Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** Rolling Short-Term Investments

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

This agenda item has been drafted to consider statutory accounting guidance for short-term investment structures that are being purposely designed to mature at or around 364 days (often with affiliates), with the full expectation that the investment structure would be renewed (rolled) continuously for subsequent years. This agenda item also addresses investments reported as cash equivalents, with the same dynamic, but structured to comply with the cash equivalent timeframes. It is believed these structures occur because reporting as short-term investments (or cash equivalents) results with the following benefits:

1. More-desirable risk-based capital (RBC) charge.
2. To avoid filing with either the SVO or to avoid obtaining a rating from a credit rating provider.
3. Limited affiliate reporting.

Although there are investments (e.g., repurchase and reverse repurchase) transactions that are often expected to renew, it is not appropriate to purposely structure investments to qualify for short-term or cash equivalent reporting, with an anticipation that the investment will continuously roll forward, potentially for many years and avoid filing the security for an NAIC designation and/or reporting on the schedule with more appropriate RBC charges as a long-term investment. In order to avoid unintended consequences for desirable short-term investments, the provisions of this agenda item have been structured to specifically apply to the following:

* All affiliated SSAP No. 26R investments.
* All SSAP No. 43R investments.
* All investments that would be reported on Schedule BA if they did not qualify for cash equivalent or short-term reporting. (This includes both affiliated and non-affiliated investments.)

With these restrictions, any non-affiliated investment that would qualify within *SSAP No. 26R—Bonds* as a long-term investment would be exempt from the proposed new concepts in determining cash equivalent / short-term investment reporting. This scope of the revisions intend to prevent inadvertent application to Treasury-bills, commercial paper, certificates of deposit, etc., where a reporting entity may continuously reacquire the same, or substantially similar short-term investment immediately after maturity of a prior short-term investment. However, any affiliated SSAP No. 26R and any investment (affiliated or non-affiliated) that would be in scope of *SSAP No. 43R—Loan-backed and Structured Securities*, or that would be reported as an “other invested asset” on Schedule BA is proposed to be subject to the additional concepts for reporting as a cash equivalent / short-term investment. (Repurchase and reverse repurchase transactions are also specifically excluded if they are admitted in accordance with SSAP No. 103R collateral requirements.)

Proposed additional concepts for Cash Equivalents and Short-Term Investments Captured in Scope*:*

* An overall principle that investments are permitted for short-term and cash equivalent reporting only if the reporting entity reasonably expects the investment duration to be realized (e.g., terminate / mature) on the designated maturity date. If the reporting entity does not expect that the investment will terminate or mature on the designated date but will be renewed / rolled beyond the cash equivalent / short-term maturity deadlines, then the investment shall not be classified within scope of *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments.* Such investments shall be reported as long-term investments on the applicable reporting schedule and shall follow the provisions (including NAIC designations and RBC calculations) for a long-term investment. (Although SAP and U.S. GAAP have different definitions for “short-term” / “current asset” reporting, the concept that the duration is “reasonably expected to be realized” is consistent with the “current asset” definition under U.S. GAAP.)
* Provisions that a cash equivalent / short-term investment (unless specifically exempted) is only permitted to be reported within those classifications for one applicable reporting period. As such, if an investment is reported as a short-term investment as of Dec. 31, 2018, and the investment does not mature on the original scheduled maturity date, the reporting entity shall not be permitted to report the investment as a short-term investment on Dec. 31, 2019. (A cash equivalent would only be permitted to be reported with that distinction for one quarter, before moving to a long-term investment schedule.) For these situations, if a security is held after the initial maturity timeframes have passed, the reporting entity shall report the investment as a long-term investment on the applicable schedule and follow all previsions (including NAIC designations and RBC calculations as required) for a long-term investment. (By default, this provision incorporates a quarter (90-day) grace period, because if the security is sold in the quarter following the initial reporting date, it will not subsequently be reported as an invested asset.)
* The sale or maturity of an investment, with a reacquisition of the same or substantially similar security within a 1-year timeframe shall preclude the reporting entity from reporting the currently held security as a cash equivalent or short-term investment regardless of the maturity date. (This one-year timeframe prevents reporting of recurring “re-acquisitions” as cash equivalents or short-term investments.)
* Although wash sales, which are sales and reacquisitions within a 30-day timeframe, of cash-equivalents and short-term investments with credit assessments of NAIC 1-2 are currently excluded from the wash-sale disclosure, modifications have been proposed to require disclosure of all wash sales, regardless of NAIC designation, if the investment or transaction involves an affiliate.

