




Office of the President

September 15, 2016

Permanent Memorandum No. 9 (PM-9), Revised

*This memorandum supersedes PM-9 dated March 14, 2012*

F. King Alexander, President 

**Banking Services, Safeguarding of Deposits and Investment and Reporting Policy**

**1. Purpose:**

- a. Louisiana State University and an LSU Entity, being one authorized in writing by the President to engage in these type of transactions are “State depositing authorities” as described in La. R.S. 49:319. The LSU Entity retains, deposits, and invests its revenues in financial institutions (“authorized depository or fiscal agent banks”) rather than remitting all receipts to the State Treasurer as is required for other state agencies. Financial Institutions receive the designation of “Authorized depository or fiscal agent bank” by action of the Louisiana Interim Emergency Board.
- b. This memorandum provides the LSU policy for permitted investments, collateral security for LSU Entity deposits, and selecting and monitoring financial institutions. La. R.S. 49:319 through 49:325, and 49:327, contain statutory requirements for deposit, security and investment of State funds. The LSU policy meets or exceeds these statutory requirements.
- c. This memorandum also provides the LSU policy for additional allowed investment instruments, the allocation of funds among investment instruments and the term to maturity of the instruments for an LSU Entity that has met the criteria and been certified for high level designated autonomies as defined in R.S. 17:3139.5(5)(c) and R.S. 17:3139.5(5)(c)(iv). An LSU Entity that has been certified for high level autonomies shall certify on the quarterly reports that there has been strict compliance with the statutory authorization.
- d. It is the intention of this policy to establish guidelines for the investment, expenditure, safekeeping, and monitoring of the financial resources of all LSU Entities. Adherence to this policy should reflect the judgment and care which persons of prudence, discretion, and intelligence would use to manage like assets, not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income, as well as the probable safety of the capital to be invested.

**2. Investment and Banking Services Management:**

- a. The management of the LSU investments and banking services shall be entrusted to the LSU Investment Committee. The members of this committee shall be the LSU Vice President of Finance and Administration/CFO or his/her designee, and the Chief Financial Officers of LSUHSC-NO, LSUHSC-S, LSUS, and the Health Care Services Division.
- b. Each member of the LSU Investment Committee is responsible for the execution of this policy at his or her entity and to assist in formulating and recommending entity-wide policy changes as required. The LSU Investment Committee shall meet on a periodic basis as necessary, not less than annually, to effectively manage the funds of the LSU, and shall prepare quarterly investment reports described herein.

### **3. Authorized Financial Transactions**

#### **a. LSU Entity Non-Endowed Funds**

All investment transactions must be in accordance with provisions of R.S. 49:327. The members of the LSU Investment Committee are authorized to enter into the banking and investment transactions described below as necessary to carry out the business of their entity.

- i. Demand deposit accounts
- ii. Certificates of Deposit
- iii. Repurchase Agreements
- iv. Sweep Accounts
- v. Direct Obligations of the U.S. Government
- vi. U.S. Government Agency Obligations contained in the list promulgated by the State Treasury
- vii. Investment grade Commercial Paper and Investment grade Corporate Notes and Bonds
- viii. Money market funds consisting solely of securities otherwise eligible for investment by the state treasurer.

#### **b. LSU Entity Non-Endowed Funds**

- i. Authority to invest funds in all instruments listed in 3(a) above for LSU Entity Non-Endowed Funds.
- ii. Authority to invest non-endowed funds in tax exempt bonds and other taxable governmental bonds issued by any state or a political subdivision or public corporation of any state, provided that such bonds are rated by a nationally recognized rating agency as investment grade.
- iii. Allocation of non-endowed funds among instruments will have the following limitations:
  - (a.) US Government Agency Obligations where principal and interest are not backed by the full faith and credit of the US Government will not exceed seventy percent (70%) of the total non-endowed portfolio.
  - (b.) Investment Grade Commercial Paper, Corporate Notes and Bonds will not exceed fifty percent (50%) of the total non-endowed portfolio.
  - (c.) Municipal Tax Exempt Bonds will not exceed fifty percent (50%) of the total non-endowed portfolio.
- iv. The average non-endowed portfolio duration will be no greater than 2 years above the current average duration of the Barclays Capital U.S. Aggregate Index.
- v. The average credit quality of the non-endowed portfolio must be AA or higher determined as the lowest rating issued by any of the three major rating companies (S&P, Moody's, & Fitch).
- vi. A biennial review by an independent investment advisory consultant shall be required to evaluate results of the non-endowed investment program utilizing relevant benchmark data and comparisons to similar programs of institutional peers, both regionally and nationally. The review should include, but not be limited to, asset allocation and duration strategies.

#### **c. LSU Entity Endowed Funds**

- i. Any investment permitted in the Uniform Prudent Management of Institutional Funds Act, which requires the "business judgment standard".
- ii. Provided that any investment of funds described in 3((c) (i) (above) that are part of the Endowed Chair and Endowed Professorship Programs. must comply with the Board of Regents Investment Policy for those funds. The investment policies of the support foundations must be periodically reviewed not less than annually by the LSU Investment Committee.

- iii. In accordance with provisions of Article VII, Section 14 of the Louisiana Constitution, and R. S. 49:327(C)(3)(b) the LSU Entity may invest publicly funded permanently endowed funds in the stock of any corporation listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National Association of Securities Dealers Automated Quotations System, provided that the total investment in such stocks at any one time shall not exceed thirty-five percent of the market value of all publicly endowed funds of the LSU Entity.
- iv. The equity portfolio should be well-diversified to avoid undue exposure to any single economic sector, industry group, or individual security. This is to assure that no single security, class of securities, or investment style will have a disproportionate impact on the program assets' aggregate results.
- v. Concentration by Issuer:
  - (a.) No more than five percent (5%) of total equity assets shall be invested in the securities of any one issuing legal entity at market value.
  - (b.) No more than twenty percent (20%) of the market value of total equity assets shall be in the securities of any one industry at market value.
  - (c.) Investments in any legal entity shall not exceed five percent (5%) of the outstanding shares of the legal entity.

#### **4. Investment Objective**

The long-term investment objective of this policy is to prudently invest the assets within the limitations of State law in order to maximize the risk adjusted total return. For endowed assets, prudent investment management would also strive to preserve the purchasing power of those assets while allowing for an appropriate level of spending consistent with donor intent and the needs of the institution.

#### **5. Spending Objective**

The primary objective of annual spending is to provide a predictable and sustainable level of program spending.

#### **6. Selection of Financial Institutions for University Banking Transactions**

Demand deposit accounts and other basic banking services will be acquired by competitive requests for proposals at least once every five years. Requests for proposals will be based on the State Treasurer's Standard banking specifications, modified as necessary to meet the needs of the particular LSU Entity.

The evaluation criteria in requests for proposals should include the following:

- Availability of Services Location of Financial Institution
- Cost of services Transaction processing time
- Financial Institution's financial condition
- Opportunity cost of switching Financial Institutions

Requests for proposals are not required for investment transactions such as certificates of deposits or repurchase agreements. Such transactions are generally accomplished by surveying financial institutions to find the best rate.

To be eligible to provide banking services to an LSU Entity, a financial institution must be an approved fiscal depository institution as designated by the State of Louisiana Interim Emergency Board. The additional criteria for establishing and monitoring a financial institution's eligibility is described in the following section.

## 7. Safeguarding Deposits and Investments

The LSU Entity will use a three-level approach to safeguarding its deposits and investments as follows:

- Deposits will be fully collateralized,
- Financial Institutions will be required to execute agreements granting the LSU Entity a continuing first priority security interest in the pledged or secured collateral, and
- Financial institutions will be monitored for continued eligibility for LSU Entity deposits and for potential signs of failure or undue risk.

### a. Collateral Requirements for LSU Entity Funds

LSU Entity demand deposits and investments which exceed federally insured limits must be fully secured by a pledge of securities. Demand deposits must be secured based on the average collected balance and investments which exceed federally insured levels must be secured at face value.

Collateral may be in book entry form and must be held by a third party institution acting as trustee. Safekeeping receipts or other evidence of the collateral must be provided by the financial institution to the LSU Entity Chief Financial Officer, or their designee, within five working days of the collateral pledge. Requests for release, transfer or substitution of securities may be initiated by the pledging institution by telephone, but must be confirmed in writing within five working days. In a substitution transaction, replacement securities must be pledged before release of pledged securities.

### b. Collateral Security Agreements and Financial Institution Board Resolutions

Each depository institution will be required to execute a *collateral security agreement* with The LSU Entity. The member of the LSU investment committee may execute the agreement on behalf of the LSU Entity.

In addition to the signed collateral security agreement, to insure that any pledge of securities under the agreement provides the necessary first priority security interest to the LSU Entity and meets the FDIC requirements under the Financial Institutions Reform Recovery Act (FIRREA), the financial institution must provide a *resolution of its Board of Directors* which:

- i. Approves the written collateral security agreement, and
- ii. Authorizes designated officers of the financial institution to grant the continuing first priority security interest in the securities pledged as collateral to secure LSU Entity deposits.

### c. Monitoring Financial Institutions for Eligibility for Deposits

In addition to being listed as an authorized fiscal depository institution by the Louisiana Interim Emergency Board, a financial institution must meet several additional tests designed to determine the adequacy of the institution's capital.

