

Informational Bulletin: Approved Securities

California Labor Code Section 3701 permits deposit of approved securities as a security deposit for workers' compensation self insurance programs. California Code of Regulations, Title 8, Section 15213 spells out more specifically the securities that are acceptable, the registration process, information needed for approval, and value of securities. The section is reproduced:

15213. Approved Securities

(A) Approved securities shall be only those securities which meet the following:

- (1) Securities are corporate or Federal, State or municipal government bonds or notes in book entry form, having a rating of AA or better by Standard and Poor's Rating Service or a rating of Aa or better by Moody's Investors Service Guide or a rating of AA or better by Fitch Investors Service Guide.
Exception 1. Securities issued by the State of California shall have a rating of B or better.
Exception 2. Securities in registered, physical form that meet all requirements of this section are acceptable until January 1, 1997 for posting by a self insurer. After that date, all securities shall be in book entry form.
- (2) Securities shall be delivered in the name of the "Treasurer, State of California in trust for (insert the legal name of the self insurer)" or similar legible abbreviation to a custodian account designated by the State Treasurer.*
- (3) Securities previously accepted and registered in the name of "Treasurer, State of California" or "Treasurer of State of California in trust for [legal name of self insurer(s)] liabilities pursuant to Labor Code Sections 3700 and 3701" shall not have to be reregistered, but will be held until maturity or released by order of the Chief or Director.
- (4) Mortgage backed securities shall not be acceptable and zero-coupon securities shall not be accepted.
- (5) Securities issued by the self insurer or its subsidiaries, or its affiliated companies or parent companies, shall not be accepted for that particular self insurer's security deposit.

(B) Any private self insurer desiring to post or have released approved securities shall provide the Chief with a complete description of the security or securities, including the following:

- (1) Whether the security is registered or book entry type;
- (2) Complete name of security, including CUSIP and/or bond numbers
- (3) Interest rate of security;
- (4) Original issue date of security;
- (5) Date of maturity of security;
- (6) Par value of security;
- (7) Current market value of security;
- (8) Name of delivery agent and the telephone number of delivery agent who will actually deliver the security to the State on behalf of the self insured employer [Note: This is usually a bank or brokerage firm];
- (9) The name and address where interest checks are to be sent for registered securities or a bank name and bank account number for wire transfer of interest payments for book entry securities; and

(10) The self insurer's Federal Taxpayer Identification Number for interest payments on the securities.

(C) Approval by the Chief or Director, or other person authorized in writing by the Director, to the State Treasurer shall be required on all securities to be posted or released and the Chief shall transmit the approval order to the State Treasurer.

Note: The current model letter to request approval of securities is contained in Plate G of the Appendix following the last Article in these Subchapter 2 regulations.

(D) The Chief shall value approve securities at par value or market value, whichever is less, when computing the security deposit represented by the securities for any private self insurer. Each self insurer posting securities shall provide a statement of the current market value of the security or securities annually to the Chief on their Self Insurer's Annual Report as required by Section 15251(b)(6).

(E) No approved security shall be accepted for deposit at above its par value. Additional deposits of approved securities shall be required at any time when the market value of an approved security falls below its par value.

(F) The Chief may order called or matured securities to be redeemed by the State Treasurer and the resulting cash returned to or deposited in trust on behalf of the self insured.

(G) Any self insurer with securities on deposit may request the release of the securities upon the posting of replacement security or upon the determination of the Chief that the securities represent surplus deposit above that required by Labor Code Section 3701 and these regulations.

**Note:* The usual practice of the State Treasurer is to contact the delivery agent for the specific wire instructions for processing the securities transaction into or out of the State Treasurer's custodian account.

If you wish to post or replace existing securities, complete the form on the following page and mail or fax it to our office. Office of Self Insurance Plans (OSIP) will then confirm the information provided and the rating of the securities, and advise you if the securities are acceptable for deposit.

If approved, a formal order is issued by OSIP to the State Treasurer, the custodian for Office of Self Insurance Plans, to take in the security. The Treasurer's Office will contact your designated delivery agent to make arrangements for delivery.

Book entry securities are wire transferred by the self insurer's bank or broker directly to the State Treasurer's contract agency bank (Citibank) for deposit by wire to the Account of the State Treasurer. The State Treasurer's Office will contact your delivery agency to set the date of transfer and to provide wire instructions. As of January 1, 1997, registered securities in physical form are no longer accepted.

When replacing existing or maturing securities, the replacement security must be posted before OSIP can authorize the release of the existing security posted. As in posting new securities, our office will send a formal order to the State Treasurer to release the existing security.

Citibank, the contract bank for securities with the State Treasurer, will send quarterly statements on your securities posted.