RBC Assessment of Proposed Revisions:

Life Reporting Entities: For life reporting entities, if the investment is a bond, RBC is similar between all reporting schedules in accordance with NAIC designations. If the investment is not a bond, and does not have an NAIC 1 designation, and/or is not permitted to be reported as an “underlying fixed income security” pursuant to the requirements of Schedule BA, a reporting entity receives an RBC benefit by reporting the investment as a cash equivalent or short-term investment rather than as a BA investment. Also, if a reporting entity reports a “credit assessment” for short-term or cash equivalent bonds that is a better assessment than would be received if they had received an NAIC designation, a reporting entity would receive an RBC benefit by reporting the investment as a cash equivalent or short-term investment.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Life RBC | Schedule E2Cash Equivalent\* | Schedule DAShort-Term\* | Schedule D1Bond | Schedule BAFixed Income |
| Bond Investment |  |  |  |  |
| NAIC 1 | .0039 | .0039 | .0039 | .0039 |
| NAIC 2 | .0126 | .0126 | .0126 | .0126 |
| NAIC 3 | .0446 | .0446 | .0446 | .0446 |
| NAIC 4 | .0970 | .0970 | .0970 | .0970 |
| NAIC 5 | .2231 | .2231 | .2231 | .2231 |
| NAIC 6 | .3000 | .3000 | .3000 | .3000 |
|  |  |  |  |  |
| Non-Bond Investment |  |  |  |  |
| NAIC 1 | .0039 | .0039 | XXXX | .0039 |
| NAIC 2 | .0039 | .0039 | XXXX | .0126 |
| NAIC 3 | .0039 | .0039 | XXXX | .0446 |
| NAIC 4 | .0039 | .0039 | XXXX | .0970 |
| NAIC 5 | .0039 | .0039 | XXXX | .2231 |
| NAIC 6 | .0039 | .0039 | XXXX | .3000 |
| No Designation | .0039 | .0039 | XXXX | .3000 |

\* Bonds that are reported as cash equivalents or short-term investments receive RBC charges based on the “credit assessment” in accordance with how the company reports the investment in the Asset Valuation Reserve calculation. Although NAIC designations are not required for these investments, reporting entities are required to report them based on their own credit assessment. If a bond was reported with a higher credit assessment than what it would receive based on NAIC designation (which is required for long-term investments), then a movement from cash equivalent / short-term reporting to a long-term schedule (Schedule D-1 or Schedule BA) would have an RBC impact.

Property / Casualty and Health Reporting Entities: For property/casualty and health reporting entities, if the investment is a bond, RBC is similar between all reporting schedules in accordance with NAIC designations. If the investment is not a bond, a reporting entity receives an RBC benefit by reporting the investment as a cash equivalent or short-term investment rather than a BA investment. (P/C entities do not have the ability to report NAIC designations on Schedule BA investments for RBC purposes.) Also, if a reporting entity reports a “credit assessment” for short-term or cash equivalent bonds that is a better assessment than would be received if they had reported an NAIC designation, a reporting entity would receive an RBC benefit by reporting the investment as a cash equivalent or short-term investment.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| P/C & Health RBC | Schedule E2Cash Equivalent\* | Schedule DAShort-Term\* | Schedule D1Bond | Schedule BA |
| Bond Investment |  |  |  |  |
| NAIC 1 | .003 | .003 | .003 | .200 |
| NAIC 2 | .010 | .010 | .010 | .200 |
| NAIC 3 | .020 | .020 | .020 | .200 |
| NAIC 4 | .045 | .045 | .045 | .200 |
| NAIC 5 | .100 | .100 | .100 | .200 |
| NAIC 6 | .3000 | .3000 | .3000 | .200 |
|  |  |  |  |  |
| Non-Bond Investment |  |  |  |  |
| NAIC 1 | .003 | .003 | XXXX | .200 |
| NAIC 2 | .003 | .003 | XXXX | .200 |
| NAIC 3 | .003 | .003 | XXXX | .200 |
| NAIC 4 | .003 | .003 | XXXX | .200 |
| NAIC 5 | .003 | .003 | XXXX | .200 |
| NAIC 6 | .003 | .003 | XXXX | .200 |
| No Designation | .003 | .003 | XXXX | .200 |

\* Bonds that are reported as cash equivalents or short-term investments receive RBC charges based on the “credit assessment” assigned in Schedule D-Part 1A. Although NAIC designations are not required for these investments, reporting entities are required to report them based on their own credit assessment. If a bond was reported with a higher credit assessment than what it would receive based on NAIC designation (which is required for long-term investments), then a movement from cash equivalent / short-term reporting to a long-term schedule (Schedule D-1 or Schedule BA) would have an RBC impact.

