	IGIB	Preliminary 2.B*	April 2020
iShares Long-Term Corporate Bond ETF	IGLB	Preliminary 2.A*	April 2020
iShares Broad USD Investment Grade Corporate Bond ETF	USIG	Preliminary 2.A*	April 2020
iShares J.P. Morgan EM Corporate Bond ETF	CEMB	Preliminary 3.C*	April 2020

Government/Municipal			
Fund Name	Ticker	NAIC Designation	Designation date
iShares California Muni Bond ETF	CMF	Preliminary 1.G*	April 2020
iShares National Muni Bond ETF	MUB	Preliminary 1.G*	April 2020
iShares Short-Term National Muni Bond ETF	SUB	Preliminary 1.G*	April 2020
iShares TIPS Bond ETF	TIP	Preliminary 1.A*	April 2020
iShares 0–5 Year TIPS Bond ETF	STIP	Preliminary 1.A*	April 2020
iShares 1–3 Year Treasury Bond ETF	SHY	Preliminary 1.A*	April 2020
iShares 3–7 Year Treasury Bond ETF	IEI	Preliminary 1.A*	April 2020
iShares 7–10 Year Treasury Bond ETF	IEF	Preliminary 1.A*	April 2020
iShares 10–20 Year Treasury Bond ETF	TLH	Preliminary 1.A*	April 2020
iShares 20+ Year Treasury Bond ETF	TLT	Preliminary 1.A*	April 2020
iShares Agency Bond ETF	AGZ	Preliminary 1.A*	April 2020
iShares Core U.S. Treasury Bond ETF	GOVT	Preliminary 1.A*	April 2020
iShares Short Treasury Bond ETF	SHV	Preliminary 1.A*	April 2020
iShares Treasury Floating Rate Bond ETF	TFLO	Preliminary 1.A*	April 2020
iShares New York Muni Bond ETF	NYF	Preliminary 1.E*	April 2020
iShares 1–3 Year International Treasury Bond ETF	ISHG	Preliminary 2.A*	April 2020
iShares International Treasury Bond ETF	IGOV	Preliminary 2.A*	April 2020
iShares J.P. Morgan EM Local Currency Bond ETF	LEMB	Preliminary 3.B*	April 2020
iShares J.P. Morgan USD Emerging Markets Bond ETF	EMB	Preliminary 4.A*	April 2020

Mortgages			
Fund Name	Ticker	NAIC Designation	Designation date
iShares Core GNMA Bond ETF	GNMA	Preliminary 1.A*	April 2020
iShares MBS ETF	MBB	Preliminary 1.A*	April 2020
iShares CMBS ETF	CMBS	Preliminary 1.G*	April 2020

High Yield			
Fund Name	Ticker	NAIC Designation	Designation date
iShares iBoxx \$ High Yield Corporate Bond ETF	HYG	Preliminary 4.B*	April 2020
iShares 0–5 Year High Yield Corporate Bond ETF	SHYG	Preliminary 4.C*	April 2020
iShares iBoxx \$ High Yield ex Oil & Gas Corporate Bond ETF	HYXE	Preliminary 4.C*	April 2020
iShares Fallen Angels USD Bond ETF	FALN	Preliminary 4.B*	April 2020
iShares Global High Yield Corporate Bond ETF	GHYG	Preliminary 4.B*	April 2020
iShares International High Yield Bond ETF	HYXU	Preliminary 4.A*	April 2020
iShares Edge High Yield Defensive Bond ETF	HYDB	Preliminary 4.B*	April 2020
iShares Broad USD High Yield Corporate Bond ETF	USHY	Preliminary 4.B*	April 2020

Term Maturity			
Fund Name	Ticker	NAIC Designation	Designation date
iShares® iBonds® Mar 2023 Term Corporate ex-Financials ETF	IBCE	Preliminary 1.G*	April 2020
iShares® iBonds® Dec 2028 Term Corporate ETF	IBDT	Preliminary 2.B*	April 2020
iShares® iBonds® Sep 2020 Term Muni Bond ETF	IBMJ	Preliminary 1.G*	April 2020
iShares® iBonds® Dec 2022 Term Muni Bond ETF	IBMK	Preliminary 1.E*	April 2020
iShares® iBonds® Dec 2024 Term Muni Bond ETF	IBMM	Preliminary 1.E*	April 2020
iShares® iBonds® Dec 2025 Term Muni Bond ETF	IBMN	Preliminary 1.D*	April 2020
iShares® iBonds® Dec 2021 Term Corporate ETF	IBDM	Preliminary 2.A*	April 2020
iShares® iBonds® Dec 2022 Term Corporate ETF	IBDN	Preliminary 2.A*	April 2020
iShares® iBonds® Mar 2023 Term Corporate ETF	IBDD	Preliminary 2.A*	April 2020
iShares® iBonds® Dec 2023 Term Corporate ETF	IBDO	Preliminary 2.B*	April 2020
iShares® iBonds® Dec 2024 Term Corporate ETF	IBDP	Preliminary 2.B*	April 2020
iShares® iBonds® Dec 2025 Term Corporate ETF	IBDQ	Preliminary 2.B*	April 2020
iShares® iBonds® Dec 2026 Term Corporate ETF	IBDR	Preliminary 2.B*	April 2020

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Fund list as of April 2020.

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Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Funds that invest in preferred stocks, asset- or mortgage-backed securities, municipal bonds, privately issued securities and / or other funds or ETFs may be subject to additional risks and / or expenses. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency and its return and yield will fluctuate with market conditions Please see each fund's prospectus for more information on risks.

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