



Operating Instruction 7.5.1.2 Banking and Brokerage Requirements

Objective

To clarify collateral coverage requirements under Minn. Stat. §§ 118A.03 and 118A.04, as incorporated by Board Policy 7.5 and System Procedure 7.5.1. The guideline also clarifies insurance requirements for investments held by a brokerage house, per System Procedure 7.5.1.

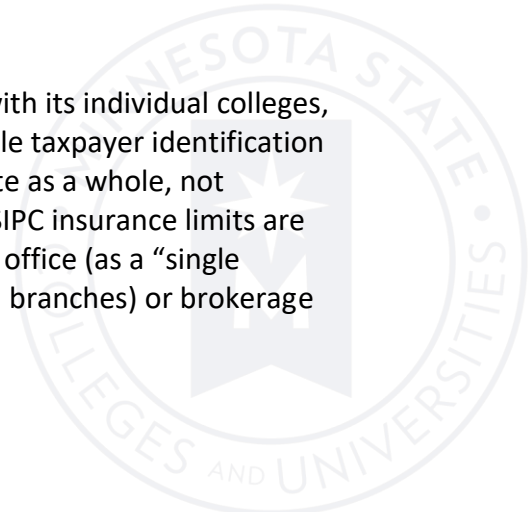
Part 1. Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) Coverage

Purpose: FDIC insurance may be used in certain circumstances identified below to reduce the amount of collateral required under Minn. Stat. § 118A.03. SIPC insurance can be used to satisfy the insurance requirement for investments held by a brokerage house per System Procedure 7.5.1.

Background and Definition: The FDIC provides deposit insurance guaranteeing the safety of a depositor's accounts in member banks up to \$250,000 for each deposit ownership category in each insured bank. In addition, accounts maintained by a brokerage house are insured by the SIPC up to \$500,000 for investments and \$250,000 for cash, on a per customer basis.

The Securities Investor Protection Corporation (SIPC) is a nonprofit corporation created by an act of Congress to protect the clients of brokerage firms that are forced into bankruptcy. Members to the SIPC include all brokers and dealers registered under the Securities Exchange Act of 1934, all members of securities exchanges and most NASD members offer brokerage account securities coverage. SIPC insurance coverage is different than FDIC insurance. When a SIPC member firm fails, SIPC steps in to coordinate the distribution of securities and cash to clients up to a maximum of \$500,000 per client.

How the insurance applies to Minnesota State: Minnesota State with its individual colleges, universities, and system office is a single legal entity and with a single taxpayer identification number. FDIC and SIPC insurance coverage apply to Minnesota State as a whole, not individually to each colleges and universities. Therefore, FDIC and SIPC insurance limits are shared by all Minnesota State colleges, universities, and the system office (as a “single customer”) with accounts in the same banking institution (across all branches) or brokerage house.



When multiple Minnesota State colleges, universities, and the system office have accounts at the same banking institution or brokerage house, FDIC and SIPC insurance coverage must not be considered available to any individual college or university, when calculating the amount of required collateral coverage for cash and required insurance for investment. When a Minnesota State college, university, or system office is the sole Minnesota State account holder at a bank or brokerage house, FDIC and SIPC insurance may be used to reduce the amount of collateral and/or insurance required. It is the responsibility of the institution to ensure it can use FDIC and/or SIPC insurance coverage to satisfy the collateral requirements for cash and cash equivalents and the insurance requirements for investments. A written representation from the bank and/or brokerage house that the college, university or system office is the only Minnesota State customer, across all its branches is recommended.

Part 2. Collateral Requirements for Deposit Accounts

Minn. Stat. § 118A.03, as incorporated in System Procedure 7.5.1 and Board Policy 7.5, requires all colleges, universities, and the system office to obtain collateral for depository accounts over the FDIC limits (see Part 1). Types of deposit accounts needing collateral coverage include: checking, savings, money market deposit accounts, and certificates of deposit (CD's). The fair value of securities pledged as collateral must be at least 10 percent greater than the amount on deposit at the end of any business day. The fair value of pledged securities as well as the sufficiency of coverage should be monitored by the financial institution, throughout the year.

Colleges, universities, and the system office must have a written assignment of collateral pledged, naming the college, university, or system office as the pledgee, which is the official record of the financial institution where the collateral was obtained. The assignment should indicate that the collateral has been "perfected"- a common way of perfecting is having the financial institution's loan committee or board of directors approve the assignment. Additionally, colleges and universities must acknowledge in writing that they have accepted the collateral. The financial institution must notify the college or university when pledged securities are replaced. Securities pledged by the financial institution as collateral must be considered an allowable investment under Minn. Stat. § 118A.04 as incorporated by Board Policy 7.5.

In lieu of pledged securities, an irrevocable standby letter of credit issued by Federal Home Loan Bank is acceptable as collateral. The letter of credit must be accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA/Aa" or better by Moody's Investor Service, Inc., or Standard & Poor's Corporation. An irrevocable standby letter of credit must be at least equal to 100% of the amount on deposit at the end of any business day. Irrevocable standby letters of credit are negotiable instruments so colleges and universities and the system office must provide for the safekeeping of the original signed letter. The original letter is required for redemption.

An acceptable method to minimize the need for pledged collateral is to use a sweep account or a zero-balance account program through the financial institution. Typically, this type of program sweeps available cash balances into money market mutual funds or other liquid

securities. This type of arrangement is referred to as a master repurchase agreement. The investment securities within a master repurchase agreement must be allowable under Minn. Stat. § 118A.04.

Colleges, universities, and the system office are strongly encouraged to use one of the above two alternatives to collateral (either standby letter of credit or a repurchase agreement) as to avoid additional time and effort associated with periodically ensuring collateral is sufficient to cover all funds.

Part 3. Brokerage Accounts

Cash and investments in allowable securities may be held in a separate brokerage account. For the purpose of this section, “broker” refers to a broker-dealer, broker, or agent, who transfers, purchases, sells or obtains securities on behalf of Minnesota State colleges, universities, or the system office. Prior to completing an initial transaction with a broker, Minnesota State colleges, universities or the system office must provide to the broker a written statement of investment restrictions which includes a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds. The broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the college, university, or system office account in accordance with those restrictions. Minnesota State colleges, universities, or the system office may not enter into a transaction with a broker until the broker has provided this written agreement. (See “Notification to Broker and Certification by Broker “under related documents.)

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Date of Last Review: 01/28/22

Date and Subject of Amendments:

01/28/22 – As part of the 5 year review process, amendment contained technical edits and application of the new formatting and writing standards.

No additional HISTORY.