Existing Authoritative Literature:

*SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*

### Cash Equivalents

1. 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 maturities1 of three months or less qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 7. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate 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.
2. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act shall be accounted for and reported as cash equivalents for statutory accounting. Investments in money market mutual funds shall be valued at fair value or net asset value (NAV) as a practical expedient. For reporting entities required to maintain an asset valuation reserve (AVR), the accounting for unrealized capital gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve* (SSAP No. 7). For reporting entities not required to maintain an AVR, unrealized capital gains and losses shall be recorded as a direct credit or charge to surplus. Sales/reinvestments in money market mutual funds are excluded from the wash sale disclosure in SSAP No. 103R.

*Footnote 1:* Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months.

### Short-Term Investments

1. All investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.
2. All short-term investments shall be accounted for in the same manner as similar long-term investments.
3. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (*bolding and underlining added for emphasis)

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, involving transactions for securities with an NAIC designation of 3 or below, or that do not have an NAIC designation (**excluding all cash equivalents, derivative instruments as well as short-term investments with credit assessments equivalent to an NAIC 1-2 designation**). This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

1. A description of the reporting entity’s objectives regarding these transactions;
2. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;
3. The number of transactions involved during the reporting period;
4. The book value of securities sold;
5. The cost of securities repurchased; and
6. The realized gains/losses associated with the securities involved.

*U.S. GAAP – FASB Codification*

**Master Glossary of “Current Assets”**

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

Activity to Date (issues previously addressed by the Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS) and U.S. GAAP:**

Not Applicable – NAIC staff highlights that the distinction of “short-term” under SAP is distinctly different from U.S. GAAP. Under U.S. GAAP, a “current asset” is one that is reasonably expected to be realized in case or sold or consumed during the normal operating cycle of a business. As such, under U.S. GAAP investments move from a non-current (long-term) to current (short-term) classification. This does not occur under SAP, as the distinction of short-term is based on the maturity timeframe at the time of acquisition.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments.

As detailed within this agenda item, the proposed revisions will restrict classification as a cash equivalent or short-term investment for all affiliated *SSAP No. 26R—Bond* investments, all affiliated and nonaffiliated investments in scope of *SSAP No. 43R—Loan-backed and Structured Securities* and all affiliated and non-affiliated investments that would be reported on Schedule BA in accordance with the following provisions:

* The reporting entity does not reasonably expect that the investment will actually terminate or mature within the timeframe permitted for cash equivalent or short-term investment classification.
* The investment was previously reported as a cash equivalent / short-term investment and the initial maturity timeframes have passed. For example, if an investment was reported as a short-term investment as of Dec. 31, 2018, and the investment was rolled / renewed, the reporting entity will not be permitted to report the investment as a short-term investment on Dec. 31, 2019. (A cash equivalent would only be permitted to be reported for one quarter, before moving to a long-term investment schedule.) For these situations, if a security is held after the initial maturity timeframes have passed, the reporting entity shall report the investment as a long-term investment on the applicable schedule and follow all previsions (including NAIC designations and RBC calculations as required) for a long-term investment.
* The sale or maturity of an investment, with a reacquisition of the same or substantially similar security within a 1-year timeframe would preclude the reporting entity from reporting the currently held security as a cash equivalent or short-term investment regardless of the maturity date. (This one-year timeframe prevents reporting of recurring “re-acquisitions” as cash equivalents or short-term investments.) (This provision is similar to the one regarding “rolled” securities but clarifies that the “settlement” of a security with a reacquisition does not prevent application of the new concepts in determining cash equivalent or short-term reporting. (NAIC staff highlights that this restriction is necessary particularly with the use of “net settlement” structures with affiliates in which no cash is exchanged.)
* Wash sales, regardless of NAIC designation, that involve affiliated investments shall be disclosed.

