

RULES OF THE STATE INVESTMENT COUNCIL

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SUBCHAPTER 3. CLASSIFICATION OF FUNDS

17:16-3.1 General provisions

(a) Funds having similar investment characteristics and objectives under their respective enabling acts shall be grouped together in any of the following classifications:

1. Pension and Annuity Group;
2. Static Group;
3. Demand Group;
4. Temporary Reserve Group; and
5. Trust Group.

As amended, R.1982 d.397, effective November 1, 1982.

See: 14 N.J.R. 329(a), 14 N.J.R. 1220(d).

List of classification groups added.

Recodified by R.1991 d.274, effective June 3, 1991.

See: 23 N.J.R. 983(a), 23 N.J.R. 1800(b).

Stylistic changes.

17:16-3.2 Approved list

A "list of funds under the supervision of the Council" shall be maintained by the Director.

Amended by R.1982 d.397, effective November 1, 1982.

See: 14 N.J.R. 329(b), 14 N.J.R. 1220(d).

Pension and annuity groups changed to an approved list.

Recodified by R.1991 d.274, effective June 3, 1991.

See: 23 N.J.R. 983(a), 23 N.J.R. 1800(b).

Reference to Council approval deleted.

17:16-3.3 through 17:16-3.6 (Reserved)

SUBCHAPTERS 4 THROUGH 10. (RESERVED)

SUBCHAPTER 11. UNITED STATES TREASURY AND GOVERNMENT AGENCY OBLIGATIONS

17:16-11.1 United States Treasury and Government Agency Obligations

(a) Notwithstanding the provisions of any law pertaining to legal investments, the Director shall not make any commitment to purchase securities for any fund unless such securities are of the class of securities in which such fund may be invested pursuant to these regulations; except that the Director may purchase for any pension and annuity, static, trust, demand or temporary reserve fund without regard to any limitation:

1. United States Treasury Obligations;
2. United States Government Agency Obligations from a list approved by the State Investment Council; and
3. Treasury receipts, certificates of accrual, collateralized mortgage obligations or similar securities which evidence ownership of interest and/or principal of securities eligible under 1. and 2. above, provided that the Director and a member of his staff certify that the security being considered for purchase is qualitatively substantially identical to the Government securities which secure or otherwise support it.

As amended, R.1972 d.75, eff. April 19, 1972.

See: 4 N.J.R. 109(a).

As amended, R.1974 d.323, eff. November 20, 1974.

See: 6 N.J.R. 496(a).

As amended, R.1975 d.97, eff. April 8, 1975.

See: 7 N.J.R. 241(a).

Amended by R.1985 d.552, effective November 4, 1985.

See: 17 N.J.R. 2093(a), 17 N.J.R. 2674(b).

Amended (a): added (a)1.-(a)3.

Recodified by R.1991 d.274, effective June 3, 1991.

See: 23 N.J.R. 983(a), 23 N.J.R. 1800(b).

Title changed.

Amended by R.2001 d.119, effective April 2, 2001.

See: 33 N.J.R. 372(b), 33 N.J.R. 1115(a).

SUBCHAPTER 12. CORPORATE OBLIGATIONS

17:16-12.1 Permissible investments

The Director may invest and reinvest the moneys of any fund in corporate obligations which meet the standards set forth in N.J.A.C. 17:16-12.2.

As amended, R.1972 d.75, eff. April 19, 1972.

See: 4 N.J.R. 109(a).

As amended, R.1976 d.152, eff. May 19, 1976.

See: 8 N.J.R. 313(a).

Amended by R.1985 d.553, effective November 4, 1985.

See: 17 N.J.R. 2093(a), 17 N.J.R. 2675(b).

Substantially amended.

Recodified by R.1991 d.274, effective June 3, 1991.

See: 23 N.J.R. 983(a), 23 N.J.R. 1800(b).

Standards deleted and reference to 12.2 added.

Amended by R.2001 d.119, effective April 2, 2001.

See: 33 N.J.R. 372(b), 33 N.J.R. 1115(a).

