

# Master Custody Services and/or Securities Lending Services RFP

(April 2, 2010)

1. Please provide your average cash balance.

*The targeted average overnight liquid balance for the Treasurer's portfolio is \$500 million which is managed by the Treasurer and his staff and not accounted for in the custodial accounts.*

2. Kindly advise how your cash is invested.

*Cash is invested in repurchase agreements and money market mutual funds. Funds in the custodial account are generally wired to the Treasurer's main account on a daily basis.*

3. How do you currently transmit instructions to buy or sell securities? Is it via a proprietary feed?

*Instructions are transmitted by fax.*

4. 2.3 Termination for Convenience – Clarification needed. How will the vendor be paid for continuing to provide service after the termination date?

*Vendors who are proposing to provide both master custody and security lending services should address in their proposal and bid sheet how they expect to be compensated if a decision is made to terminate for convenience only one of the services provided.*

5. 2.5 Rights and Remedies – As referenced in 2.3, it does not mention that the vendor will be paid for services rendered after the termination date

*Vendors who are proposing to provide both master custody and security lending services should address in their proposal and bid sheet how they expect to be compensated if a decision is made to terminate for convenience only one of the services provided.*

6. Would Basic Requirement 2.22 prohibit a limitation on the liability of the agent from indemnifying for special, indirect or consequential damages, including lost profits?

*Yes*

7. Would Basic Requirement 2.23 prohibit the State Treasury from entering into a standard borrowing agreements (Master Securities Lending Agreement) which is governed by New York law. Note, the agreement is signed by the vendor, as agent for the lender?

*Yes*

8. Can you identify if you have impaired assets in their current cash collateral reinvestment pool, if so, would you be able to provide details on the impaired holdings using this format.
- Microsoft Excel Format
  - Fund Name
  - Fund Number
  - Security ID (CUSIP, sedol, etc)
  - Number of Shares
  - NAV of Fund

*We are not aware of any asset impairment in our current cash collateral reinvestment account.*

9. Can you include a copy of your holdings in an Excel format?

*We have posted our holdings in Excel and pdf formats on our website.*

10. Are you open to alternative cash reinvestment options that might have similar guidelines to those shown on page 43 of the RFP.

*Vendors can present such options in response to section 6.40 of the RFP.*

11. Can you confirm the number of custody accounts your plan currently consists of? Does each of the four distinct accounts have one custody account or is there multiple custody accounts associated with any of the four?

*There are four custody accounts. Only two of those accounts have positions. There are no sub accounts reported or accounted for by our master custodian associated with any of our custody accounts.*

12. Section 1.13 Proposed Evaluation and Section Criteria:

(b) Qualifications, second paragraph

Can you clarify the definition of the “service agent in the State of Oklahoma”, and the reason such an agent is required?

*O.S. Title 62 Section 89.2.E. requires that any out-of-state custodial bank must have a service agent in the State of Oklahoma so that service of summons or legal notice may be had on such designated agent under the jurisdiction of Oklahoma Law.*

13. Can you disclose your current securities lending revenue split and custody fees?

*Our current securities lending split is 85/15. Our custodian accepts their portion of the securities lending revenue split (15%) as their compensation for securities lending and custodial services.*

14. Can you provide Appendix A in an excel format?

*We have posted our holdings in Excel and pdf formats on our website.*

15. Please provide a detailed asset list (Holdings File) for each of the Accounts/Plans. The information requested (including format) will support custody/securities lending service and fee estimates. Please provide in **an excel format** with the following:

- a. Asset Type:
- b. (U.S. equity, international equity, fixed income, international fixed income, real estate, alternatives, private equity, hedge funds, absolute return, cash on-hand, Money Market Fund)
- c. CUSIP (U.S. Securities) or SEDOL (Non-U.S. Securities)
- d. Asset Description
- e. # Number of Shares
- f. PAR
- g. US Dollar Market Value for all securities
- h. Country/Market of Settlement (US Dollar Market Value)

