17:16-63.8 Distribution of realized appreciation
(a) (No change.)
(b) The Council may, in its sole discretion, choose [any or all] either of the following options:
1. Declare as income to the participating funds [monthly or quarterly in cash and/or units] in proportion to the number of units owned; or
2. Declare as capital gains to the participating funds such percentage of said realized appreciation of principal as it may deem prudent. When such declaration is made, the percentage of such appreciation of principal declared to be income shall be deducted from the total [principal in] net assets of the common fund [and added to income in the common fund prior to the next regular monthly valuation. Following such declaration, the amount declared as income shall be treated] and distributed [as income] to the participating funds [monthly or quarterly in cash and/or units] of the following options:
(a) (No change.)
(b) (No change.)
[3.2] (No change in text.)
17:16-63.10 Liquidation
(a)-(c) (No change.)
(d) Distribution upon liquidation shall occur within five days after a valuation date and shall be based upon the [principal] net asset value per unit determined upon such valuation date.
(e) (No change.)

(a)

STATE INVESTMENT COUNCIL
Common Pension Fund D
Units of Participation; Valuation of Investments and Net Assets; Valuation of Units; Admission and Withdrawal; Distribution of Realized Appreciation; Liquidation

Proposed Amendments: N.J.A.C. 17:16-67.3, 67.4, 67.6, 67.8, and 67.10


Authorized By: State Investment Council, Timothy M. Walsh
Director, Division of Investment.


Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2011-188.

Submit comments by November 5, 2011 to:
Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary
N.J.A.C. 17:16-67 sets forth the rules governing participation, permissible investments, valuation of investments and units, and liquidation procedures for Common Pension Fund D. Common Pension Fund D is a common trust fund established for the purpose of investing in international debt securities, international stocks or related securities, currencies and currency futures and options on behalf of the Police and Firemen’s Retirement System, Public Employees’ Retirement System, State Police Retirement System, Teachers’ Pension and Annuity Fund and Judicial Retirement System of New Jersey.

N.J.A.C. 17:16-67.3(b) specifies that physical certificates of participation must be prepared and issued by the Director. This is an extremely outdated, burdensome and unnecessary administrative task. It is not standard investment industry practice to issue physical certificates of ownership; ownership is typically evidenced in book entry form in the records of a fund or transfer agent. The proposed amendment to this subsection specifies that units of participation shall be evidenced by records maintained by the Division.

The proposed amendment to N.J.A.C. 17:16-67.3(c) clarifies that units shall be purchased at the unit valuation price as opposed to the principal unit valuation price, to be consistent with proposed terminology changes elsewhere within the subchapter. The proposed amendment also deletes the requirement that initial purchases be made for a principal valuation price of $1,000 at the outset of the common fund as no longer necessary.

N.J.A.C. 17:16-67.4 sets forth the valuation method for investments in the common fund. The proposed amendments expand the section to include the method for the valuation of net assets. The proposed amendments to N.J.A.C. 17:16-67.4(b) will provide that investments and net assets be valued each business day. Daily net asset valuation will provide the ability to transfer cash between the pension and annuity funds on any business day resulting in the more effective and efficient investment management of the pension and annuity funds. Currently, valuation is only performed monthly, and as a result, admitted monthly, and as a result, admitted and/or withdrawn from the common fund is only permitted within 15 days of a valuation date. Daily valuations will provide a more timely and accurate valuation for the transfer of funds. It will allow the common fund to maintain a lower cash balance, providing for the continued investment of funds. N.J.A.C. 17:16-67.4(b) provides that the valuation of investments shall be based on market prices and accruals. Since this section is being expanded to cover the valuation of both investments and net assets, the proposed language stipulates that the valuations of investments and net assets shall be based on assets and liabilities as of the close of the previous business day which is consistent with industry practice.

The proposed amendments to N.J.A.C. 17:16-67.4(c) will replace previously specified valuation methodologies that attempted to outline industry pricing and accounting practices, certain of which are outdated. The proposed amendments will stipulate that investments must be valued in accordance with applicable accounting standards, using recognized industry pricing sources. The proposed amendments will also require that the valuation of net assets be calculated as total assets minus total liabilities, in accordance with applicable accounting standards. This calculation is necessary in order to calculate unit value under new N.J.A.C. 17:16-67.5. The proposed amendment to N.J.A.C. 17:16-67.4(c)8, recodified as paragraph (c)3, will clarify that all valuations determined under the subsection be converted on the valuation date into United States dollars at rates established by a recognized pricing service.

N.J.A.C. 17:16-67.4(d) states that dividends and interest earned will be retained in the common fund, but may be distributed in whole or part to the participating funds. This subsection is proposed to be deleted as unnecessary. The income will be retained in the common fund under the proposed amendments.

N.J.A.C. 17:16-67.5, which sets forth the procedure for determining the principal value per unit, is being repealed and replaced with a new rule which governs the calculation of a net asset value per unit. Proposed N.J.A.C. 17:16-67.5(a) will stipulate that the net asset value per unit shall be calculated as the net assets of the fund divided by the total number of units outstanding as of such valuation date. The proposed new rule is consistent with current industry and accounting standards and practices.

