Rules of

Department of Revenue

Division 10—Director of Revenue

Chapter 43—Investment of Nonstate Funds

Title 12—DEPARTMENT OF REVENUE
Division 10—Director of Revenue
Chapter 43—Investment of Nonstate Funds

12 CSR 10-43.010 Department of Revenue Investment Group

PURPOSE: This rule establishes the Department of Revenue Investment Group and grants it authority to formulate, subject to the approval of the director of revenue, investment policies and procedures designed to invest nonstate funds in safe, competitive yield investment instruments prior to distribution of the principal and interest to local political subdivisions.

(1) The director of revenue creates the Department of Revenue Investment Group. This group shall be composed of employees from the Department of Revenue.

(2) All inquiries or notices relating to the Investment Group should be directed to the director of the Fiscal Services Division as follows:
Fiscal Services Division
Missouri Department of Revenue
PO Box 87
301 West High Street
Jefferson City, MO 65105-0087
(573) 751-7429

(3) The Investment Group has the responsibility of assisting the director of revenue in formulating and carrying out investment policies and procedures designed to invest nonstate funds in safe, competitive yield investment instruments prior to distribution of the principal and interest to local political subdivisions. Before any of the investment policies and procedures formulated by the Investment Group are implemented, the policies and procedures must be reviewed and approved by the director of revenue.

(4) The Investment Group will meet at least quarterly and may meet more often as necessary.

(5) The Investment Group shall have the right to request the attendance of additional Department of Revenue employees, investment advisors, banking experts and other finance experts to help the Investment Group formulate and implement the department's investment policies and procedures.

AUTHORITY: section 136.120, RSMo 2000. Original rule filed May 2, 1986, effective Aug. 11, 1986. Amended: Filed April 21, 1987, effective July 23, 1987. Amended: Filed Sept. 11, 2006, effective April 30, 2007.*

**Original authority: 136.120, RSMo 1945.*

12 CSR 10-43.020 Investment Instruments for Nonstate Funds

PURPOSE: This rule establishes the types of investment instruments in which nonstate funds may be invested prior to distribution of principal and interest to local political subdivisions.

(1) All nonstate funds held for any purpose by any investment agent of the director of revenue shall be held by the agent in an interest bearing account.

(2) The Department of Revenue Investment Group shall use their collective best judgment to ensure that the investment instruments purchased on behalf of the director of revenue by his/her investment agent shall be in the best overall interest of the local political subdivisions. In making their recommendations, the Investment Group shall give due consideration to—
(A) The preservation of all nonstate funds and earned interest;
(B) The comparative yield to be derived from the investment instrument;
(C) The effect upon the economy and welfare of the people of Missouri of the removal or withholding from banking institutions in the state of all or some such nonstate funds and investing same; and
(D) All other factors which to them as a prudent Investment Group seem to be relevant to the general public welfare in the light of the circumstances at the time prevailing.

(3) The nonstate funds may only be invested in the following instruments:
(A) United States Treasury Bills Notes and Bonds;
(B) Time Deposits;
(C) Repurchase Agreements and Reverse Repurchase Agreements secured by United States Treasury obligations or obligations of the agencies listed in subsections (3)(D)–(H) of this rule;
(D) Federal National Mortgage Association Securities;
(E) Federal Agricultural Mortgage Corporation (FAMC) Securities;
(F) Federal Home Loan Bank Securities;
(G) Federal Home Loan Mortgage Corporation Securities;
(H) Federal Farm Credit System Securities; and
(I) No other type of investment instrument may be purchased for nonstate funds.

(4) No one (1) security listed in subsections (3)(D)–-(H) of this rule shall exceed ten percent (10%) of the Department of Revenue's investment portfolio.

AUTHORITY: section 136.120, RSMo 2000. Original rule filed May 2, 1986, effective Aug. 11, 1986. Amended: Filed April 21, 1987, effective July 23, 1987. Amended: Filed Dec. 15, 1987, effective May 12, 1988. Amended: Filed Aug. 28, 1990, effective Dec. 31, 1990. Amended: Filed Aug. 12, 1999, effective Feb. 29, 2000. Amended: Filed Sept. 11, 2006, effective April 30, 2007.*

**Original authority: 136.120, RSMo 1945.*

12 CSR 10-43.030 Collateral Requirements for Nonstate Funds

PURPOSE: This rule establishes collateral requirements for nonstate funds collected and invested by the Department of Revenue. These requirements are designed to guarantee that nonstate funds are secured against loss while they are being invested in safe, competitive yield investment instruments prior to distribution of principal and earned interest to local political subdivisions.

(1) Any depository investing nonstate funds as an investment agent of the director of revenue must guarantee there will be no deficiencies in daily transactions, nor losses in any principal or interest due to the department on investment transactions.

(2) Any depository investing nonstate funds as an investment agent of the director of revenue must be subject to examination by—the Federal Deposit Insurance Corporation (FDIC) or other like federal government agency, the Securities and Exchange Commission (SEC), the Missouri Division of Finance or other like state agency, and independent auditors. The investment agent also shall have an internal audit program which meets the specifications of the Department of Revenue Investment Group.

(3) Any depository investing nonstate funds as an investment agent of the director of revenue must adhere to the following rules governing collateral:

(A) Before the investment agent places deposits with depository institutions, the investment agent must require that the institutions pledge collateral security. The following general procedures will be used:

1. Only securities listed as follows are acceptable to secure nonstate funds:

A. Marketable Treasury securities of the United States;

B. General obligation debt securities issued by Missouri with at least an A rating from one of the nationally Recognized Statistical Ratings Organizations (NRSROs) or are secured by a federal agency guarantee (directly or through guaranteed loans);

C. General obligation bonds of any city in this state having a population of not less than two thousand (2,000) with at least an A rating from one of the NRSROs;

D. General obligation bonds of any county in this state with at least an A rating from one of the NRSROs;

E. General obligation bonds issued by any school district situated in this state with at least an A rating from one of the NRSROs;

F. General obligation bonds issued by any special road district situated in this state with at least an A rating from one of the NRSROs;

G. General obligation state bonds of any of the fifty (50) states with at least an A rating from one of the NRSROs;

H. Debt securities of the Federal Farm Credit System;

I. Debt securities of the Federal Home Loan Banks (FHLBs), excluding zero-coupon bonds (ZEROS);

J. Debt securities of the Federal National Mortgage Association (FNMA), including mortgage-backed securities, but excluding real estate mortgage investment conduits (REMICs) and other mortgage derivatives, separate trading of registered interest and principal securities (STRIPS), Z bonds and ZEROS (All mortgage-backed securities shall be valued at ninety percent (90%) of market value. Collateralized Mortgage Obligations (CMO) shall be Planned Amortization Class (PAC) CMOs, valued at seventy-five percent (75%) of market value, have a weighted average life not to exceed three (3) years and pass the Federal Financial Institutions Examination Council (FFIEC) High Risk Test);

K. Debt securities of the Student Loan Marketing Association (SLMA), excluding STRIPS and ZEROS;

L. Debt securities of the Government National Mortgage Association (GNMA), including mortgage-backed securities, but excluding REMICs, and other mortgage derivatives, STRIPS, Z bonds and ZEROS. Nonbook-entry registered securities must be in nominee name (All mortgage-backed securities shall be valued at ninety percent (90%) of market value. CMOs shall be PAC CMOs valued at seventy-five percent (75%) of market value, have a weighted average life not to exceed three (3) years and pass the FFIEC High Risk Test);

M. Federal Home Administration insured notes (CBOs);

N. Bonds of any political subdivision established under the provisions of Section 30, Article VI of the *Constitution of Missouri* with at least an A rating from one of the NRSROs (City and County of St. Louis);

O. Tax anticipation notes issued by any county of class one in Missouri with at least an A rating from one of the NRSROs;

P. Public housing notes and bonds (projects notes and bonds) issued by public housing agencies, guaranteed as to the payment of principal and interest by the government of the United States or any agency or instrumentality of the United States;

Q. Revenue bonds issued by the Missouri Board of Public Buildings or Department of Natural Resources with at least an A rating from one of the NRSROs or are secured by a federal agency guarantee (directly or through guaranteed loans);

R. Revenue bonds of the Missouri Housing Development Commission, Missouri Health and Education Facilities Authority, Missouri Higher Educational Loan Authority, Missouri Environmental Improvement and Energy Resource Authorities, Missouri Agricultural and Small Business Development Authority, Missouri Industrial Development Board or state-owned education institutions so long as any of the mentioned are rated A or better by a NRSRO, or are secured by a federal agency guarantee (directly or through guaranteed loans);

S. Debt securities of the Federal Home Loan Mortgage Corporation (FHLMC), including mortgage-backed securities, but excluding mortgage cash flow obligations, REMICs, and other mortgage derivations, STRIPS, Z bonds and ZEROS (All mortgage-backed securities shall be valued at ninety percent (90%) of market value. CMOs shall be PAC CMOs valued at seventy-five percent (75%) of market value, have a weighted average life not to exceed three (3) years and pass the FFIEC High Risk Test);

T. Guaranteed loan pool certificates of the Small Business Administration (SBA). Nonbook-entry registered securities must be in nominee's name (SBA pool certificates shall be valued at seventy-five percent (75%) of market value);

U. Debt securities of the Resolution Funding Corporation (REFCORP), excluding STRIPS and ZEROS; and

V. Revenue bonds are accepted only under items listed in subparagraphs (3)(A)1.B., Q. and R.;

W. Debt securities of the Federal Agriculture Mortgage Corporation (FAMC), including mortgage-backed securities, but excluding mortgage cash flow obligations, REMICs, and other mortgage derivatives, STRIPS, Z bonds and ZEROS (All mortgage-backed securities shall be valued at ninety percent (90%) of market value. CMOs shall be PAC CMOs valued at seventy-five percent (75%) of market value, have a weighted average life not to exceed three (3) years and pass the FFIEC High Risk Test);

2. The entire value of the nonstate funds on deposit with the depository, including accrued interest, must be covered by the market value of securities pledged less applicable FDIC or other like insurance;

3. The investment agent may not disburse funds for investment until it is assured that adequate and proper collateral has been pledged. Telephone confirmation of securities pledged from a third-party custodian is acceptable pending receipt of the actual safekeeping document;

4. Securities may not be released until deposits, including accrued interest, are received from the depository institution;

5. The investment agent may allow substitution of acceptable collateral securities with equal or greater market value if the substitution occurs on a simultaneous basis. That is, the new collateral must be received before or at the same time the old collateral is released;

6. Excess collateral may be released if it is reasonable as determined by the investment agent. The investment agent will determine the market value of all collateral every two (2) weeks and compare that to the amount of deposits at each deposit institution. When the value of collateral falls below the amount of deposits, the investment agent must immediately demand additional collateral. If the depository institution fails to post the additional collateral within two (2) days of the day requested, the investment agent will request withdrawal of all deposits at that institution; and

7. The director of revenue, upon the recommendation of the Department of Revenue Investment Group, may require an institution pledging collateral to use a different third-party custodian which will be acceptable to the director;

(B) Repurchase Agreements and Reverse Repurchase Agreements will be handled in a manner similar to the state treasurer's procedures and are restricted as follows:

1. Transactions will be on an overnight basis or for a period not to exceed thirty (30) days;

2. Market value of collateral securities must be at least equal to one hundred and two percent (102%) of the repurchase agreement;

3. Securities will be priced daily before they are accepted and weekly thereafter; and

4. No more than ten percent (10%) of the total market value of the portfolio may be invested in repurchase agreements with any one issuer;

(C) The investment agent must provide adequate collateral security for department funds in the investment agent's custody and control. These funds consist of each day's deposits plus any uncollected funds and any other noninvested funds; and

(D) The investment agent's collateral system must be subject to on-line electronic access by the department's employees. This system must include the following features:

1. The investment agent will price all securities as they are placed on the system. The investment agent will ensure that securities are acceptable and marketable and will periodically review securities for these features;

2. On a daily basis, the investment agent will compare collateral security to all deposited funds;

3. The investment agent will generate appropriate exception reports. These will include, at a minimum, identifying those securities for which the safekeeping receipt has not yet been received. The investment agent will immediately follow-up on any deposit for which the safekeeping receipt is not received within five (5) working days; and

4. The investment agent will produce a report identifying deficiencies in collateral. This report will be produced daily and the investment agent will follow up on a same-day basis to ensure that adequate collateral is pledged.

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**Original authority: 136.120, RSMo 1945.*