BLACKROCK

May 16, 2016

Mr. Kevin Fry, Chairman
Valuation of Securities Task Force
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Re: Amendment to the P&P Manual to Remove Class 1; Amendment to add New Money Market Mutual Fund Category

Dear Chairman Fry,

BlackRock, Inc. ("BlackRock") is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world. BlackRock, Inc. ("BlackRock") is pleased to have the opportunity to comment to the Valuation of Securities Task Force on the removal of the Class 1 Money Market Fund List ("Class 1 List") from the Purposes and Procedures Manual ("P&P Manual") of the National Association of Insurance Commissioners ("NAIC") Securities Valuation Office. BlackRock is proposing to add a new money market mutual fund category to the P&P Manual.

After years of debate and thoughtful consideration, in 2014, the U.S. Securities and Exchange Commission ("SEC") adopted amendments to Rule 2a-7 ("Rule") under the Investment Company Act of 1940, as amended ("1940 Act") which governs the operation of U.S. money market funds ("MMFs"). The amendments to the Rule are designed to improve the resiliency of MMFs during times of stress, and include significant structural changes to this investment vehicle.

The structural changes required by the amendments to the Rule must be implemented by October 2016. As a result of the amendments, prime institutional MMFs will no longer meet the Class 1 List requirements under the NAIC guidelines.[1] As a result of these structural changes, the NAIC has voted to remove the Class 1 List from the P&P Manual, effective September 30, 2016.

Insurance companies currently use and rely upon prime MMFs to assist in the management of claims reserves, premium receipts and other working capital and treasury related functions on a daily basis. By eliminating the Class 1 List, we understand from our insurance clients that prime institutional MMFs will essentially be precluded from being used as a cash management tool by them. Companies using these MMFs for daily cash management needs would be subject to statutory equity limitations; we understand that many insurance companies are already allocating investments to their statutory equity limitations and will be unable to have the large cash balances they use daily in MMFs also count towards these limits.

From a yield perspective, prime MMFs have historically provided more yield than government and treasury MMFs by a margin of 10bps[2]. With several factors at play now in the short-term markets, we anticipate that

[1] The requirements to meet the Class 1 List differ from the new requirements of the Rule; most notably prime institutional MMFs will no longer have a stable $1.00 net asset value per share and may be subject to redemption gates and liquidity fees in certain circumstances.

[2] Crane Data, MMF Yields Double on Fed, Prime Inst Rises First; Voya Goes Gov't (Dec. 30, 2015), available at www.cranedata.com.

this spread between government and treasury MMFs and prime MMFs funds could widen substantially, with industry estimates ranging between 30 and 50bps; today's spreads sit at over 20bps on average.[3] In this low-yield environment which has plagued the industry for a number of years, every basis point matters within a cash investment portfolio.

Additionally, while BlackRock has observed that prime MMFs are used by both large and small insurance companies, and across life companies, Property & Casualty companies and health companies, we believe small and mid-sized companies predominantly benefit from prime MMFs. These companies may not have their own in-house short-term investment teams able to buy direct money market instruments, and thus rely upon the expertise provided by a third party money market fund manager to provide access to a valuable cash management tool.

With the removal of the Class 1 List from the P&P Manual, prime institutional MMFs will be treated in a starkly different manner by the NAIC than the SEC, the Financial Accounting Standards Board and the Internal Revenue Service. Each of these entities continues to treat prime institutional MMFs as cash equivalents.[4] Part 2, Section 9, e) of the P&P Manual states "mutual funds, including money market funds, are typically classified as common stock and reported in Schedule D - Part 2- Section 2 of the NAIC Financial Statement Blank. The VOS/TF has determined that MMFs that meet the conditions of 17CFR 270. 2a-7 and certain bond mutual funds that are registered with the SEC under the '40 Act and which also meet the conditions set forth in Part Six, Section 2 of the P&P manual, may be reported on Schedule DA - Part 1 and Schedule D - Part 1, respectively, of the NAIC Statement Blank". MMFs meeting these conditions have historically been classified as bonds and captured on one of two lists: the U.S. Direct Obligations/ Full Faith and Credit Exempt List or the Class 1 List.

With the removal of the Class 1 List which sits in Part Six, Section 2 of the P&P Manual, Prime Institutional MMFs would no longer meet the conditions set forth in Part 2, Section 9, e) of the P&P Manual and would not be eligible to receive bond treatment, or be treated as Cash or Cash Equivalents on Schedule DA. If a MMF is not treated as a bond, it would be classified as common stock.

In our view, the changes made by the SEC to the Rule will only strengthen the quality of the investments of prime institutional MMFs. We believe that the 2014 amendments to the Rule continue the efforts from the 2010 amendments and will help provide additional stability, greater transparency and more diversification to MMFs. Coupled with the increase in stress-testing requirements under the Rule, in our view, MMFs will be more robust than they ever have been.