Substituted "Director" for "director"; deleted "below" from end of sentence.

17:16-12.2 Pension and annuity group; static group; trust group

(a) The Director may invest or reinvest the moneys of any pension and annuity fund, static group fund, trust group fund, Common Pension Fund B, or where maturities are less than two years, the State of New Jersey Cash Management Fund in corporate obligations provided that:

1. The issue has been registered with the Securities and Exchange Commission, except that this requirement may be waived by the State Investment Council;

2. The obligor is incorporated under the laws of the United States or any State thereof or of the District of Columbia;

3. The obligor is not in default as to the payment of principal or interest upon any of its outstanding obligations;

4. The obligor has a stockholders' equity (consisting of the sum of equity accounts, capital surplus and earned surplus) of at least \$50 million; and furthermore the long term debt ratio (defined as the ratio of long term debt to the sum of stockholders' equity and long term debt) of the obligor shall be less than 60 percent;

5. The obligor has a credit rating of Baa/BBB or higher by Moody's Investors Service, Inc. and Standard & Poor's Corporation, except that one rating is sufficient if only one rating is available. If a rating has not been obtained from either service, the issue may be purchased if the publicly issued outstanding debt of the issuer carries a Baa/BBB rating or higher. Subsequent to purchase, if ratings fall below Baa/BBB for such issues, they do not have to be sold, and they may be exchanged with issues of credits rated lower than Baa/BBB if the credits received in exchange are, on balance, similarly rated; and

6. The total amount of debt issues purchased or acquired in a fund of any one corporation shall not exceed 25 percent of the outstanding long term debt of the company, and not more than 25 percent of the issue at the time of issue.

As amended, R.1972 d.75, eff. April 19, 1972.

See: 4 N.J.R. 109(a).

Amended by R.1985 d.553, effective November 4, 1985.

See: 17 N.J.R. 2093(a), 17 N.J.R. 2675(b).

(a)1.-(a)5, added.

Amended by R.1990 d.304, effective June 18, 1990.

See: 22 N.J.R. 1042(b), 22 N.J.R. 1944(b).

In (a)4, increased long term debt ratio from 50 to 60 percent and telephone debt ratio from 55 to 60 percent.

Recodified by R.1991 d.274, effective June 3, 1991.

See: 23 N.J.R. 983(a), 23 N.J.R. 1800(b).

Text at (a)6 added.

Amended by R.1996 d.222, effective May 6, 1996.

See: 28 N.J.R. 1366(a), 28 N.J.R. 2397(a).

In (a) specified funds and in (a)4 deleted exception for telephone utilities.

Amended by R.2001 d.119, effective April 2, 2001.

See: 33 N.J.R. 372(b), 33 N.J.R. 1115(a).

17:16-12.3 Legal papers

(a) Prior to any commitment to purchase obligations of the type described in this subchapter, the Director shall have obtained, in all cases, a certification signed by a member of the Division's staff and endorsed by the Director stating that, in their opinion, the security under consideration qualifies under the requisites of this subchapter; and

1. With respect to issues registered with the Securities and Exchange Commission;

i. On new issues, a prospectus describing the issue;

ii. On existing issues, a copy of the description of the issue as contained in Moody's Manuals or in the Standard & Poor's or in any other corporation records publication or service published for the use of and accepted as reliable by investors in such obligations;

2. With respect to issues not registered with the Securities and Exchange Commission;

i. On new issues, in the case of private placements:

(1) An offering memorandum describing the terms of the issue and the business and operations of the issuer;

(2) A written approving opinion from the Attorney General to the effect that the purchase agreement is satisfactory as to form and substance;

(3) At the closing for the purchase of the private placement legal opinions of counsel for the purchaser and counsel for the issuer, which opinions shall include a statement to the effect that the bonds are properly authorized and valid obligations of the issuer;

ii. On existing issues, in the case of issues which were originally offered to the public:

(1) A copy of the description of the issue as contained in Moody's Manuals or Standard & Poor's Corporation records or in any other publication or service published for the use of and accepted as reliable by investors in such obligations;

iii. On existing issues, in the case of issues which were originally placed privately:

(1) A copy of the original offering memorandum describing the terms of the issue and the business and operations of the issuer at the time of the original issue;

(2) A copy of the purchase agreement for the issue, together with all amendments thereto;

(3) A copy of the form 10-K of the issuer which was most recently filed with the Securities and Exchange Commission, or if the company does not file for 10-K reports, then the most recent audited financial statement;

(4) Representations, in writing, from the seller to the Division to the effect that there are no restrictions on the sale of the bonds to funds managed by the Division; no registration of the issue with the Securities and Exchange Commission is required if the bonds are sold to funds managed by the Division; and the seller purchased the bonds directly from the issuer when the issue was originally sold. In the

event other owners have intervened between the issuer and the seller, the seller must substitute for the last requirement mentioned in the first sentence above, the representation that no such intervening transaction required registration of the securities with the Securities and Exchange Commission. The seller may substitute for these representations a no-action letter of the Securities and Exchange Commission regarding any requirements to register the bonds;

(5) A written approving opinion from the Attorney General that the representations or no-action letter required by (4) above are satisfactory; and

(6) Approval of the State Investment Council.

As amended, R.1972 d.75, eff. April 19, 1972.

See: 4 N.J.R. 109(a).

As amended, R.1974 d.191, eff. July 16, 1974.

See: 6 N.J.R. 328(b).

Amended by R.1985 d.553, effective November 4, 1985.

See: 17 N.J.R. 2093(b), 17 N.J.R. 2675(a).

Old section "Temporary reserve group; demand group" repealed and old 7.4 recodified with amendments.

Recodified by R.1991 d.274, effective June 3, 1991.

See: 23 N.J.R. 983(a), 23 N.J.R. 1800(b).

17:16-12.4 (Reserved)

SUBCHAPTER 13. (RESERVED)

SUBCHAPTER 14. FINANCE COMPANIES— SENIOR DEBT

17:16-14.1 Permissible investments

The Director may invest and reinvest the moneys of any eligible fund in the debt securities of finance companies as is set forth in this subchapter.

17:16-14.2 Pension and annuity group; static group; trust group

(a) The Director may invest or reinvest the moneys of any pension and annuity fund, static group fund, trust group fund, Common Pension Fund B or, where maturities are less than two years, the State of New Jersey Cash Management Fund, in the debt securities of finance companies provided that:

1. The issue has been registered with the Securities and Exchange Commission, except that this requirement may be waived by the State Investment Council;

2. The obligor is incorporated under the laws of the United States or any State thereof or of the District of Columbia;

3. The obligor is not in default as to the payment of principal or interest upon any of its outstanding obligations;

4. The obligor has a capitalization of at least \$200 million;

5. The obligor or its predecessors shall have had an average pre-tax interest coverage of at least 1.00 times for the last five reported fiscal years;

6. The obligor has a credit rating of A/A or higher by Moody's Investors Service, Inc. and Standard & Poor's Corporation, excepting that one rating is sufficient if only one rating is available. If a rating has not been obtained from either service, the issue may be purchased if the publicly issued outstanding debt of the issuer carries a A/A rating or higher. Subsequent to purchase, if ratings fall below A/A for such issues, they do not have to be sold, and they may be exchanged with issues of credits rated lower than A/A if the credits received in exchange are, on balance, similarly rated;

7. The total amount of debt issues purchased or acquired of any one corporation shall not exceed 10 percent of the outstanding debt of the corporation, and not more than 10 percent of any one issue may be purchased at the time of issue, except that these requirements may be waived by the State Investment Council.

8. Not more than three percent of the assets at the time of purchase of any one fund shall be invested in senior debt of any one company maturing more than 12 months from date of purchase.

Amended by R.1996 d.222, effective May 6, 1996.

See: 28 N.J.R. 1366(a), 28 N.J.R. 2397(a).

In (a) substituted two years for a year, and in (a)5 inserted "at least".

Amended by R.2001 d.119, effective April 2, 2001.

See: 33 N.J.R. 372(b), 33 N.J.R. 1115(a).

In (a)8, substituted "three" for "two".

17:16-14.3 Legal papers

(a) Prior to any commitment to purchase obligations of the type described in this subchapter, the Director shall have obtained, in all cases, a certification signed by a member of the Division's staff and endorsed by the Director stating that, in their opinion, the security under consideration qualifies under the requisites of this subchapter and the Division shall have received:

1. With respect to issues registered with the Securities and Exchange Commission:

i. On new issues, a prospectus describing the issue; and

ii. On existing issues, a copy of the description of the issue as contained in Moody's Investors Service, Inc. or in the Standard & Poor's or in any other corporation records, publication or service published for the use of and accepted as reliable by investors in such obligations.

2. With respect to issues not registered with the Securities and Exchange Commission:

i. On new issues, in the case of private placements:

(1) An offering memorandum describing the terms of the issue and the business and operations of the issuer;

(2) A written approving opinion from the Attorney General to the effect that the purchase agreement is satisfactory as to form and substance;

(3) At the closing for the purchase of the private placement, legal opinions of counsel for the purchaser and counsel for the issuer, which opinions shall include a statement to the effect that the bonds are properly authorized and valid obligations of the issuer;

ii. On existing issues, in the case of issues which were originally offered to the public, a copy of the description of the issue as contained in Moody's Manuals or Standard & Poor's Corporation records or in any other publication or service published for the use of and accepted as reliable by investors in such obligations;

iii. On existing issues, in the case of issues which were originally placed privately:

(1) A copy of the original offering memorandum describing the terms of the issue and the business and operations of the issuer at the time of the original issue;

(2) A copy of the purchase agreement for the issue, together with all amendments thereto;

(3) A copy of the form 10-K of the issuer which was most recently filed with the Securities and Exchange Commission, or if the company does not file form 10-K reports, then the most recent audited financial statement;

(4) Representation, in writing, from the seller to the Division to the effect that:

(A) There are no restrictions on the sale of the bonds to funds managed by the Division;

(B) No registration of the issue with the Securities and Exchange Commission is required if the bonds are sold to funds managed by the Division; and

(C) The seller purchased the bonds directly from the issuer when the issue was originally sold or, if other owners have intervened between the issuer and the seller, that no such intervening

transaction required registration of the securities with the Securities and Exchange Commission; or

(D) In substitution for the representations in (a)2iii(4)(A)-(C) above, a no-action letter of the Securities and Exchange Commission regarding any requirements to register the bonds;

(5) A written approving opinion from the Attorney General that the representations or no-action letter required by (a)2iii(4) above are satisfactory; and

(6) Approval of the State Investment Council.

Amended by R.2001 d.119, effective April 2, 2001.

See: 33 N.J.R. 372(b), 33 N.J.R. 1115(a).

In (a)1ii, substituted "Investors Service, Inc." for "Manuals".

SUBCHAPTER 15. BANK DEBENTURES

17:16-15.1 Permissible investments

The Director may invest and reinvest the moneys of any eligible fund in the debt securities of banks as is set forth in this subchapter.

17:16-15.2 Pension and annuity group; static group; trust group

(a) The Director may invest or reinvest the moneys of any pension and annuity fund, static group fund, trust group fund, Common Pension Fund B or, where maturities are less than two years, the State of New Jersey Cash Management Fund, in the debt securities of banks provided that:

1. The issue has been registered with the Securities and Exchange Commission, except that this requirement may be waived by the State Investment Council;

2. The obligor is incorporated under the laws of the United States or any State thereof or of the District of Columbia;

3. The total amount of debt issues purchased or acquired of any one corporation shall not exceed 10 percent of the outstanding debt of the corporation and not more than 10 percent of any one issue may be purchased at the time of issue, except that these requirements may be waived by the State Investment Council;

4. The obligor:

i. Is not in default as to the payment of principal or interest upon any of its outstanding obligations;

ii. Has common equity (including surplus and retained earnings) of at least \$200 million;

iii. The issuer, at the date of its last published balance sheet preceding the date of investment, was in conformance with all capital requirements as stipulated by:

(1) The Federal Reserve Board, in the case of United States banks; and

(2) The appropriate national regulatory body, in the case of foreign-headquartered banks.

