7.5.1.2 Banking and Brokerage Requirements

Objective of this Guideline: The objective of this guideline is to clarify collateral coverage requirements under Minn. Stat. Sections 118A.03 and 118A.04, as incorporated by MnSCU Board Policy 7.5 and MnSCU Procedure 7.5.1. The guideline also clarifies insurance requirements for investments held by a brokerage house, per MnSCU Procedure 7.5.1.

Part 1. Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) Coverage.

Purpose: FDIC insurance may be used in certain circumstances defined below to reduce the amount of collateral required under Minnesota State Statutes Section 118A.03. SIPC (insurance can be used to satisfy the insurance requirement for investments held by a brokerage house per MnSCU Procedure 7.5.1.

Background and Definition: The FDIC provides deposit insurance guaranteeing the safety of a depositor's accounts in member banks up to $250,000 for each deposit ownership category in each insured bank. In addition, accounts maintained by a brokerage house are insured by the SIPC up to $500,000 for investments and $250,000 for cash, on a per customer basis. The Securities Investor Protection Corporation (SIPC) is a nonprofit corporation created by an act of Congress to protect the clients of brokerage firms that are forced into bankruptcy. Members to the SIPC include all brokers and dealers registered under the Securities Exchange Act of 1934, all members of securities exchanges and most NASD members offer brokerage account securities coverage. SIPC insurance coverage is different than FDIC insurance. When a SIPC member firm fails, SIPC steps in to coordinate the distribution of securities and cash to clients up to a maximum of $500,000 per client.

How it applies to MnSCU: The Minnesota State Colleges and Universities system, with its individual colleges, universities, and system office, comprises a single legal entity and uses a single taxpayer identification number. FDIC and SIPC insurance coverage applies to the MnSCU entity as a whole, not the individual institutions. FDIC and SIPC insurance limits are shared by all MnSCU institutions (as a “single customer”) with accounts in the same banking institution (across all branches) or brokerage house.

When multiple MnSCU institutions have accounts at the same banking institution or brokerage house, FDIC and SIPC insurance coverage shall not be considered available to any individual institution, when calculating the amount of required collateral coverage for cash, and required insurance for investment. When a MnSCU institution is the sole MnSCU account holder at a bank or brokerage house, FDIC and SIPC insurance may be used to reduce the amount of collateral and/or insurance required. It is the responsibility of the institution to ensure it can use FDIC and/or SIPC insurance coverage to satisfy the collateral requirements for cash and cash equivalents
and the insurance requirements for investments. A written representation from the bank and/or brokerage house that the college, university or system office is the only MnSCU customer, across all its branches is recommended.

**Part 2. Collateral Requirements for deposit accounts.** Minnesota Statutes Section 118A.03, as incorporated in MnSCU Procedure 7.5.1 and MnSCU Board Policy 7.5, requires all colleges, universities, and system office to obtain collateral for depository accounts over the FDIC limits (Part 1). Types of deposit accounts needing collateral coverage include: checking, savings, money market deposit accounts, and certificates of deposit (CD’s). The fair value of securities pledged as collateral must be at least 10 percent greater than the amount on deposit at the end of any business day. The fair value of pledged securities as well as the sufficiency of coverage should be monitored by the financial institution, throughout the year.

Colleges, universities, and system office must have a written assignment of collateral pledged, naming the college, university, or system office as the pledgee, which is the official record of the financial institution where the collateral was obtained. The assignment should indicate that the collateral has been “perfected”- a common way of perfecting is having the financial institution’s loan committee or board of directors approve the assignment. Additionally, colleges and universities must acknowledge in writing that they have accepted the collateral. The financial institution must notify the college or university when pledged securities are replaced. Securities pledged by the financial institution as collateral must be considered an allowable investment under Minn. Stat. Section 118A.04 as incorporated by MNSCU Policy 7.5.

In lieu of pledged securities, an irrevocable standby letter of credit issued by Federal Home Loan Bank is acceptable as collateral. The letter of credit must be accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA/Aa” or better by Moody’s Investor Service, Inc., or Standard & Poor’s Corporation. An irrevocable standby letter of credit must be at least equal to 100% of the amount on deposit at the end of any business day. Irrevocable standby letters of credit are negotiable instruments so colleges and universities and the system office must provide for the safekeeping of the original signed letter. The original letter is required for redemption.

An acceptable method to minimize the need for pledged collateral is to use a sweep account or a zero-balance account program through the financial institution. Typically, this type of program sweeps available cash balances into money market mutual funds or other liquid securities. This type of arrangement is referred to as a master repurchase agreement. The investment securities within a master repurchase agreement must be allowable under Minn. Stat. Section 118A.04.

Colleges, universities, and the system office are strongly encouraged to use one of the above two alternatives to collateral (either standby letter of credit or a repurchase agreement) as to avoid additional time and effort associated with periodically ensuring collateral is sufficient to cover all funds.

**Part 3. Brokerage Accounts.** Cash and investments in allowable securities may be held in a separate brokerage account. For the purpose of this section, “broker” refers to a broker-dealer, broker, or agent, who transfers, purchases, sells or obtains securities on behalf of MnSCU institutions. Prior to completing an initial transaction with a broker, institutions must provide to the broker a written statement of investment restrictions which includes a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds. The broker must acknowledge annually receipt of the statement of investment.
restrictions in writing and agree to handle the institution’s account in accordance with those restrictions. Institutions may not enter into a transaction with a broker until the broker has provided this written agreement to the institution. (See “Notification to Broker and Certification by Broker “under related documents.)

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