As the Class 1 List is being eliminated, BlackRock proposes another category of MMFs be captured within the Accounting Practices & Procedures Manual ("AP&P Manual"), the P&P Manual, and the Quarterly and Annual Statement Instructions. Our recommendation would be for a prime institutional MMF to be classified as a Short-term Investment, receive treatment as a bond, and continue to be treated as a cash equivalent.

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[3] State Street Global Advisors, 2016 Cash Outlook: A Playbook for the New Cash World (2016), available at https://www.ssga.com/cash/ref_doc/trends_doc/2016_Outlookv2.pdf.

[4] Internal Revenue Service, 26 CFR § 601.105: Examination of returns and claims for refund, credit or abatement; determination of correct tax liability, available at https://www.irs.gov/pub/irs-drop/rp-14-45.pdf; Press Release, SEC, SEC Adopts Money Market Fund Reform Rules (July 23, 2014), available at https://www.sec.gov/News/PressRelease/Detail/PressRelease/1370542347679 ("SEC July 2014 Statement"); American Institute of Certified Public Accountants, Comment letter, SEC - Money Market Fund Reform; Amendments to Form PF (Sept. 16, 2013), available at https://www.sec.gov/comments/s7-03-13/s70313-137.pdf ("AICPA Comment Letter"); Ernst & Young LLP, Comment Letter, SEC - Money Market Fund Reform; Amendments to Form PF (Sept. 12, 2013), available at https://www.sec.gov/comments/s7-03-13/s70313-110.pdf ("EY Comment Letter"); Deloitte & Touche LLP, Comment Letter, SEC - Money Market Fund Reform; Amendments to Form PF (Sept. 17, 2013), available at https://www.sec.gov/comments/s7-03-13/s70313-159.pdf ("Deloitte & Touche Comment Letter"); KPMG LLP, Comment Letter, SEC - Money Market Fund Reform; Amendments to Form PF (Sept. 17, 2013), available at https://www.sec.gov/comments/s7-03-13/s70313-184.pdf ("KPMG Comment Letter"); PricewaterhouseCoopers LLP, Comment Letter, SEC - Money Market Fund Reform; Amendments to Form PF (Sept. 16, 2013), available at https://www.sec.gov/comments/s7-03-13/s70313-141.pdf ("PWC Comment Letter").

BlackRock is proposing that the P&P Manual be amended to provide for a new classification of "Other Money Market Mutual Funds" to allow prime institutional MMFs to continue to be reported on Schedule DA as a short-term asset and receive treatment as a bond.

Specifically, BlackRock would propose that the following parts of the P&P Manual be revised as follows (Please note that excerpted language from the P&P Manual is set out below with recommended additions or amendments made in red font):

Part 2 – Filing with the SVO

Section 9: Specialized SVO Forms, Products and Systems

…

e) Mutual Fund Forms

Mutual funds, including money market funds, are typically classified as common stock and reported in Schedule D - Part 2 - Section 2 of the NAIC Financial Statement Blank. The VOS/TF has determined that money market funds that meet the conditions of 17 C.F.R. 270.2a-7 and certain bond mutual funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.), and which also meet the conditions set forth in Part Six, Section 2 of this Manual, may be reported on Schedule DA - Part 1 and Schedule D - Part 1, respectively, of the NAIC Financial Statement Blank.

The SVO maintains ~~a~~ two lists of money market funds~~s~~ and a list of bond mutual funds. Investments in these funds by reporting insurance companies are eligible for more favorable reserve treatment than funds not so listed, as noted above. These lists are published on a quarterly basis.

Money market funds that meet certain criteria for exemption from NAIC reserve requirements may be listed on the U.S. Direct Obligations/Full Faith and Credit Exempt List.

Other money market funds that meet certain criteria may be listed on the Other Money Market Mutual Funds List and insurance companies that own investments in these funds may reserve for them by using the more favorable bond class one reserve factor.

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… The Other Money Market Mutual Funds Application Form is used to list a money market fund on the Other Money Market Funds List. The Bond Application Form is used to list a bond mutual fund on the Bond List. Refer to Part Six, Section 2 of this Manual for additional information on the process. Any questions regarding the process or its purpose should be addressed to the Corporate Securities Group of the SVO.

Section 10: Reporting Conventions and Required Documents

c) Reporting Conventions and Required Documents

Specific reporting conventions for initial reports that all reporting insurance companies should follow are described below.

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(vii) <u>Mutual Funds</u>

Any money market fund wishing to establish that it meets the conditions for listing on the U.S. Direct Obligations/Full Faith and Credit Exempt List or the Other Money Market Mutual Funds List, and any bond mutual fund wishing to establish that it meets the conditions for listing on the Bond List, must submit a completed submission package to the SVO with the following documentation:

(A) The appropriate money market or bond mutual fund application form;
(B) Authorization letter requesting review of the fund for approved list purposes;
(C) Prospectus of the fund;
(D) Statement of Additional Information (SAI);
(E) Most recent annual report of the fund, and, if more recent, the latest semi-annual report; and

(F) Rating letter from an NAIC CRP dated in the year of the filing.

