(h) In the event of a game malfunction or if required by the Division, a progressive jackpot shall be removed or made unavailable to patrons. If a licensee chooses to restore a progressive jackpot previously made unavailable pursuant to this section, the entire progressive jackpot shall be restored.

(i) An Internet gaming operator may remove or transfer a progressive jackpot subsequent to notification to patrons, which shall be, at a minimum, 10 days for a transfer and 30 days for removal.

(j) If a Wide Area Progressive (WAP) offered on the Internet is removed, it shall be restored or transferred. The amount restored or transferred shall include the entire jackpot, including the seed amount and all previously collected player contributions.

SUBCHAPTER 3. REMOTE GAMING SYSTEMS

13:69O-3.1 Remote gaming systems (RGS)

(a) Each RGS that provides game content to another Internet gaming operator shall:

1. Maintain internal controls for all aspects of gaming operations prior to implementation and any time a change is made thereafter. The internal controls shall include detailed procedures for system security, operations, and accounting;

2. Maintain internal controls approved by the Division that address compliance with N.J.A.C. 13:69O-1.5(p);

3. At a minimum, employ personnel responsible for:

i. The duties of an IT Department as detailed by N.J.A.C. 13:69D-1.11(b)3 and 2;

ii. Ensuring the operation and integrity of gaming and reviewing all reports of suspicious behavior; and

iii. Ensuring compliance with standards and controls detailed in N.J.A.C. 13:69D-2.5 and 13:69O-1.5, 1.7, and 1.8;

4. Perform an annual system integrity and security assessment conducted by an independent professional selected by the licensee, subject to the approval of the Division. The independent professional's report on the assessment shall be submitted to the Division annually and shall include all requirements of N.J.A.C. 13:69O-1.2(q);

5. Install and utilize primary and backup gaming equipment in a restricted area in accordance with N.J.A.C. 13:69O-1.2(n); and

6. Provide the Division with physical and logical access to the RGS to review and collect all data contained therein.

(b) An RGS shall only offer to an Internet gaming operator games approved by the Division and shall notify the applicable Internet gaming operator(s) and the Division when a game is disabled, regardless of the reason.

(c) An RGS shall only void games via a procedure agreed upon between the RGS and affected Internet gaming operator(s) or after being noticed of the need for a void by the Internet gaming operator.

(d) Each RGS shall respond to the Internet gaming operator(s) for any issue received related to a patron or other game issue with a resolution within three calendar days.

(e) Any feature that allows a user to manually input or override any game transaction shall be submitted to the Division for approval prior to use.

(f) Each RGS shall monitor for and immediately report to the appropriate Internet gaming operator(s) and the Division any malfunction or security incident that adversely affects the integrity of critical data or system functionality.

(g) Each RGS shall obtain approval from the Division for the use of a Content Delivery Network (CDN) prior to implementation or implementation of a change to an approved CDN.

(h) Each RGS shall generate and distribute to each casino licensee and the Division the following reports in order to verify the taxable revenue reported pursuant to N.J.A.C. 13:69O-1.9:

1. Game Summary Report, which shall be generated on a daily basis for each casino and shall include the following by the licensee for all completed transactions for each game:

i. Internet gaming authorized site name;

ii. Game name;

iii. Total number of transactions;

iv. Total amount wagered;

v. Total amount paid out; and

vi. Total win/loss;

2. Pending Transaction Report, which shall be generated on a monthly basis and separately itemize all outstanding pending transactions for each Internet gaming authorized site and include the following:

i. Internet gaming authorized site name;

ii. Game name;

iii. Transaction date and time;

iv. Transaction identifier;

v. Unique patron identifier;

vi. Status;

vii. Amount of the wager; and

vii. Amount of the win, if known; and

3. Void Transaction Report, which shall be generated on a daily basis and separately itemize all voided transactions for each Internet gaming authorized site and include the following:

i. Internet gaming authorized site name;

ii. Game name;

iii. Transaction start date and time;

iv. Transaction end date and time;

v. Transaction identifier;

vi. Unique patron identifier;

vii. Amount of the wager;

viii. Amount of the win, if known;

ix. Name of the employee or automated process performing the void; and

x. Reason for the void.

TREASURY—GENERAL

(a)

STATE INVESTMENT COUNCIL

Global Debt Obligations, Collateralized Notes and Mortgages, Non-Convertible Preferred Stock, Mortgage-Backed Senior Debt Securities; Mortgage-Backed Passthrough Securities
Permissible Investments
Global Diversified Credit
Definitions, Permissible Investments, Limitations

Proposed Amendments: N.J.A.C. 17:16-12.2, 19.2, 23.1, 23.2, 23.4, 40.2, and 58.2

Authorized By: State Investment Council, Christopher McDonough, Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

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

Proposal Number: PRN 2017-219.

Submit comments by November 4, 2017, to:

Christopher McDonough
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290
E-mail: doi@treas.nj.gov

The agency proposal follows:

Summary

N.J.A.C. 17:16-23 permits the Director to invest the monies of any eligible fund in global diversified credit investments.

The proposed amendments to N.J.A.C. 17:16-23.1 include new definitions for bridge financing, common stock, convertible debt issue, convertible preferred stock, debtor-in-possession financings, exchange-traded funds, global collateralized notes, high yield debt, opportunistic credit, post-reorganization equity, preferred stock, private placement, and senior loan, which are proposed to be added as permissible investments in N.J.A.C. 17:16-23.2. The definition of global diversified credit investments is proposed to be amended to clarify that these types of investments may include equity participation.

The definition for credit structured products in N.J.A.C. 17:16-23.1 is proposed to be amended to clarify that permissible investments is not limited to securities and includes investment in any instrument for the purpose of generating future income; broaden permissible investments to include investments whose cash flow characteristics depend upon a pool of collateral, securities, or similar strategies designed to replicate the return of a basket of securities to reflect a more comprehensive investment opportunity set; delete the requirement that the issuer's payment obligations be contingent on changes in the value of underlying assets, indices, interest rates, or cash flows as that may not be the case for all investments; and eliminate the potential subjectivity in application by requiring that the investment return be sensitive to, rather than highly sensitive to changes in the value of underlying assets, indices, interest rates, or cash flows.

N.J.A.C. 17:16-23.2(a)1ii and (a)2i provide that global diversified credit investments meet certain minimum rating criteria. N.J.A.C. 17:16-23.2(b) provides that to the extent the rating criteria is not met, such investments, aggregated with other high yield investments, are subject to a cap. More specifically, N.J.A.C. 17:16-12.2(c), 19.2(b), 23.2(b), 40.2(b), and 58.2(c) provide that up to eight percent of the combined assets of all of the pension and annuity funds may be invested in global debt obligations, collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 19.2, 23.2, 40.2, and 58.2, respectively. The proposed amendments will delete global diversified credit investments from the high yield investment category, and the corresponding eight percent limitation on such investments by eliminating the rating criteria for global diversified credit investments through the proposed deletion of N.J.A.C. 17:16-23.2(a)1ii, (a)2i, and (b); and deleting global diversified credit investments from the eight percent limitation on high yield investments through the proposed amendments to N.J.A.C. 17:16-12.2(c), 19.2(b), 23.2(b), 40.2(b); and 58.2(c). The proposed amendment to N.J.A.C. 17:16-23.4(a)1 will increase the limitation for global diversified credit investments from seven to 10 percent of the market value of the combined assets of all of the pension and annuity funds. These amendments will provide the opportunity for increased risk-adjusted returns.

As a result of the proposed deletions of N.J.A.C. 17:16-23.2(a)1ii and (a)2i, corresponding changes to the language in N.J.A.C. 17:16-23.2(a) and (a)1 and 2 have been proposed. N.J.A.C. 17:16-23.2(a)(1)i(1) and (a)2 are proposed to be recodified as N.J.A.C. 17:16-23.2(a)1i and (a)2ii, respectively.

Proposed new N.J.A.C. 17:16-23.2(a)3 provides that the Director may purchase the common stock of an entity that primarily invests in global diversified credit investments, and whose stock is traded on a securities exchange or over-the-counter market or offered and sold through a private placement. Proposed new N.J.A.C. 17:16-23.2(a)4 provides that the Director may purchase exchange-traded funds traded on a securities exchange or the over-the-counter market that primarily invest in global diversified credit investments. For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained in this subchapter. These amendments will provide the opportunity for increased risk-adjusted returns.

Recodified N.J.A.C. 17:16-23.2(b)2 is proposed for amendment to provide that the Director may retain any distribution by a global diversified credit investment, even if such distribution does not meet the requirements of the subchapter. Proposed new N.J.A.C. 17:16-23.2(b)3 will provide that the Director may purchase the preferred stock, whether convertible or not, or rights of an entity the common stock of which qualifies for investment under this subchapter. Proposed new N.J.A.C. 17:16-23.2(b)4 will provide that the Director may purchase the convertible debt issue of an entity, the common stock of which qualifies for investment under this subchapter. Proposed new N.J.A.C. 17:16-23.2(b)5 will provide that the Director may purchase stock in new public offerings of entities that primarily invest in global diversified credit investments. These amendments will provide for consistency among subchapters and provide the opportunity for increased risk-adjusted returns.

Proposed new N.J.A.C. 17:16-23.4(a)4 will provide that the total amount of a particular class of stock purchased or acquired of any one issuer shall not exceed 10 percent of that class of stock outstanding. Proposed new N.J.A.C. 17:16-23.4(a)5 will provide that the total amount of shares directly purchased or acquired of any one exchange-traded fund shall not exceed 10 percent of the total shares outstanding of such fund. These amendments will provide for consistency among subchapters.

Because the Division is providing a 60-day comment period on this notice of proposal, this notice is excepted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

Economic Impact

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

Jobs Impact

The proposed amendments will allow for an increased allocation to global diversified credit investments. A portion of the allocation to global diversified credit is focused on investment strategies, which provide loans to small and mid-size businesses in the United States. Since the global financial crisis, this segment of the market has been under served by traditional lenders, limiting their ability to grow. Access to capital can help these businesses grow, which in turn can increase available jobs.

Agriculture Industry Impact

The proposed amendments will have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required since the proposed amendments regulate only the Director of the Division of Investment and will have no effect on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq.

Housing Affordability Impact Analysis

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey or the average costs of housing. The proposed amendments will modify investment in global debt obligations, collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stocks, and mortgage-backed passthrough securities, thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Smart Growth Development Impact Analysis

The proposed amendments are not anticipated to have an impact on housing production within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey. The proposed amendments will modify investment in global debt obligations, collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stocks, and mortgage-backed passthrough securities, thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

SUBCHAPTER 12. GLOBAL DEBT OBLIGATIONS

17:16-12.2 Permissible investments

(a)-(b) (No change.)

(c) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund in global debt obligations, collateralized notes and mortgages, [global diversified credit investments,] non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in this section and N.J.A.C. 17:16-19.2, [23.2,] 40.2, and 58.2, respectively; provided, however, the aggregate market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(d)-(f) (No change.)

SUBCHAPTER 19. COLLATERALIZED NOTES AND MORTGAGES

17:16-19.2 Permissible investments

(a) (No change.)

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund in global debt obligations, collateralized notes and mortgages, [global diversified credit investments,] non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, this section, and N.J.A.C. 17:16-[23.2,] 40.2[,] and 58.2, respectively; provided, however, the aggregate market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(c) (No change.)

SUBCHAPTER 23. GLOBAL DIVERSIFIED CREDIT INVESTMENTS

17:16-23.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

. . .

"Bridge financing" means interim financing used by entities until a long-term financing option can be arranged. Bridge financing typically comes in the form of a debt obligation or equity investment.

. . .

"Common stock" means shares of stock, other than preferred stock, representing ownership in a corporation or other form of legal entity.

"Convertible debt issue" means a debt obligation of any corporation or other form of legal entity that is convertible into the common stock of the entity.

"Convertible preferred stock" means preferred stock of any corporation or other form of legal entity that is convertible into the common stock of the entity.

"Credit structured products" means [securities] **investments** whose cash flow characteristics depend upon **a pool of collateral,** one or more **securities,** indices, or **similar strategies designed to replicate the return of a basket of securities, or** that have embedded forwards or options or securities where the investment return [and the issuer's payment obligations are] **is** contingent on, or [highly] sensitive to, changes in the value of underlying assets, indices, interest rates, or cash flows.

"Debtor-in-possession financings" means financing arranged by an entity while under a bankruptcy reorganization process.

"Exchange-traded funds" means funds that invest in underlying securities that track a pre-determined index or strategy, a commodity, or a basket of assets, and whose shares can be traded like shares of common stock.

. . .

"Global collateralized notes" means securities collateralized by loans, receivables, claims, or any other assets.

"Global diversified credit investments" means investments in **opportunistic credit, global collateralized notes,** bank loans, mezzanine debt, credit structured products, commercial and residential mortgage-backed securities, commercial and residential whole loans, and other similar strategies**, including equity participation**.

"High yield debt" means a debt obligation with a lower credit rating than investment-grade debt.

. . .

"Opportunistic credit" means primary and secondary opportunities in performing, stressed, and distressed public and private securities. This includes senior loans, high yield debt, debtor-in-possession financings, and bridge financings, as well as post-reorganization equity.

"Post-reorganization equity" means equity issued by an entity as part of a bankruptcy, reorganization, or other similar restructuring.

"Preferred stock" means shares of stock which provide a dividend that is paid before any dividends are paid to holders of common stock and additional rights above and beyond those conferred by common stock.

"Private placement" means a negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering registered with the U.S. Securities and Exchange Commission or applicable foreign regulatory body. Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933, as amended.

"Senior loan" means a debt financing obligation that holds legal claim above other junior debt obligations. Senior loans may include embedded equity instruments.

. . .

