



OKLAHOMA STATE TREASURER
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APPENDIX C

CASH COLLATERAL INVESTMENT POLICY AND GUIDELINES

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I. Objectives:

The key objectives of the management of cash collateral supporting securities loans are:

- Safety Safety of principal is the foremost objective of the cash collateral investment program.
- Liquidity The cash investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated.
- Return on Investment Consistent with the objectives noted above, optimize the spread between the collateral earnings and the rebate paid to the borrower of securities.

II. Eligible Investments:

The Agent is authorized to invest cash collateral supporting securities loans, as summarized and restricted below:

A. United States Treasury Bills, Notes and Bonds.

B. United States Government Agency Securities

1. Federal National Mortgage Association
2. Federal Home Loan Bank
3. Federal Farm Credit Bank
4. Federal Home Loan Mortgage Corporation
5. Government National Mortgage Corporation
6. Tennessee Valley Authority

- Not more than twenty-five percent (25%) of the cash collateral available for investment shall be invested in any one issuer.

C. Negotiable certificates of deposit

1. Issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank.
2. Rating must be "A-1", "P-1", or the equivalent.

3. Purchases shall not exceed seven and one-half percent (7.5%) of the cash collateral available for investment.
4. Not more than two and one-half percent (2.5%) of the cash collateral available for investment shall be invested in any one financial institution as specified in this paragraph.
5. Maximum maturity of 180 days.

D. Time Deposits

1. Issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank.
2. Rating must be “A-1”, “P-1”, or the equivalent.
3. Maximum maturity of next business day.
4. Purchases shall not exceed seven percent (7%) of the cash collateral available for investment.
5. Not more than five percent (5%) of the cash collateral available for investment shall be invested in any one commercial bank.

E. Commercial paper

1. Rating must be “A-1”, “P-1”, or the equivalent.
2. Maximum maturity of 180 days.
3. Purchases shall not exceed three percent (3%) of the cash collateral available for investment.
4. Purchases shall not exceed five percent (5%) of the outstanding paper of an issuing corporation.
5. Not more than two and one-half percent (2.5%) of the cash collateral available for investment shall be invested in the commercial paper of any one issuing corporation.
6. Asset Backed Commercial Paper is not eligible.

F. Obligations of state and local governments, including obligations of Oklahoma state public trusts

1. Must possess the highest rating from at least one nationally recognized rating agency.
2. Purchases shall not exceed ten percent (10%) of the cash collateral available for investment.
3. Not more than five percent (5%) of the cash collateral available for investment shall be invested in the obligations of any one issuing government.

G. Repurchase agreements

1. With counterparties that are either:
 - a. diversified securities broker-dealers who are members of the Financial Industry Regulatory Authority (FINRA) having \$5 billion in assets and \$350 million in capital and subject to regulation of capital standards by

- any state or federal regulatory agency; or
 - b. a bank, savings bank or savings and loan association having \$5 billion in assets and \$500 million in capital and regulated by the Superintendent of Financial Institutions, or through an institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System.
2. Subject to a minimum of 102% collateralization with daily updated valuation and have underlying collateral consisting of those items and those restrictions specified in paragraphs A through F.
 3. Pursuant to a signed Master Repurchase Agreement with counterparties that governs each transaction requiring that:
 - a. each transaction be conducted on a delivery versus payment basis
 - b. the securities are held free and clear of any lien and by an independent third party custodian or OST's custodian acting solely as agent for the State and is a Federal Reserve Bank, or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$500 million
 - c. a perfected first security interest under the Uniform Commercial Code in such securities is created for the benefit of the State.
 4. Maximum maturity of 90 days.
 5. Purchases shall not exceed eighty-five percent (85%) of the cash collateral available for investment.
 6. Not more than twenty percent (20%) of the cash collateral available for investment shall be invested with any one counterparty.

H. Money market mutual funds and short-term bond funds

1. Only SEC registered 2(A)7 funds are eligible.
2. Investments consist of those items and those restrictions specified in paragraphs A through F.
3. Rating must be "AAAm", or the equivalent.
4. Purchases shall not exceed thirty percent (30%) of the cash collateral available for investment.
5. Not more than ten percent (10%) of the cash collateral available for investment shall be invested in any one fund.

I. Bonds, notes, debentures or other similar obligations of a foreign government

1. Must be listed as an industrialized country by the International Monetary Fund and for which the full faith and credit of such nation has been pledged for the payment of principal and interest.
 2. Shall be rated at least A- or better by Standard & Poor's Corporation or A3 or better by Moody's Investors Service, or an equivalent investment grade by a securities rating organization accepted by the National Association of Insurance Commissioners.
 3. Maximum maturity of 5 years.
 4. Purchases shall not exceed 2.5% of the total funds available for investment.
- In no circumstances shall investments be made in bonds, notes, debentures or any similar obligations of a foreign government that:

- a. is identified as a state sponsor of terrorism by the United States Department of State, or
- b. any authoritarian or totalitarian government the sovereign powers of which are exercised through a single person or group of persons who are not elected by any form of legitimate popular voting.

J. The interest rate on variable rate securities must be tied to one of the following indices: Secured Overnight Financing Rate (SOFR), Fed Funds, Treasury Bills, or Commercial Paper, and must reset no less frequently than quarterly.

The lending agent shall follow these guidelines explicitly. If, at any time, the collateral portfolio violates these guidelines (e.g., a credit rating downgrade), the lending agent shall immediately notify OST in writing. The lending agent shall also notify the OST's Chief Investment Officer by telephone who shall determine if immediate action is necessary to bring the portfolio into compliance.

III. Ineligible Investments:

- A. Obligations issued by or guaranteed by the lending agent or any related party.
- B. Asset Backed Commercial Paper
- C. 144a Securities

IV. Portfolio Maturity:

The dollar-weighted average maturity of cash collateral investment shall not exceed (forty-five) 45 days. The average maturity of variable rate instruments will be calculated to the next interest rate reset date. The portfolio's minimum overnight (next business day) liquidity level will be targeted at not less than 20%.