

Statutory Issue Paper No. 28

Short-Term Investments

STATUS

Finalized March 16, 1998

Original SSAP: SSAP No. 2; Current Authoritative Guidance: SSAP No. 2R

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. Short-term investments are investments which generally are in the form of bonds, commercial paper, money market instruments, repurchase agreements, and collateral and mortgage loans, whose maturity dates (or repurchase dates) at the time of acquisition were one year or less. Current statutory accounting guidance requires short-term investments to be carried in the same manner as similar long-term investments. Any premium or discount is amortized on a straight-line basis through the maturity date of the investment. This is different from GAAP which does not have the classification of short-term investments.
2. The purpose of this issue paper is to define short-term investments and to establish statutory

DISCUSSION

6. The conclusion above rejects *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), for those securities which have maturities of one year or less from the date of acquisition. The conclusion above is consistent with existing statutory guidance.

7. The above conclusion requires separate classification of those investments held by a reporting entity which have maturity dates of one year or less at the time of their acquisition from those with maturity dates of over one year at acquisition. The Statement of Concepts states that “*the cornerstone of solvency measurement is financial reporting. Therefore, the regulator’s ability to effectively determine relative financial condition using financial statements is of paramount importance to the protection of policyholders.*”

8. GAAP classifies securities with original maturities of ninety days or less as cash equivalents and those over ninety days in one of the following categories in accordance with FAS 115: 1) trading; 2) available-for-sale; 3) held-to-maturity. Issue Paper No. 2 defines cash as “*a medium of exchange that a bank will accept for deposit and allow an immediate credit to the depositor’s account.*” Moreover, statutory accounting guidance does not recognize the GAAP classification of investments contained in FAS 115.

9. Negotiable certificates of deposit with a contractual maturity of one year or less at acquisition will no longer be classified as short-term investments. This change was made to address inconsistencies in the guidance between the Accounting Practices and Procedures Manuals for Property and Casualty Insurance Companies and Life and Accident and Health Insurance Companies (P&C and Life/A&H Accounting Practices and Procedures Manuals) and the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* (SVO Purposes and Procedures). The P&C and Life/A&H Accounting Practices and Procedures Manuals require all nonnegotiable certificates of deposit to be classified as cash and negotiable certificates of deposit to be classified as short-term investments or bonds depending on the length to maturity at acquisition. The SVO Purposes and Procedures requires both negotiable and nonnegotiable certificates of deposit to be submitted to the SVO and valued under the general provisions for valuing bonds.

Drafting Notes/Comments

- Bonds and other long-term investments are addressed in separate issue papers.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

10. Statutory accounting guidance is contained in the P&C and Life/A&H Accounting Practices and Procedures Manuals, Chapter 5, *Cash and Short-term Investments*. Chapter 5 states:

Short-term Investments

Short-term investments are generally in the form of bonds, commercial paper, money market instruments, repurchase agreements, or collateral and mortgage loans whose maturities (or repurchase dates under repurchase agreements) at time of acquisition were one year or less.

The accounting for short-term investments is the same as for similar long-term investments except that the method of accrual and amortization is always straight line and the assets are always valued at book value or market value.

11. Guidance for investments in money market funds is contained in the SVO Purposes and Procedures. Section 5(A) - Procedures for Valuing Common Stocks and Stock Warrants, states:

