

ARKANSAS STATE TREASURY
Money Management Trust



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Policies and Procedures Manual
Amended July 1, 2017

ARKANSAS STATE TREASURY MONEY MANAGEMENT TRUST POLICIES AND PROCEDURES MANUAL

TABLE OF CONTENTS

| | | |
|------|---|----|
| I. | GENERAL | |
| | A. PURPOSE..... | 3 |
| | B. OBJECTIVES..... | 3 |
| II. | PARTICIPATION CONDITIONS | |
| | A. ELIGIBILITY AND ENROLLMENT..... | 3 |
| | B. DEPOSITS..... | 4 |
| | C. WITHDRAWALS..... | 4 |
| | D. TRANSFERS..... | 4 |
| | E. ACCOUNT CLOSURE..... | 5 |
| | F. INTEREST EARNINGS..... | 5 |
| | G. FEES AND CHARGES..... | 5 |
| | H. MONTHLY STATEMENT AND YEAR END REPORTS..... | 6 |
| | I. MISCELLANEOUS INFORMATION..... | 6 |
| III. | STATE TREASURY MONEY MANAGEMENT TRUST INVESTMENT POLICY | |
| | A. AUTHORITY..... | 6 |
| | B. SCOPE..... | 6 |
| | C. ELIGIBLE INVESTMENTS..... | 7 |
| | D. INVESTMENT RESTRICTIONS..... | 8 |
| | E. COLLATERAL..... | 9 |
| | F. PROFESSIONAL SERVICES..... | 10 |

IV. FORMS

PARTICIPATION APPLICATION FORM.....

PARTICIPANT INFORMATION REVISIONS FORM

DEPOSIT FORM.....

WITHDRAWAL FORM

TRANSFER REQUEST FORM.....

ACCOUNT CLOSURE FORM.....

I. GENERAL

A. PURPOSE

The State Treasury Money Management Trust (STMMT) is a vehicle to be used by State Agencies, local governments, and subdivisions for enhancing investment opportunities and earnings of idle cash funds. Cash managers who may have been limited by small amounts of funds available for investment or by the complexities of today's investment environment can take advantage of the volume and expertise offered by the State Treasury.

Ark. Code Ann. § 19-3-601 *et. seq.* provides authorization for various entities to invest in the STMMT. This includes state agencies, any city, county, school district, or community college, any department, instrumentality, or agency of any of those entities; and the State Treasury.

This manual has been approved by the State Board of Finance.

B. OBJECTIVES

The STMMT was designed to afford State Agencies and other local governments another investment option for their cash funds. To that end, the STMMT's objectives will be safety, liquidity, and return on investment. Participants with relatively small amounts of money can take advantage of the economies of scale provided by joint investment. All participants can take advantage of the State Treasury's internal compliance protocols.

II. PARTICIPATION CONDITIONS

A. ELIGIBILITY AND ENROLLMENT

Eligible enrollees are defined by Ark. Code Ann. § 19-3-603. Once an entity has decided to participate, and has authorized an officer to be responsible for STMMT transactions, the participant should complete the Participation Application Form provided online (an example is included in this manual). That form is to be submitted via email and will be kept on file with the State Treasury. That form provides the information necessary to establish an account and identifies the individual(s) who will transact STMMT business on the participant's behalf. That form also serves as an acknowledgment that the participant agrees to accept the terms and conditions of the STMMT—as established by law and this Manual. Instructions are provided with that form.

After the Participation Application Form is received and processed, the participant will be advised of their STMMT Account Number. All future transactions or instructions from the participant should reference that account number in order to ensure proper completion of the transaction.

A Participant Information Revision Form is provided and should be completed if any of the account information changes. Failure to give prompt notification of changes may result in delays in depositing, investing, or withdrawing funds.

B. DEPOSITS

Deposits to the STMMT must be made electronically, either by wire transfer or ACH.

Initial deposits must be a minimum of \$1,000.00

A deposit to an existing account may be made in any size. To make a deposit, a participant should first complete the online Deposit Form (an example is provided in this manual) and submit via email to [email address to be added]. A Deposit Form must be received by the STMMT prior to a participant's initiation of a wire/ACH transfer. The Participant should then direct its bank/agent to transfer the amount specified in the Deposit Form to the STMMT per the routing and account numbers provided securely by the Trust managers. Please include the STMMT account number in the wiring/ACH instructions.