17:16-23.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in **global diversified credit investments in any of the following ways**:

1. [Direct] **Invest in direct** bank loans provided that **the borrower**:

[i. The borrower:]

[(1)] **i.** (No change in text.)

[(2)] **ii.** Has shareholder's equity of at least $200 million. Subsequent to purchase, if shareholder's equity falls below $200 million, the investment does not have to be sold; [and]

[ii. The issue has a credit rating of Baa3 or higher by Moody's Investors Service, Inc., BBB- or higher by Standard & Poor's Corporation, and BBB- or higher by Fitch Ratings, except that two of the three ratings is sufficient and one of the three ratings is sufficient if only one rating is available. If a rating for the issue has not been obtained from the above services, the issue may be purchased if the issuer rating meets the minimum rating criteria. Subsequent to purchase, if ratings fall below the minimum rating for such issues, they do not have to be sold, and they may be exchanged with issues with a credit rating lower than the minimum rating if the issues received in exchange are, on balance, similarly rated; and]

2. [Separate] **Invest in separate** accounts, funds-of-funds, commingled funds, co-investments, and joint ventures that primarily invest in global diversified credit investments provided that[:

i. At the time of purchase or commitment by an eligible fund, the securities included or intended to be included in the investment vehicle shall consist primarily of those with a credit rating of Baa3 or higher by Moody's Investors Service, Inc., BBB- or higher by Standard & Poor's Corporation, and BBB- or higher by Fitch Ratings, except that two of the three ratings is sufficient and one of the three ratings is sufficient if only one rating is available. If a rating for the security has not been obtained from the above services, the issue may be purchased if the issuer rating meets the minimum rating criteria; and

ii. The] **the** further provisos contained in N.J.A.C. 17:16-69.9 have been met[.]**;**

3. Purchase the common stock of an entity that primarily invests in global diversified credit investments, and whose stock is traded on

a securities exchange or over-the-counter market or offered and sold through a private placement; and

4. Purchase exchange-traded funds traded on a securities exchange or the over-the-counter market that primarily invest in global diversified credit investments. For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained in this subchapter.

[(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund in global debt obligations, collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 19.2, this section, and N.J.A.C. 17:16-40.2 and 58.2, respectively; provided, however, the aggregate market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.]

[(c)] **(b)** In addition to (a) above, the Director may:

1. Exercise the rights or conversion privileges of any security acquired under this subchapter; [and]

2. Retain any distribution received as a result of a corporate action **or distribution by a global diversified credit investment**, even if such distribution does not meet the requirements of this subchapter[.]**;**

3. Purchase the preferred stock, whether convertible or not, or rights of an entity, the common stock of which qualifies for investment under this subchapter;

4. Purchase the convertible debt issue of an entity, the common stock of which qualifies for investment under this subchapter; and

5. Purchase stock in new public offerings of entities that primarily invest in global diversified credit investments.

Recodify existing (d)-(e) **as (c)-(d)** (No change in text.)

17:16-23.4 Limitations

(a) At the time of initial purchase of global diversified credit investments, the following conditions shall **all** be met:

1. Not more than [seven] **10** percent of the market value of the combined assets of all of the Pension and Annuity Funds shall be invested in global diversified credit investments, whether directly or through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures that primarily invest in global diversified credit investments;

2. The total amount of direct bank loans purchased or acquired under this subchapter shall not exceed 10 percent of the outstanding long-term debt of the borrower except that these requirements may be waived by the Council; [and]

3. The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds[.];

4. The total amount of a particular class of stock purchased or acquired of any one issuer shall not exceed 10 percent of that class of stock outstanding; and

5. The total amount of shares directly purchased or acquired of any one exchange-traded fund shall not exceed 10 percent of the total shares outstanding of such fund.

(b) (No change.)

SUBCHAPTER 40. NON-CONVERTIBLE PREFERRED STOCKS

17:16-40.2 Permissible investments

(a) (No change.)

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund in global debt obligations, collateralized notes and mortgages, [global diversified credit investments,] non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2[,] **and** 19.2, [23.2,] this section, and N.J.A.C. 17:16-58.2, respectively; provided, however, the aggregate market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(c)-(d) (No change.)

SUBCHAPTER 58. MORTGAGE-BACKED SENIOR DEBT SECURITIES; MORTGAGE-BACKED PASSTHROUGH SECURITIES

17:16-58.2 Permissible investments

(a)-(b) (No change.)

(c) Notwithstanding the restrictions in (b) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund in global debt obligations, collateralized notes and mortgages, [global diversified credit opportunity investments,] non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 19.2, [23.2,] **and** 40.2, and this section, respectively; provided, however, the aggregate market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(d) (No change.)