Reporting insurance companies that invest in mutual funds on the U.S. Direct Obligations/Full Faith and Credit Exempt List, Other Money Market Mutual Funds List or Bond List need not file an SAR with the SVO and are not required to obtain or place a PPN/CUSIP number in Schedule DA or Schedule D of the NAIC Financial Statement Blank. Mutual funds not rated by an NAIC CRP, and/or those that do not meet the above-listed documentation requirements, will not be considered for listing. The reporting insurance company should follow the procedures required for reporting common stock for filing on Schedule D of the NAIC Financial Statement Blank.

Section 11. Subsequent Reporting

e) Reporting Conventions and Required Documents
Specific reporting conventions that all reporting insurance companies should follow are described below.
…
(v) Mutual Funds
Subsequent reporting for money market funds on the U.S. Direct Obligations/Full Faith and Credit Exempt List or the Other Money Market Mutual Funds List, or for bond mutual funds on the Bond List, consists of an annual submission of the following information due prior to April 30 of each year:
(A) The appropriate money market or bond mutual fund application form;
(B) Prospectus and Statement of Additional Information of the fund;
(C) Most recent annual report of the fund and, if more recent, the latest semi-annual report; and
(D) Rating letter from an NAIC CRP dated in the year of the filing.

Failure to provide the information required may result in removal of the money market fund or bond mutual fund from the list and reclassification of the fund as a common stock reported on Schedule D - Part 2 - Section 2.

Part Six - SVO Verification Activities in Support of Certain Regulatory Processes

Section 2. Mutual Funds and Exchange Traded Funds

b) Mutual Fund Lists

(i) U.S. Direct Obligations/Full Faith and Credit Exempt List
….
(ii) Other Money Market Mutual Funds List

Money market funds are a type of mutual fund registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act. A money market fund is eligible for listing on the Other Money Market Funds List if the fund meets the following conditions:

A) Meets the definition of a money market fund under 17 C.F.R. 270.2a-7[5]
   a. The Fund's dollar-weighted average maturity must be less than or equal to 60 days.
   b. The Fund's dollar-weighted average life ("WAL") is limited to 120 days or less.
   c. A security must have a remaining maturity of 397 days or less from date of acquisition (with certain exceptions).
   d. The Fund must have 10% of its total assets in daily liquid assets (except tax-exempt money market funds) and 30% of its total assets in weekly liquid assets. (Daily liquid assets include cash, U.S. Treasury securities and securities readily convertible to cash within one business day. Weekly liquid assets include daily liquid assets – except convertible to cash within five business days rather than one – as well as U.S. government agency discount notes with remaining maturities of 60 days or less.)

[5] Characteristics of a 2a-7 MMF include but are not limited to those listed. *See* 17 CFR §270.2a-7. The compliance date for the new rules is October 14, 2016.

e. A money market fund is limited to investing in a security only if the fund determines that the security presents minimal credit risks after analyzing certain prescribed factors. These prescribed factors must include an analysis of the security issuer's financial condition; sources of liquidity; ability to react to future market-wide and issuer- or guarantor-specific events, including ability to repay debt in a highly adverse situation; and the strength of the issuer or guarantor's industry within the economy.
f. The Fund may not invest more than 5% in illiquid securities.

B) The fund maintains a rating of Am or better from Standard and Poor's or a rating of A-mf or better from Moody's Investor's Services or an equivalent or better rating from another NAIC CRP.

C) The fund which is not a government money market fund or retail money market fund must compute its price per share for purposes of distribution, redemption and repurchase by rounding the fund's current net asset value per share to a minimum of the fourth decimal place in the case of a fund with a $1.0000 share price or an equivalent or more precise level of accuracy for money market funds with a different share price (e.g. $10.000 per share, or $100.00 per share).

D) The fund allows a maximum of seven-day redemption of proceeds, under normal market conditions. In normal market conditions, the fund provides redemption proceeds on the same day or next day after the fund's trading deadline is met. Under certain circumstances, in accordance with Rule 2a-7 of the 1940 Act, the fund may charge a fee for redemption of up to 2% or may impose a redemption gate, for up to 10 business days in any 90 day period.

Approval of Listing

If the SVO determines that a money market fund has met the eligibility requirements for the U.S. Direct Obligations/Full Faith and Credit Exempt List or ~~the Class 1 List~~ the Other Money Market Mutual Funds List, or that a bond mutual fund has met the eligibility requirements for the Bond List, the SVO will confirm such eligibility to the person who applied for the confirmation, in writing.

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g) List of Money Market Funds ~~Filed with the SVO (Class 1 Funds)~~ Filed with the SVO (Other Money Market Mutual Funds)

Thank you for your consideration of these comments. If the Valuation of Securities Task Force has any questions about our recommendations, please do not hesitate to contact the undersigned. We remain ready to work with you and your colleagues on these issues.

Kind regards,

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Cc: Dale Bruggeman, Chairman of Statutory Accounting Principles Working Group
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