The institution's financial data listed in *Bank Focus Pro* published by Highline Data (or from such other published source as may be available to the LSU Entity) will be used as follows (an explanation of the terms used in this section is included in Appendix I):

- i. A financial institution will be eligible for LSU entity deposits *not to exceed* 5% of the financial institution's total deposits if the financial institution:
  - (a.) Is listed in Capital Category 1 or 2, and
  - (b.) Has a capital ratio [Tier 1 Leverage Ratio (Core Capital/Adjusted Total Assets)] of at least 5%.
- ii. A financial institution will be eligible for LSU Entity deposits *in excess of* 5% of the financial institution's total deposits if the financial institution:
  - (a.) Is listed in Capital Category 1, and
  - (b.) Has a Core Capital Ratio [Tier 1 Leverage Ratio (Core Capital/Adjusted Total Assets)] of at least 10%.

LSU will obtain and furnish the ratio information to the members of the LSU Investment Committee. Committee members will review the information and identify any change in deposit eligibility for financial institutions holding LSU Entity deposits and/or investments.

If a financial institution holding LSU Entity deposits does not continue to meet the capital requirements as defined in 7 (c) above, no additional (new or renewal) deposits may be made in the institution without the written approval of the LSU Investment Committee.

The LSU Investment Committee will review more closely the financial status of any such financial institution and will request that the institution furnish the information necessary for the review including the following:

- Disclosure of any formal or informal regulatory actions or agreements proposed or implemented by both bank's primary regulator (State, OCC, and or Federal Reserve) and/or the FDIC restricting the financial institution's rates paid on deposits, increasing deposit insurance premiums, restrictions on lending operations or other conduct, capital plans, or similar actions.
- The financial institution's current Federal Financial Institutions Examination Council's FFTEC 031 Consolidated Report of Condition and Income for Bank with Domestic and Foreign Offices (commonly referred to as the Bank's "Call Report"). Following a review of the financial institution's information and overall financial condition, the LSU Investment Committee may permit the institution to remain an eligible depository. The maximum deposit allowable will, however, be restricted to 2.5% of that financial institution's total deposits until such time as the LSU Investment Committee determines the financial institution to be eligible for a higher level of deposits.

Should the financial institution refuse to make the required disclosures, or in the event of the initiation of a removal of deposit insurance action by the FDIC, or if the bank's Core (Tier 1) capital ratio falls below 3.0 percent, the bank will automatically forfeit eligibility as a depository of LSU Entity funds. All LSU deposits with the bank will then be withdrawn in as orderly a fashion as possible.

## **8. Deposit, Collateral and Investment Reporting Requirements**

On a quarterly basis commencing January 1, 2012, the following reports shall be prepared by the LSU Entity and submitted to the Vice President for Finance and Administration/CFO:

- a. Portfolio report – cost and market values of investments at the end of each quarter;
- b. Deposit and collateral report—total demand deposits, certificates of deposit, repurchase agreements, and pledged collateral outstanding at the close of each quarter; *and*

- c. Transactions report – a listing of all investment purchases, sales, maturities, or other activities that have occurred during the quarter.
- d. Change in investment types & performance against benchmarks.

**A summary of such reports shall be presented in writing to the Board of Supervisors at the next meeting following their submittal.**

#### **APPENDIX I**

The Highline Data rating service provides evaluation guidelines using publicly available financial information obtained from the release of the preliminary reports of condition and reports of income from the Federal Reserve. These guidelines provide a composite measurement of historical bank performance using four of the five primary bank rating (CAMEL) factors: Capital Adequacy, Asset Quality, Earnings and Liquidity. (The fifth CAMEL factor is Management). The terms used in section 7 (C) are defined as follows:

##### Capital Categories

1. Well capitalized
2. Adequately capitalized
3. Undercapitalized
4. Significantly undercapitalized
5. Critically undercapitalized

##### Core (Tier 1) Capital Ratio (Core Capital/Adjusted Total Assets)

Core Capital as defined in the Highline Data rating service include: common stockholders' equity capital, plus non-cumulative, perpetual preferred stock and any related surplus, plus minority interests in equity capital accounts of consolidated subsidiaries, minus goodwill, minus other disallowed intangible assets, minus disallowed deferred tax assets, minus any other amounts that are deducted in determining Tier 1 (core) capital in accordance with capital standards issued by the reporting bank's primary Federal supervisory authority.

Adjusted Total Assets as defined in the Highline Data rating service include: the quarterly average for total assets as reported in the Call Report, minus goodwill, minus other disallowed intangible assets, minus disallowed deferred tax assets, minus any other assets that are deducted in determining Tier 1 capital in accordance with capital standards issued by the reporting bank's primary Federal supervisory authority, plus allowance for loan and lease losses, minus excess allowance for loan and lease losses, minus reciprocal holdings for banking organizations' capital instruments.

***Approved by Cash Management Review Board on February 23, 2012.***

***9/15/2016 version approved by Cash Management Review Board on December 9, 2016.***