Verified deposits received by 9:00 AM Central Time will be credited to the participant's account the same day and earn interest that day. Deposits verified as received after 9:00 AM Central Time will be credited to the account and earn interest on the next State business day.

C. WITHDRAWALS

Participants must notify the Trust managers of withdrawals no later than the close of business on the day prior to the withdrawal by emailing a completed Withdrawal Form. The participant may withdraw funds up to the principal balance in its account. NOTE: Earnings not yet credited are not available for withdrawal. Funds will be transferred upon verification of the participant's account balance. Any loss of principal or interest realized as a result of a participant's demand for withdrawal of funds shall be incurred by the participant requesting the withdrawal and deducted on the day the withdrawal is made.

The Trust manager will wire funds to the participant's bank account as per instructions on file. Wire instructions must have been previously established prior to the withdrawal. Instructions MAY NOT be amended verbally. Withdrawn funds will not earn interest the day of withdrawal. Each participant is responsible for any required instructions for and/or notification of wire receipts with its local bank/agent.

D. TRANSFERS

Between STMMT Accounts: If a participant wishes to transfer funds between STMMT accounts, the participant should fill out a Transfer Request Form as provided online (example provided in this manual) and submit via email. Both the crediting and debiting STMMT accounts must be previously established before the transfer takes place.

Between STMMT Accounts and other State Accounts: If a participant wishes to transfer funds from its STMMT account to a State fund on the Treasury books, the participant should notify the STMMT by completing both the Transfer Request Form online, (an example is provided in this manual) and a Fund Deposit Form (available in AASIS or from the Service Bureau) and submitting both via email to [insert email address]. In order for the deposit to be receipted in the

fund on Treasury books, the Treasury must have a completed receipt form. All of the rules as established in the Financial Management Guide apply just as with a normal deposit.

E. ACCOUNT CLOSURE

Participants must notify the Treasury of intent to close an account by completing an Account Closure Form and indicating the same. The date for the withdrawal of all available principal should be indicated on the Form. Any remaining earnings due the Participant will be wired on the regular distribution date the following month and the monthly statement which follows will be the final statement sent to the Participant for that account.

F. INTEREST EARNINGS

The Treasurer of State shall distribute the monthly earnings of the STMMT, minus charges and fees, on the second State business day after the 25th day of the following month. In order to determine the distribution to each participant, charges and fees, the Treasurer of State shall:

- (1) Compute the daily rate of return of the STMMT for the preceding month. The daily rate of return will be calculated as a monthly annualized yield assuming daily amortization/accretion of all fixed income securities held by the Trust and any realized profits or losses;
- (2) Compute the net daily rate of return of the STMMT by subtracting the management fee rate from the daily rate of return;
- (3) Calculate the daily earnings of each participant by multiplying the participant's daily balance on deposit in the STMMT by the net daily rate of return;
- (4) The monthly sum of each participant's daily earnings, less any administrative charges, will be credited to each participant's account and reinvested, unless otherwise instructed by the participant, on the distribution day as described above.

G. FEES AND CHARGES

As per Ark. Code Ann. § 19-3-604(f), the Treasury may assess charges for expenses incurred in managing the STMMT and for other administrative fees.

Management Fee: The management fee of the STMMT will be an annualized .05% (Five one hundredths of one percent or 5 "basis points"). The daily return on investment of the STMMT will be reduced by the daily portion of this fee to determine the "Net Daily Return on Investment" earned on the Daily Balance of each Participant in the STMMT.

Administration Charges: Wire charges will be passed through to the participant. There is no charge for a wire or ACH transfer for deposits. There is a \$15 charge for a wire or ACH transfer for withdrawals. There is a \$15 charge for a wire transfer from STMMT account to a State Treasury Fund. There is no charge for a transfer from a STMMT account to another STMMT account.

H. MONTHLY STATEMENTS AND YEAR-END REPORTS

The STMMT will e-mail a monthly statement to each participant at the e-mail address provided on the Participation Application Form or most current update thereto. That statement will show account transactions and interest earned in the month for which the most recent distribution is made. The statement will be emailed on or about the 5th of the month following the distribution date.

I. MISCELLANEOUS INFORMATION

Email for correspondence with the STMMT should be directed to:

[Insert email address]

Physical correspondence should be directed to:

State Treasury Money Management Trust
Treasurer's Office
1401 West Capitol, Suite 275
Little Rock, AR 72201
501-682-3994

The State Treasury and State Board of Finance reserve the right to modify these policies and procedures as necessary to ensure efficient operation of the STMMT. The participant agrees to abide by the terms and conditions established by the Treasury and State Board of Finance for operations of the STMMT.

The participant agrees to notify the State Treasury's STMMT office *immediately* in the event of an overpayment to the participant's account. Repayment is mandatory and should be made on the day the overpayment is discovered, if possible—and in no event, later than the next business day.

III. STMMT INVESTMENT POLICY

A. AUTHORITY

Ark. Code Ann. § 19-3-601 *et. seq.* directs the State Treasury to administer the STMMT and to establish policies and regulations to guide daily operations of the STMMT. Those policies and regulations are to be reviewed and approved by the State Board of Finance. The State Treasurer, pursuant to Ark. Code Ann. § 19-3-604(f), may assess reasonable charges for management and expenses of the STMMT.

B. SCOPE

This policy applies to funds deposited with the State Treasury Money Management Trust established by Ark. Code Ann. § 19-3-601 *et. seq.*

C. ELIGIBLE INVESTMENTS

Eligible investments are authorized pursuant to Ark. Code Ann. § 19-3-604 and are limited to those securities as referenced in Ark. Code Ann. § 19-3-518(b)(1) and Ark. Code Ann. § 19-8-111. Eligible investments as outlined in the statutes may include:

- direct obligations of the U.S. government;
- obligations of agencies and instrumentalities created by act of the United States Congress and authorized thereby to issue securities or evidences of indebtedness, regardless of guarantee of repayment by the United States Government;
- obligations the principal and interest of which are fully guaranteed by the United States Government or an agency or an instrumentality created by an act of the United States Congress and authorized thereby to issue such guarantee;
- obligations the principal and interest of which are fully secured, insured, or covered by commitments or agreements to purchase by the United States Government or an agency or instrumentality created by an act of the United States Congress and authorized thereby to issue such commitments or agreements;
- commercial paper with maturities not exceeding 180 days rated A1 or better by Standard and Poor's Ratings Services and P1 by Moody's Investors Service. No investment shall be made in commercial paper with maturity beyond 90 days which, at the time of investment, holds a rating below A1/P1 or is on negative credit watch by either aforementioned rating agency;
- commercial paper with maturities not exceeding 90 days rated A2 or better by Standard and Poor's Ratings Services and P2 or better by Moody's Investors Service. No investment shall be made in commercial paper which, at the time of investment, holds a rating below A2/P2 or is in negative credit watch by either aforementioned rating agency;
- corporate bond issues of maturity of one year or less and rated A- or A3 or better by at least two of the credit ratings agencies; S&P, Moody's, or Fitch, which rate the issue. No investment shall be made in bonds which hold the minimum A- or A3 rating if, at the time the investment is made, the issue is on negative credit watch by any aforementioned rating agency;
- corporate bond issues rated AA- or better by each of the credit ratings agencies; S&P, Moody's, or Fitch, which rate the issue. No investment shall be made in bonds which have maturity beyond one year which hold the minimum AA- rating, if at the time the investment is made, the issue is on negative credit watch by any aforementioned rating agency.
- repurchase agreements as set forth in Ark. Code Ann. § 19-3-518(b)(1)(B)(xii);

- prerefunded municipal bonds whose principal and interest are fully secured by the principal and interest of a direct obligation of the United States Government;
- securities of any open-end type investment company or investment trust registered under the Investment Company Act of 1940 and that is defined as a “money market fund” under 17 C.F.R. § 270.2a-7 whose portfolio is principally U.S. government obligations and repurchase agreements fully collateralized by U.S. government obligations and the collateral is either taken directly by the investment company or investment trust or through an authorized custodian;
- certificates of deposit, demand, or savings deposits with financial institutions provided they are fully insured by a federal deposit insurance agency for one hundred percent (100%) of the principal and accrued interest of the deposit;
- certificates of deposit pursuant to ARK. CODE ANN. § 19-8-111 (CDARS.);
- all or any part of the bonds of local industrial development corporations, authorized and issued under the Arkansas Industrial Development Act, § 15-4-101 *et seq.*, and all or any part of the bonds of municipalities and counties, authorized and issued under the Municipalities and Counties Industrial Development Revenue Bond Law, §14-164-201 *et seq.*;
- obligations issued by the State Board of Education under the authority of the State Constitution; and,
- warrants of a political subdivision or municipality of the State of Arkansas having maturities not exceeding one (1) year;
- general obligations of the states of the United States (if notes hold the rating of SP-2, or the equivalent or above, or if bonds hold the rating of A, or the equivalent, or above);
- obligations in which the principal and interest are fully guaranteed, secured, insured, or covered by a commitment or agreement to purchase the obligation by the United States Government or an agency or an instrumentality created by an act of the United States Congress and authorized by the United States to issue the guarantee, commitment, or agreement (if notes hold the rating of SP-1, or the equivalent, or above, or if bonds hold the rating of AA, or the equivalent, or above).

