7.5.1.3 Allowable Investments

Objective of this Guideline: All colleges, universities, and the system office are subject to MnSCU Board Policy 7.5 and MnSCU Procedure 7.5.1. The objective of this guideline is to clarify some ambiguities when determining if certain investments are allowable under Minn. Stat. Section 118A.04 and 118A.05, as referenced in policy 7.5 and procedure 7.5.1.

Part 1. Stocks. Corporate stock is not an allowable investment. Stock in a U.S. agency, instrumentality, or organization must be guaranteed or insured by the United States government in order to be allowable (see part 3 for United States Securities for more detail). An exception to this rule is corporate stock if received by an institution as a gift, in which case the institution can retain the gifted stock as an allowable investment until it can be reasonable converted to cash.

Part 2. Money Market Investments. Minn. Stat. Sections 118A.05(4)(4) and 118A.05(4)(5) govern all colleges, universities, and system office per MnSCU Board Policy 7.5 and MnSCU Procedure 7.5.1. These provisions allow investing in various types of money market investments. The requirements governing which money market investments are allowable per Minn. Stat. Sections 118A.05(4)(4) and 118A.05(4)(5) are:

1) the investment company has to be registered under the Federal Investment Company Act of 1940, and rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization, and; either

2) the investment company meets the conditions of rule 2a-7 of the Securities Exchange Commission; or

3) the financial instruments invested in should have a final maturity of no longer than 13 months. The final maturity date is generally understood to mean the day the security stops earning interest.

Institutions, unsure if a money market fund meets the statute requirements, can provide those requirements to the respective fund to confirm the fund is an allowable investment. Frequently, information on whether a money market fund is an allowable investment can also be located in the fund’s prospectus.

Part 3. Pooled Investments. Pooled investments are allowable investments, so long as all securities in the pool are allowable investments. For example, a money market mutual fund will be allowable as long as it meets the money market investment rules discussed in Part 2 above. On the
other hand corporate stock mutual funds are not an allowable investment, since corporate stocks themselves are not an allowable investment.


A. United States Securities.

Minn. Stat. Section 118A.04(2) allows investments in United States securities and defines them as “governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.” This definition includes not only investments explicitly guaranteed by government securities like GNMA, but also those implicitly guaranteed like FNMA and FHLMC. While investments in FNMA and FHLMC are allowable, they are considered riskier transactions because they may not be guaranteed by the government.

B. State and local securities.

Minn. Stat. Section 118A.04(3) allows investments in state and local securities when the following conditions are met:

1) A security which is a general obligation of any state or local government with taxing powers and is rated “A” or better by a national bond rating service;
2) A security which is a revenue obligation of any state or local government with taxing powers and is rated “AA” or better by a national bond rating service;
3) A security which is a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated “A” or better by a national bond rating agency.

C. Stripped Securities

Stripped securities are created by separating (stripping) the principal and interest of a debt type security. The resulting new securities are then sold individually on the market. To be permissible, these securities would have to be issued/stripped by a federal entity. That is, they could not be stripped by a financial institution. Further, if the underlying obligations are mortgages, they would not be “high risk mortgage backed securities” under the provisions of Minn. Stat. Section 118A.04, Subd. 6. This section defines interest-only and principal-only mortgage backed securities as high risk and provides an “impact test” for all other mortgage backed securities. Therefore, institutions cannot simply rely on the name of an investment, but must determine which entity stripped the investment, to determine whether or not it is an allowable investment.

Part 5. Commercial papers. Funds may be invested in commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

Part 6. Time Deposits (Certificate of Deposit). Minn. Stat. Section 118A.04(5) allows investments in time deposits. Certificates of deposit must be fully insured by the Federal Deposit
Insurance Corporation. See Guideline 7.5.1.4 – Banking and Brokerage Requirements for collateral requirements for Certificates of Deposit.

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