*We have posted our holdings in Excel and pdf formats on our website. Our current custodian accepts their portion of the securities lending revenue split (15%) as their compensation for securities lending and custodial services. A schedule of the custodian's portion of the securities lending revenue split will be posted on our website Monday, April 5.*

16. Annual Trade volumes (security buys/sells) **by market/country of settlement**

- a. U.S. Securities – Total estimated annual trade volumes
- b. Non-U.S. Securities Annual Trade volumes listed by country of settlement

*Securities are generally held until maturity unless there are liquidity needs that exceed targeted liquidity balances. All transaction activity for the current fiscal year includes a total of 33 trades, for the General account 1 Federal Farm Credit, 9 Federal Land Bank, 5 Federal Home Loan Mortgage, 11 Mortgage Back securities, 5 Municipal Bonds, 1 Israel Bond manually traded, and for the Agency account 1 Treasury Bill.*

17. Additional/Secondary Annual transaction volumes, itemized by type

Example: P&I payments, wires, manual trades, internal transfer, pay-downs, corporate actions, etc.

*Secondary transactions for the current fiscal year, July 1, 2009 through February 28, 2010 are below:*

*1) Maturity Proceeds = 33*

*2) Mortgaged Back Security Paydowns = 439*

*3) Interest Proceeds = 587*

*4) Wire transfers to Treasurer's Account = approx. 100*

*5) Wire transfers to custodian for settlement = 15*

18. Transaction File that includes volumes by country

The Treasurer does not actively trade in foreign securities.

19. Detailed Account Structure

Currently, securities are held in four accounts.

- a. The general account holds investments at the direction of the Treasurer.
- b. The agency account holds investments held as an agent for other state agencies.
- c. The linked deposit account holds investments for the Linked Deposit Program
- d. The fiduciary account holds investments made at the direction of a Court or other entity in certain circumstances

Securities are held in these accounts at the direction of the Treasurer's office.

20. Could you provide a detailed schematic or document with account numbers at current custodian? (excel or word format)

Security holdings by account are posted in Excel and pdf formats on our web site.

21. Please provide a Scope of Service for the following services?

- Custody

These services should include but may not be limited to: Hold and safeguard the cash, securities, and other property within the custodial accounts. Collect income and principal when due and post to the appropriate account. Provide online access to all transaction and portfolio reports including daily statements showing all receipts and disbursements in each separate account. Receive funds for Dvp settlement and record receipt of securities as instructed, transmit funds from dvp settlement and record disposition of securities as instructed.

- Sec Lending

These services should include but may not be limited to: Perform due diligence on potential borrowers, enter into a borrowing agreement with approved borrowers, monitor the creditworthiness of approved borrowers, terminate agreements with borrowers as necessary, receive adequate and acceptable collateral from the borrower, negotiate rebates that provide the Treasurer with a competitive rate of return from the investment of cash collateral according to the Treasurer's guidelines, monitor and enforce compliance on all loans. Provide reports on loans, collateral, invested cash collateral and related income.

- Accounting Performance

These services should include but may not be limited to: Currently, monthly market value reporting of each security, monthly securities lending reports, and annual GASB 40 analysis is provided.

- Performance

These services should include but may not be limited to: Currently, monthly performance reports are furnished showing the historical rate of return of asset segments as they relate to the Treasurer's benchmark.

- Cash Mgt

Not Required

22. Cash Investments/Sweep Accounts

- a. Do you expect to need a short term investment vehicle

No, funds deposited to the custodial account are generally wired to the Treasurer's account the day they are posted.

- b. What are anticipated flows for each account?

N/A

- c. What are the average daily balances?

Approx. \$0

- d. What investment vehicles are used today for each account?

None

23. Expected Accounting valuation and reporting frequency? (Monthly, Daily)

Currently, monthly market value reporting of each security is provided; however, we would like to consider any additional capabilities of the respondent in this area. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

24. Is compliance monitoring and reporting a service that you are interested in receiving? If so, what frequency? Monthly or Daily?

We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

25. Securities Lending

- a. Can you provide in an excel format a detailed asset listing in order for us to do a lending estimate?

We have posted our holdings in Excel and pdf formats on our website.

b. Is cash collateral currently in a commingled pool or separate account?

Cash collateral is in a separate account.

c. Are there impaired assets in the collateral pool?

We are not aware of any asset impairment in our current cash collateral reinvestment account.

26. Do you require 3<sup>rd</sup> party software interfaces? (e.g., BARRA, FactSet, Internal Accounting System)

Not currently, but we are in the process of updating our systems and would like to know the respondents capabilities of interfacing with third-party software. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

27. Do you require data files to be provided by your custodian to you, consultants, or other parties? If yes, what format and for what purpose?

At fiscal year end, our external auditors will need asset detail sent directly to them in either pdf or Excel format.

28. Do you currently direct your FX activity through your current custodian(s) bank(s)?

No, the Treasurer does not actively trade in foreign securities.

29. If so, do you evaluate each FX trade rate prior to execution? What if any, percent of FX is traded third party?

N/A

30. Please provide a list of all necessary key reports and samples/examples (electronic or hardcopy)

Examples of reports will be posted to our website beginning Monday, April 5, in pdf format:

Daily - Actual Cash Detail for all four accounts

Projected Overdraft

Projected Cash Detail for all four accounts

Monthly - Asset Detail showing current Market Value

Asset Summary

Cash Activity Detail

Cash Balances Summary

Change in Book and Market Value

Change in Cash Value

Funding and Disbursement Summary  
Securities Lending Reports  
All Collateral Detail Holdings  
Performance Scorecard – Account Net Earnings  
Performance Scorecard – Client  
Annually - GASB 40 Reporting

31. Identify which are needed Daily, Weekly, Monthly, Quarterly, for Auditors, Annual Reports or for Board of Directors. )

Examples of reports will be posted to our website beginning Monday, April 5, in pdf format:

Daily - Actual Cash Detail for all four accounts  
Projected Overdraft  
Projected Cash Detail for all four accounts  
Monthly - Asset Detail showing current Market Value  
Asset Summary  
Cash Activity Detail  
Cash Balances Summary  
Change in Book and Market Value  
Change in Cash Value  
Funding and Disbursement Summary  
Securities Lending Reports  
All Collateral Detail Holdings  
Performance Scorecard – Account Net Earnings  
Performance Scorecard – Client  
Annually - GASB 40 Reporting

32. Does your custodian customize any of these reports? (Please provide samples of the customized reports, electronic or hardcopy)

Examples of reports will be posted to our website beginning Monday, April 5, in pdf format.

The only customized reports provided are:  
Monthly Portfolio Performance Reports  
Securities on Loan Evaluation at fiscal year end, June 30

33. Do you have any current reports that you would like customized or that would require unique treatment that can only be done if a fee is paid to the custodian for customization?

No

34. If yes, please provide a sample of the current report with a written or typed description of your desired format(s).

Currently, there are no reports required for which a separate fee is paid to the custodian for customization.

35. J.P. Morgan’s VIEWS Portfolio Reporting system has a library of hundreds of pre-defined reports that can be delivered in a variety of formats. It also provides the ability to create customized reports at no additional charge to our clients. As such, it is helpful to review examples of your Key Reports to ensure that J.P. Morgan demonstrates its reporting capabilities meet your specific needs.

*Examples of reports will be posted to our website beginning Monday, April 5, in pdf format. We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.*

36. Do you have any special reconciliations, audit support or reporting requirements? (Please describe)

*Auditors will require an Asset Detail report be sent directly to them at fiscal year end. A SAS 70 report on internal controls placed in operation and tests of effectiveness covering continuous operating periods throughout the term of the contract will be required for audit purposes.*

37. Pricing model will have two proposals (1) All services including Lending (2) All Services excluding Lending.

*Each vendor may include up to 3 bids as reflected in the Bid Sheet.*

38. Custody bid must be a flat fee?

*No*

39. Performance Measurement, Performance Analytics and Risk Analytics

<b>Fund Type</b>	<b># of Accounts</b>
Separately Managed Accounts	4
Commingled Accounts/One-Liners	0
Composites	0

**Please enter your needs for Performance Measurement, Characteristics, Attribution, and Value-at-Risk**

<b>Scope of Services</b>	<b>Performance</b>	<b>Characteristics</b>	<b>Attributions</b>	<b>Value-at-Risk</b>
Required? (Yes /No)	<u>Y</u>	<u>See below</u>	<u>See below</u>	<u>See below</u>
Monthly or Daily?	<u>M – see below</u>	<u>See below</u>	<u>See below</u>	
Equity, Fixed Income, or Both?		<u>See below</u>	<u>See below</u>	
Include Commingled Accounts? (Yes/No)		<u>See below</u>		
Based on Account Returns or Holdings?			<u>See below</u>	<u>See below</u>
At what level? (total fund, asset class, sector, country, and/or security)	<u>Total fund – see below</u>		<u>See below</u>	<u>See below</u>

*We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.*

### **Value-at-Risk (skip if not required)**

- Do you require Stress Testing? Do you have pre-set scenarios you expect J.P. Morgan to reproduce? If so, please provide these scenarios. *Not at this time.*
- Do you require Relative VaR (VaR of benchmark vs. VaR of portfolio)? *No*

*We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.*

### **Plan & Manager Analysis**

- Are you interested in Wilshire TUCS reporting that compares a plan's performance to the performance of similarly sized plans? If so, do you require at the plan level, asset class level, or manager level? *See below*
- Are you interested in reporting that shows how your investment managers stack up against their peers? *See below*
- Are you interested in having access to an online Manager Universe tool that shows how various investment managers stack up against each other? *See below*
- Are you interested in having access to an online tool that helps you experiment with different asset allocations and manager selections to see which ones may generate the optimal risk-adjusted returns? *See below*
- Are you interested in Analytics/Attribution? *See below*

*We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.*

### **Indices & Classifications**

- Please provide a complete list of benchmarks that you utilize. *Merrill Lynch US Treas, 1-Year*
- For clients receiving sector-level reporting, J.P. Morgan utilizes the GICS or ICB classification scheme for equity, and the Barclays scheme for fixed income. If you would like us to utilize a different scheme, please provide details and a sample. *NA*

*We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.*

## Reporting

- Please provide your reporting deadlines following completion of accounting. Monthly reporting should be provided by the fifth business day after month end.
- J.P. Morgan maintains a library of hundreds of pre-defined reports, but if you have your own reports that you need J.P. Morgan to reproduce in their current format, please provide samples. Examples of reports will be posted to our website beginning Monday, April 5, in pdf format. We would be interested in reviewing any capabilities of the respondent in this area; however, you must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

## Other

- Please provide a sample holdings list. We have posted our holdings in Excel and pdf formats on our website.
- Do you utilize 4-4-5 accounting? No
- If you are not using J.P. Morgan Accounting, how many accounting systems will we need to link to? None at this time but we are in the process of updating our systems and would like to know the respondents capabilities of interfacing with third-party software. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.
- Please provide details of third party vendors you utilize today (e.g., BARRA, FactSet) that you expect J.P. Morgan to replicate. None at this time but we are in the process of updating our systems and would like to know the respondents capabilities of interfacing with third-party software. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.
- Please provide details of the requirements for FTP feeds to or from any third party systems. None at this time but we are in the process of updating our systems and would like to know the respondents capabilities of interfacing with third-party software. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

40. Do you require 3<sup>rd</sup> party software interface? (e.g., BARRA, FactSet, Internal Accounting System)

Not currently, but we are in the process of updating our systems and would like to know the respondents capabilities of interfacing with third-party software. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

41. Do you require data files to be provided by your custodian to you, consultants, or other parties? If yes, what format and for what purpose?

Not currently but we are in the process of updating our systems and would like to know of the respondents capabilities to provide data files in various formats. You must note in your

*proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.*

42. Do you currently direct your FX activity through your current custodian(s) bank(s)? If so, do you evaluate each FX trade rate prior to execution? What if any, percent of FX is traded third party?

*No, the Treasurer does not actively trade in foreign securities.*

43. Please provide a list of all necessary key reports and samples/examples (electronic or hardcopy).

*Examples of reports will be posted to our website beginning Monday, April 5, in pdf format.*

*Daily - Actual Cash Detail for all four accounts*

*Projected Overdraft*

*Projected Cash Detail for all four accounts*

*Monthly - Asset Detail showing current Market Value*

*Asset Summary*

*Cash Activity Detail*

*Cash Balances Summary*

*Change in Book and Market Value*

*Change in Cash Value*

*Funding and Disbursement Summary*

*Securities Lending Reports*

*All Collateral Detail Holdings*

*Performance Scorecard – Account Net Earnings*

*Performance Scorecard – Client*

*Annually - GASB 40 Reporting*

44. Identify which are needed Daily, Weekly, Monthly, Quarterly, for Auditors, Annual Reports or for Board of Directors.

*Examples of reports will be posted to our website beginning Monday, April 5, in pdf format.*

*Daily - Actual Cash Detail for all four accounts*

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*Monthly - Asset Detail showing current Market Value*

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*Change in Book and Market Value*

*Change in Cash Value*

*Funding and Disbursement Summary*

*Securities Lending Reports*

*All Collateral Detail Holdings*

*Performance Scorecard – Account Net Earnings*

Performance Scorecard – Client  
Annually - GASB 40 Reporting

A SAS 70 report on internal controls placed in operation and tests of effectiveness covering continuous operating periods throughout the term of the contract will be required for audit purposes.

- a. Does your custodian customize any of these reports?  
(Please provide samples of the customized reports, electronic or hardcopy.)

Examples of reports will be posted to our website beginning Monday, April 5, in pdf format.

- b. Do you have any current reports that you would like customized or that would require unique treatment that can only be done if a fee is paid to the custodian for customization?

If yes, please provide a sample of the current report with a written or typed description of your desired format(s)

Currently, there are no reports required for which a separate fee is paid to the custodian for customization.

*J.P. Morgan's VIEWS Portfolio Reporting system has a library of hundreds of pre-defined reports that can be delivered in a variety of formats. It also provides the ability to create customized reports at no additional charge to our clients. As such, it is helpful to review examples of your Key Reports to ensure that J.P. Morgan demonstrates its reporting capabilities meet your specific needs.*

We would be interested in reviewing any capabilities of respondent; however, please note if additional fees would apply to these services. You must note in your proposal if additional fees would apply to these services beyond what is submitted on the Bid Sheet.

45. Do you have any special reconciliations, audit support or reporting requirements? (Please describe.)

Our external auditors will require an Asset Detail report be sent directly to them at fiscal year end. A SAS 70 report on internal controls placed in operation and tests of effectiveness covering continuous operating periods throughout the term of the contract will be required for audit purposes.

46. Can you provide your most current monthly, quarterly and annual custodial fees inclusive of all services requested in the RFP?

Invoices for custodial services are not received as our current custodian accepts their portion of the securities lending revenue split (15%) as their compensation for securities lending and custodial services. A schedule of the custodian's portion of the securities lending revenue split will be posted on our website Monday, April 5.

47. Can you provide a detailed breakdown of your annual/quarterly/or monthly invoice?

Invoices for custodial services are not received as our current custodian accepts their portion of the securities lending revenue split (15%) as their compensation for securities lending and custodial services. A schedule of the custodian's portion of the securities lending revenue split will be posted on our website Monday, April 5.