D. INVESTMENT RESTRICTIONS

To provide for the safety and liquidity of the STMMT, the investment portfolio will be subject to the following restrictions:

- the average maturity of the total portfolio will not exceed 60 days;
- the stated maturity of any security will not exceed 397 days, with the exception of the following:
 - (a) securities used as collateral in repurchase agreements
 - (b) U.S. Agency mortgage-backed securities, collateralized mortgage obligations, and municipal bonds which return principal in scheduled

payments prior to final maturity shall not have, at the time of purchase, an average life exceeding 397 days using average life assumptions while employing Prepayment Speed Assumption (PSA) and/or Conditional Prepayment Rate (CPR) analysis models. Securities for which average life at the time of purchase is used shall not have a stated final maturity beyond 2 years.

- No investment in corporate debt with a maturity longer than one week shall be made in any single issuer, which—at the time of purchase—exceeds 5% of the total assets of the STMMT, including both commercial paper and bonded debt of that issuer.
- The maturity of repurchase agreements will be calculated by the date of repurchase, not the maturity of the underlying instrument.

Investments in non-government securities having maturities beyond one week, exclusive of funds managed by a securities lending agent, will not exceed the following percentages of the total portfolio:

| | |
|--|-----|
| Total Debt of Corporations, including Bonds and Commercial Paper | 30% |
| Certificates of Deposit | 10% |

Repurchase agreements will be subject to the following additional restrictions:

- transactions will be documented with master repurchase agreements;
- securities accepted as collateral will be readily marketable;
- repurchase agreements with any primary dealer or financial institution will not exceed 10% of the total portfolio;
- repurchase agreements will not exceed 180 days, and the share of the portfolio allocated to repurchase agreements with maturities beyond 30 days will not exceed 30% of the total portfolio.

Pursuant to ARK. CODE ANN. § 25-1-501 *et. seq.* (effective August 1, 2017), a public entity shall not invest in companies that boycott Israel. In a good-faith effort to comply with this law, the State Treasury may rely on the list of entities that boycott Israel. That list is published by the New York Office of General Services and may be located online at the following web address:

https://www.ogs.state.nv.us/eo/157/Docs/EO157_Institutions_Companies_List.pdf

E. COLLATERAL

Securities delivered as collateral for a repurchase agreement with a maturity date longer than seven days will be priced at least weekly at 105% (one hundred and five percent) of market value, plus accrued interest.

Physical loans which qualify as eligible investments delivered as collateral for a repurchase agreement with a maturity date longer than seven days will be priced at least weekly at 108%

(one hundred and eight percent) of market value, plus accrued interest.

For purposes of securities loaned pursuant to Ark. Code Ann. § 19-3-606, collateral will be determined on a daily basis.

F. PROFESSIONAL SERVICES

The State Treasury may contract for professional services as necessary for the efficient management of investments. Services may include, but are not limited to, Master Custodian and Money Manager.

i. Master Custodian

The State Treasurer may select one or more firms to provide the state with master custodial services pursuant to a custodial services agreement. Master custodial services will include, but not be limited to:

- executing transactions involving all securities held in custody, including on-line security clearing, settlement of securities on a delivery-versus-payment basis, and settlement of physically-held securities;
- accounting for all transactions in accordance with generally accepted accounting principles and requirements of the state;
- providing regular reports on the activity and value of the securities in custody; and,
- providing for the safekeeping of all documents and financial instruments physically held in custody.

ii. Money Manager

The State Treasurer may select one or more firms to provide money management services. These services may include, but not be limited to:

- recommending changes to the investment policy;
- providing advice on investment purchases and sales based on current market indicators and economic conditions;
- providing monthly accounting, performance, compliance, and management reports; and
- managing funds separately from other governmental funds and providing third-party safekeeping in Treasury's name.

The services of a master custodian, and money manager will be obtained through a competitive evaluation of proposals submitted to the Treasurer of State's Office.

IV. MONEY MANAGEMENT TRUST FORMS

[To be added]