




STATE OF ARKANSAS

# Department of Finance and Administration

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To: State Agencies

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Administrator

Subject: Rule 2012-A, *Management of Cash Funds*

Date: July 13, 2012

Rule 2012-A, *Management of Cash Funds*, was recently promulgated by the State Board of Finance. The Rule becomes effective July 14, 2012. A copy of the Rule accompanies this memo.

The Rule provides requirements for the management of cash funds of state agencies including investment activities and the collateralization of cash funds that are on deposit with banks or financial institutions that exceed coverage by the Federal Deposit Insurance Corporation (FDIC).

Current Federal Deposit Insurance Corporation (FDIC) coverage provides unlimited deposit insurance on non-interest-bearing transactional accounts. Transactional accounts are generally checking accounts. The unlimited coverage will expire January 1, 2013. In order to meet this deadline, all state agencies with cash funds subject to the Rule will need to comply with requirements of the Rule by October 31, 2012.

The Department of Finance and Administration will use the following procedures to assist state agencies in complying with the Rule.

## A. General Overview

1. An agency will not need to conduct a bidding process when it has a banking relationship that existed at the time the Rule was adopted.
2. For purposes of complying with the Rule, the execution of new agreements for existing banking relationships will not require a bidding process.

3. If an agency desires enter into a new banking arrangement or renegotiate an existing banking relationship, the agency must conduct a bidding process in which a minimum of four bids must be obtained.

#### B. Management and Investment of Cash Funds

1. For existing banking relationships, an agency will need to execute a new *Depository Collateral Agreement* and a new *Custodial Services Agreement*.
2. The new agreements must comply with the requirements in Section F, paragraphs 2 and 3, of the Rule.
3. The new agreements must be executed by October 31, 2012.
4. The bank or financial institution must approve a corporate resolution accepting the new *Depository Collateral Agreement*. The resolution must not be dated after the signing date of the *Depository Collateral Agreement*.
5. Complete the compliance checklist that accompanies this memo and submit it to the Department of Finance and Administration along with copies of the new agreements and corporate resolution by October 31, 2012.

#### C. Authorized Accounts

1. Consult the *Financial Management Guide* for allowable deposit accounts. This guidance is contained in R3-19-4-805.
2. The agency must verify that any deposit accounts used are eligible for coverage by the FDIC. The agency should consult with its bank or financial institution to make this verification. Also, the agency can use the FDIC's Bank Find at [http://www2.fdic.gov/idasp/main\\_bankfind.asp](http://www2.fdic.gov/idasp/main_bankfind.asp). The following FDIC website provides general information on the types of accounts insured: <http://www.fdic.gov/consumers/consumer/information/fdiciorn.html>.

#### D. Authorized Investments

1. Authorized investments are those listed in Ark. Code Ann. 19-3-510 and 19-3-518. The agency should verify that its current investments comply with these laws.
2. An agency must verify that noncash investments are being held in safekeeping by a bank or financial institution and that it has obtained safekeeping receipts.

#### E-1. Collateralization of Cash Funds

1. An agency should verify that securities pledged by its depository bank or financial institution comply with the requirements of the Rule by making the following determinations.
  - a. The securities are those assets in which a bank or financial institution may invest as identified in Ark. Code Ann. 23-47-401(a) and 19-8-203.
  - b. The securities are being held by a Federal Reserve Bank, a Federal Home Loan Bank, a banker's bank, or a third-party custodian that is unaffiliated with the pledging bank or financial institution.
  - c. The total fair value of the pledged securities is at least 105% of the amount of cash fund deposits at the depository bank or financial institution that exceed FDIC coverage.
  - d. The bank or financial or financial institution has arranged to provide the agency periodic reports on the pledged collateral.
  - e. Procedures are in place regarding the substitution of collateral.
2. An agency shall verify that it has perfected its security interest in the pledged collateral. Perfection of the security interest can be achieved by the execution of the agreements listed in section B above and the placement of the pledged collateral with a custodian that meets the requirements of the Rule.

#### E-2. Approval of Certain Custodians

1. A bank or financial institution must request permission of the State Board of Finance to use either of the following as a custodian:
  - a. The safekeeping function of a bank or financial institution located outside of the State of Arkansas.
  - b. A securities dealer or broker.
2. The request shall be submitted in writing to the Director of the Department of Finance and Administration.
3. Approval of a custodian by the State Board of Finance will be applicable for all state agencies subject to the requirements of the Rule.