

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Proposed P&P Manual Amendment to Permit NAIC Designations for Short-Term ABS

DATE: April 16, 2024

Summary: The Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 2R Cash, Cash Equivalents, Drafts and Short Term Investments in the Accounting Practices & Procedures Manual (AP&P) on Dec. 1, 2023. The revisions, which will be effective January 1, 2025, further restrict the investments that are permitted for cash equivalent or short-term investment reporting. The revisions are below in their final form with highlights in bold underline added.

Adopted revisions to SSAP No. 2R:

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Cash Equivalents

6. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8, and cash pooling, as detailed in paragraph 9. Certificates of deposit with a maturity of less than 12 months at the time of acquisition are reported as cash pursuant to paragraph 5. Regardless of maturity date, the following investments are not permitted to be reported as cash equivalents and shall be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable:

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All investments that are reported on Schedule BA, including but not limited to:

i. All debt securities that do not qualify as bonds in scope of SSAP No. 21R.

ii. Collateral/Non-

iii. Working capital finance investments in scope of SSAP No. 105R.

iv. Surplus notes in scope of SSAP No. 41

c. Mortgage loans captured in scope of SSAP No. 37.

d. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.

e. Securities with terms that are reset at predefined dates (e.g., an auction security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

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ShortTerm Investments

14. Short-term investments are investments that do not qualify as cash equivalents, but that are still considered highly liquid as they have remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition. Certificates of

Assetbacked securities captured within scope of what will be the revised SSAP No. 43 Asset Backed Securities, as of Jan. 1, 2025, are expressly excluded from the definition of Cash Equivalents and Short Term Investments. This amendment proposes to permit the assignment of an NAIC Designation to these investments if they are captured within the scope of the revised SSAP No. 43 Asset Backed Securities and are eligible to be reported on Schedule D, Part 1, Section 2 as an Asset Backed Security.

Recommendation: The Securities Valuation Office (SVO) recommends adoption of this conforming amendment to permit securities that qualify under SSAP No. 43 Asset Backed Securities to be reported with an NAIC Designation and NAIC Designation Category assigned in compliance with the guidance in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). The proposed text changes to the P&P Manual are shown below with additions in underline and deletions in ~~red strikethrough~~ as it would appear in the 2022 P&P Manual.

SVO

PART ONE
POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE

SPECIAL INSTRUCTIONS

Short-Term Investments

128. A