The proposed revisions in this agenda item have been drafted to focus on affiliated bond investments (SSAP No. 26R), all loan-backed and structured security investments (SSAP No. 43R) and all investments that would be captured on Schedule BA. This approach has been used to exclude a variety of cash equivalent / short-term investments that are often purposely rolled / reacquired to ensure a continuous balance of available short-term liquidity (e.g., Treasury-bills, commercial paper, certificates of deposit, etc.) By excluding all non-affiliated “bonds” from the new guidance, the “normal” recurring short-term / cash equivalent investments are not expected to be impacted. The revisions capture both affiliated and nonaffiliated Schedule BA items, as the short-term structuring is more of an RBC focus. (NAIC staff does not believe there are many SSAP No. 43R securities that qualify as cash equivalents or short-term investments, but they have been specifically identified to prevent such classifications if the noted conditions are met.)

As a key item to note, the proposed revisions permit reporting entities that acquire short-term investments (based on maturity date) that are captured in scope and that they expect to roll (such as an affiliated short-term bond), to report the security as a long-term investment at acquisition. (With this approach, the investment would not have to change reporting schedules once it is rolled after initial acquisition.)

Proposed Revisions to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:

### Cash Equivalents

1. 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[[1]](#footnote-1) of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 8. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate 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.
2. Regardless of maturity date, affiliated investments that would be in scope of *SSAP No. 26R—Bonds* and all investments that would be in scope of *SSAP No. 43R—Loan-backed and Structured Securities* or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions applyFN:
	1. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
	2. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
	3. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R— Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

### Short-Term Investments

1. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition. (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans. which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.
2. Regardless of maturity date, affiliated investments in scope of *SSAP No. 26R—Bonds* and all investments that would be in scope of *SSAP No. 43R—Loan-backed and Structured Securities* or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions applyFN:
	1. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
	2. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
	3. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant *to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

1. All short-term investments shall be accounted for in the same manner as similar long-term investments.
2. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

Proposed Revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*:

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated investment transactions with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, all cash equivalents, derivative instruments and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

1. A description of the reporting entity’s objectives regarding these transactions;
2. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;
3. The number of transactions involved during the reporting period;
4. The book value of securities sold;
5. The cost of securities repurchased; and
6. The realized gains/losses associated with the securities involved.

Staff Review Completed by: Julie Gann – May 2019

Status:

On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 2R—Cash, Drafts and Short-term Investments* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as illustrated above, to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments.

**NAIC staff recommends exposure of proposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments,* which incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments.** Items from the original August 3, 2019 exposure are highlighted below and exclude certain qualified cash pooling arrangements (as proposed in agenda item 2019-42) from the restricted cash equivalent reporting detailed in this agenda item. Note: both agenda items (2019-20 and 2019-42) are concurrently exposed and if adopted in their current form, must be adopted simultaneously. Additionally, paragraph 8 as referenced below for cash pooling reflects the modifications proposed in agenda item 2019-42.

Proposed Revisions for Fall 2019 Discussion: to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:

### Cash Equivalents

1. 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[[2]](#footnote-2) 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 8. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate 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.
2. Regardless of maturity date, affiliated investments that would be in scope of *SSAP No. 26R—Bonds* and all investments that would be in scope of *SSAP No. 43R—Loan-backed and Structured Securities* or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions applyFN:
	1. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
	2. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
	3. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R— Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Additional exclusions include cash pooling arrangements permitted under paragraph 8. Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

### Short-Term Investments

1. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition. (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans. which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.
2. Regardless of maturity date, affiliated investments in scope of *SSAP No. 26R—Bonds* and all investments that would be in scope of *SSAP No. 43R—Loan-backed and Structured Securities* or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions applyFN:
	1. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
	2. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
	3. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant *to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

1. All short-term investments shall be accounted for in the same manner as similar long-term investments.
2. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

Proposed Revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*:

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated investment transactions with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, all cash equivalents, derivative instruments and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

1. A description of the reporting entity’s objectives regarding these transactions;
2. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;
3. The number of transactions involved during the reporting period;
4. The book value of securities sold;
5. The cost of securities repurchased; and
6. The realized gains/losses associated with the securities involved.

On December 7, 2019, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as shown above in the “Proposed Revisions for Fall 2019 Discussion” to incorporate additional principle concepts in classifying investments as cash equivalents or short-term investments to prevent the “rolling” of certain investments. Fall revisions to the prior Summer National Meeting exposure incorporate guidance to exclude qualifying cash pools from the short-term rolling provisions.