5. Has a credit rating of A/A or higher by Moody's Investors Service, Inc. and Standard & Poor's Corporation, excepting that one rating is sufficient if only one rating is available. If a rating has not been obtained from either service, the issue may be purchased if the publicly issued outstanding debt of the issuer carries a A/A rating or higher. Subsequent to purchase, if ratings fall below A/A for such issues, they do not have to be sold, and they may be exchanged with issues of credits rated lower than A/A if the credits received in exchange are, on balance, similarly rated.

Amended by R.1998 d.207, effective May 4, 1998.

See: 30 N.J.R. 804(a), 30 N.J.R. 1635(a).

In (a), substituted "where maturities are less than two years" for "where maturities are less than a year" in the introductory paragraph.

17:16-15.3 Legal papers

(a) Prior to any commitment to purchase obligations of the type described in this subchapter, the Director shall have obtained, in all cases, a certification signed by a member of the Division's staff and endorsed by the Director stating that, in their opinion, the security under consideration qualifies under the requisites of this subchapter and the Division shall have received:

1. With respect to issues registered with the Securities and Exchange Commission:

i. On new issues, a prospectus describing the issue;

ii. On existing issues, a copy of the description of the issue as contained in Moody's Investors Service, Inc. or in the Standard & Poor's or in any other corporation records, publication or service published for the use of and accepted as reliable by investors in such obligations.

2. With respect to issues not registered with the Securities and Exchange Commission:

i. On new issues, in the case of private placements:

(1) An offering memorandum describing the terms of the issue and the business and operations of the issuer;

(2) A written approving opinion from the Attorney General to the effect that the purchase agreement is satisfactory as to form and substance; and

(3) At the closing, for the purchase of the private placement, legal opinions of counsel for the purchaser and counsel for the issuer, which opinions shall include a statement to the effect that the bonds are properly authorized and valid obligations of the issuer;

ii. On existing issues, in the case of issues which were originally offered to the public, a copy of the description of the issue as contained in Moody's Investors Service, Inc. or Standard & Poor's Corporation records or in any other publication or service published for the use of and accepted as reliable by investors in such obligations;

iii. On existing issues, in the case of issues which were originally placed privately;

(1) A copy of the original offering memorandum describing the terms of the issue and the business and operations of the issuer at the time of the original issue;

(2) A copy of the purchase agreement for the issue, together with all amendments thereto;

(3) A copy of the form 10-K of the issuer which was most recently filed with the Securities and Exchange Commission, or if the company does not file form 10-K reports, then the most recent audited financial statement;

(4) Representation, in writing, from the seller to the Division to the effect that:

(A) There are no restrictions on the sale of the bonds to funds managed by the Division;

(B) No registration of the issue with the Securities and Exchange Commission is required if the bonds are sold to funds managed by the Division; and

(C) The seller purchased the bonds directly from the issuer when the issue was originally sold or, if other owners have intervened between the issuer and the seller, that no such intervening transaction required registration of the securities with the Securities and Exchange Commission; or

(D) In substitution for these representations in (a)2iii(4)(A)-(C) above, a no-action letter of the Securities and Exchange Commission regarding any requirements to register the bonds;

(5) A written approving opinion from the Attorney General that the representations or no-action letter required by (a)2iii(4) above are satisfactory; and

(6) Approval of the State Investment Council.

Amended by R.2001 d.119, effective April 2, 2001.

See: 33 N.J.R. 372(b), 33 N.J.R. 1115(a).

In (a)1ii and (a)2ii, substituted "Investors Service, Inc." for "Manuals".