N.J.A.C. 17:16-67.6 permits admission to or withdrawal from the common fund only on a valuation date or within 15 days thereafter. This language was based on monthly valuation dates, so that the unit values upon admission or withdrawal would not be stale. The proposed amendment will stipulate that admissions to or withdrawals from the common fund be permitted only on a valuation date based upon the value of each unit on the valuation date. The proposed amendments to the subchapter provide for the determination of unit values each business day, providing a more accurate valuation of the admissions to and withdrawals from the common fund.
null
17:16-67.5 Valuation of units
(a) The following method shall be used in determining the principal value per unit:
1. To the valuation of investments determined as provided in N.J.A.C. 17:16-67.4, there shall be added:
   i. Uninvested cash principal;
   ii. The value of any rights or stock dividends which may have been declared but not received as of the valuation date when the security has been valued ex-right and ex-dividend;
   iii. Such portion as shall constitute principal of any extraordinary or liquidating dividend which may have been declared but which is unpaid as of the valuation date when the particular security has been valued ex-dividend; and
   iv. Temporary investments which shall be valued at cost. The yield on these temporary investments shall not be accrued, but shall be included in income monthly as paid. 2. There shall be deducted from the sum so ascertained all expenses chargeable to principal due or accrued. The net principal value thus determined shall be divided by the number of existing units in order to ascertain the principal value of each unit. 3. All valuations established for items (a)1i through iv above shall be converted into United States dollars at rates shown in the Wall Street Journal on the valuation date, or those established by a recognized pricing service.

(b) The net asset value per unit shall be calculated as the net assets of the fund divided by the total number of units outstanding as of such valuation date.

17:16-67.6 Admission and withdrawal
(a) No admission to or withdrawal from the common fund shall be permitted except on a valuation date [or within 15 days thereafter; however, in the event that an admission or withdrawal occurs within the 15-day period aforementioned, it shall be based upon the principal value as of the last valuation date preceding said admission or withdrawal] and shall be based upon the value of each unit as of that valuation date.
(b) (No change.)

17:16-67.8 Distribution of realized appreciation
(a) Subsequent to the receipt of audited financial statements for the prior fiscal year, the Council may consider the realized appreciation in the common fund per unit. The Council may, in its sole discretion, choose [any or all] either of the following options:
   i. Declare as income to the participating funds such percentage of said realized appreciation of principal as it may deem prudent. When such declaration is made the percentage of such appreciation of principal declared to be income shall be deducted from the total [principal net assets] of the common fund [and added to income in the common fund prior to the next regular monthly valuation. Following such declaration, the amount declared as income shall be treated and distributed as income to the participating funds [monthly or quarterly in cash and/or units] in proportion to the number of units owned; or
   [3] 2. (No change in text.)
(d) Distribution upon liquidation shall occur within five days after a valuation date and shall be based upon the [principal] net asset value per unit determined upon such valuation date.
(e) (No change.)

STATE INVESTMENT COUNCIL
Common Pension Fund E
Units of Participation; Valuation of Investments and Net Assets; Valuation of Units; Admission and Withdrawal; Distribution of Realized Appreciation; Limitations; Liquidation

Proposed Amendments: N.J.A.C. 17:16-69.3, 69.4, 69.6, 69.8, 69.9 and 69.10

Proposed Repeal and New Rule: N.J.A.C. 17:16-69.5

Authorized By: State Investment Council, Timothy M. Walsh, Director, Division of Investment.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.
Submit comments by November 5, 2011 to:
Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-69.3(b) specifies that physical certificates of participation must be prepared and issued by the Director. This is an extremely outdated, burdensome and unnecessary administrative task. It is not standard investment industry practice to issue physical certificates of ownership; ownership is typically evidenced in book entry form in the records of a fund or transfer agent. The proposed amendment to this subsection specifies that units of participation shall be evidenced by records maintained by the Division.

The proposed amendment to N.J.A.C. 17:16-69.3(c) clarifies that units shall be purchased at the unit valuation price as opposed to the principal unit valuation price, to be consistent with proposed terminology changes elsewhere within the subchapter. The proposed amendment also deletes the requirement that initial purchases be made for a principal valuation price of $1,000 at the outset of the common fund as no longer necessary.

N.J.A.C. 17:16-69.4 sets forth the valuation method for investments in the common fund. The proposed amendments expand the section to include the method for the valuation of net assets. The proposed amendments to N.J.A.C. 17:16-69.4(b) will provide that investments and net assets be valued each business day. Daily net asset valuation will provide the ability to transfer cash between the pension and annuity funds on any business day resulting in the more effective and efficient investment management of the pension and annuity funds. Currently, valuation is only performed monthly, and as a result, admission to or withdrawal from the common pension fund is only permitted within 15 days of a valuation date. Daily valuations will provide a more timely and accurate valuation for the transfer of funds. It will allow the common fund to maintain a lower cash balance, providing for the continued investment of funds. N.J.A.C. 17:16-69.4(b) provides that the valuation of investments shall be based on market prices and accruals. Since this section is being expanded to cover the valuation of both investments and net assets, the proposed language stipulates that the valuations of investments and net assets shall be based on assets and liabilities as of the