With the Fall exposure, comments were requested from regulators and industry representatives on whether other investments should be included / excluded from the short-term rolling provisions. In particular, comments are requested on whether short-term lending (both collateral loans and affiliated loans) should be permitted to be continuously rolled/renewed as short-term, whether non-affiliated SSAP No. 26R investments should be subject to the short-term rolling restrictions, and whether an assessment of “re-underwriting” could be used as support to allow the rolling of short-term investments.

**Status:**

On March 18, 2020, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*, as illustrated below, with modifications from the prior exposure shown as gray shading.This item has a shortened comment period deadline ending May 1, 2020.

The revisions incorporate additional principle concepts, if certain criteria are not met, that will restrict the classification of related party or affiliated investments as a cash equivalent or short-term investment in the scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-backed and Structured Securities,* or that would be reported as “Other Invested Assets.”

An additional disclosure has also been proposed to identify short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year (i.e. a re-underwritten investment that is renewed). A concurrent blanks proposal will recommend a reporting code for renewed short-term investments as well as a new general interrogatory to certify that re-underwriting has occurred. (This code will also apply to nonaffiliated non-related party transactions for identification purposes.)

Proposed Revisions for Spring 2020 Discussion: to SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:

### Cash Equivalents

1. 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[[3]](#footnote-3) of three months or less can qualify under this definition, with the exception of money market mutual funds, as detailed in paragraph 7, and cash pooling, as detailed in paragraph 8. Regardless of maturity date, derivative instruments shall not be reported as cash equivalents and shall be reported as derivatives on Schedule DB. Securities with terms that are reset at predefined dates (e.g., an auction-rate 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.
2. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds,* of *SSAP No. 43R—Loan-backed and Structured Securities,* or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply, FN unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
	1. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.
	2. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.
	3. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant to *SSAP No. 103R— Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* permitted under Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated / reacquired maturity date is within 1 year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

### Short-Term Investments

1. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition. (excluding derivatives and those investments classified as cash equivalents as defined in this statement) shall be considered short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, repurchase agreements, and collateral and mortgage loans. which meet the noted criteria. Short-term investments shall not include certificates of deposit. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.
2. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds,* *SSAP No. 43R—Loan-backed and Structured Securities,* or that would be reported as “Other Invested Assets” shall be reported as long-term investments if any of the following conditions apply FN, unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.
	1. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial “less than one year” timeframe.
	2. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed / rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.
	3. The reporting entity reacquired the investment (or a substantially similar investment) within 1 year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

New Footnote 1: Repurchase and reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant *to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Short-term investments subject to the provisions of paragraph 13 are not permitted to be subsequently reported as cash equivalents, even if the updated / reacquired maturity date is within 90-days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition regardless of the initial maturity date.

1. All short-term investments shall be accounted for in the same manner as similar long-term investments.
2. Short-term investments meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements of this statement.

### Disclosures

1. The following disclosures shall be made for short-term investments in the financial statements:
2. Fair values in accordance with *SSAP No. 100R—Fair Value*;
3. Concentrations of credit risk in accordance with *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*;
4. Basis at which the short-term investments are stated.
5. The items in the scope of this statement are also subject to the annual audited disclosures in *SSAP No. 26R—Bonds*, paragraph 30.f.
6. Identification of short-term investments or substantially similar investments in which remain on the short-term schedule for more than one year

Proposed Revisions to *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: (No changes to prior exposure.)

28.l. A reporting entity shall disclose the following information for wash sales, as defined in paragraph 12, for all affiliated investment transactions (including items originally classified as cash equivalents and short-term investments) and for non-affiliated investment transactions with an NAIC designation of 3 or below, or that do not have an NAIC designation. (For non-affiliated investments, all cash equivalents, derivative instruments and short-term investments with credit assessments equivalent to an NAIC 1-2 designation are excluded from this disclosure.) This disclosure shall be included in the financial statements for when the investment was initially sold. For example, if the investment was sold December 20, 2017, and reacquired on January 10, 2018, the transaction shall be captured in the wash sale disclosure included in the year-end 2017 financial statements:

1. A description of the reporting entity’s objectives regarding these transactions;
2. An aggregation of transactions by NAIC designation 3 or below, or that do not have an NAIC designation;
3. The number of transactions involved during the reporting period;
4. The book value of securities sold;
5. The cost of securities repurchased; and
6. The realized gains/losses associated with the securities involved.

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1. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. [↑](#footnote-ref-1)
2. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. [↑](#footnote-ref-2)
3. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. [↑](#footnote-ref-3)