

Pooled Collateral Program Policies and Procedures

The following policies and procedures for the Statewide Collateral Pool Program contain revisions based on comments received from interested parties through Friday, June 13, 2014. Further revisions and adjustments are anticipated as implementation of the program begins July 1, 2014. A formal notice of rule-making for the program is anticipated within the next 60 days. As always, if interested parties have comments or suggestions, they can be sent via email to pooledcollateral@aztreasury.gov.

Purpose:

The purpose of the Pooled Collateral Program is to ensure all taxpayer funds on deposit with any federally insured depository in excess of any insurance is backed with 102% of eligible collateral and provide an efficient means for eligible depositories to aggregate collateral for public deposits. Prior to July 1, 2014, every financial institution that receives public deposits was required to pledge collateral for those deposits above the federal insurance limit to either 101% or 102% for each public depositor. Also, each public depositor was required to monitor the collateral that is pledged by the financial institution. Under the Pooled Collateral Program, each financial institution with public deposits pledges a pool of collateral against all of the public deposits it holds for the state and local governments of the State of Arizona except as provided by law. That collateral is pledged to the pooled collateral administrator who is responsible for monitoring the collateral on behalf of all public depositors. The Pooled Collateral Administrator (“Administrator”) is established in the Arizona State Treasurer’s Office and may adopt and enforce policies and procedures as necessary to carry out its duties pursuant to A.R.S. §35-1202 et seq. The Administrator is responsible for ensuring that eligible depositories have posted 102% collateral for each public depositor in excess of any federally insured deposits. All ledger balances in demand deposit (non-interest bearing) accounts and interest bearing accounts - including non-negotiable certificates of deposits - must be covered by either federal insurance or eligible collateral equal to at least 102% of deposits at all times.

Reporting:

Daily and monthly reports will be available to the public on the Arizona Treasurer’s website at <http://www.aztreasury.gov/pooled-collateral-reports/> for viewing and downloading starting July 2, 2014. A daily summary report will be available to the public to view and download that will report each depository institution in Arizona that is required to post collateral and the amount of collateral posted.

A monthly certification report for each depository institution, as well as a monthly report of collateral pledged, will also be available to the public.

The web page will include a portal for depository institutions to log-in and upload both daily and monthly reports. To request a log-in and password, each institution needs to fill out the Pooled Collateral Web Portal Access User ID Request Form available on the website at <http://www.aztreasury.gov/pooled-collateral-reports/> and submit the form on company letterhead no later than June 23, 2014.

Daily Reporting:

For each banking business day, each eligible depository shall provide a daily summary report no later than 12:30 p.m. Eastern Standard Time (EST) to the Administrator. Each report shall detail the total amount of public deposits held by the depository at the close of business the prior day, the total of federal insurance coverage of those deposits, and the total collateral it has deposited with a qualified escrow agent that is pledged to the deposits that are in excess of any amount insured by an agency of the United States. The daily summary file shall contain the following information in this format (either csv or excel) and transmitted by secure log-in to the ASTO web page.

Institution name										
date	demand deposit ledger balance	interest bearing ledger balance	fdic coverage	uninsured balance	required collateral	market value of pledged collateral	original par value	total dd accounts	total ib accounts	
05/22/14	1000000000	1000000000	1000000000	1000000000	1000000000	1000000000	1000000000	999	999	

The collateral shall include its unique identifier (i.e. CUSIP), the collateral’s original par value, and the current daily market value of the collateral posted as calculated by the qualified escrow agent. The Administrator understands that qualified escrow agents have different methods for providing the information and will work with each qualified escrow agent on reporting methodologies. For banks that do control the reporting via their own trust department, the daily file shall contain the following information in the following format (either csv or excel) and transmitted by secure log-in to the ASTO web page.

Institution name										
date	cusip	security description	original par value	current face value	market value of pledged collateral	market price	coupon	maturity date		
05/22/14	xxxxxxx	xxxxxxx	1000000000	1000000000	1000000000	999.99	9.9999	05/22/14		

Daily reporting requirements for collateral do not apply to irrevocable letters of credit issued by a Federal Home Loan Bank, unless changes to the LOC occur.

In addition, each eligible depository shall make available upon request by the Administrator, a detailed daily report listing each public depositor sorted by taxpayer ID, the amount of deposits per taxpayer ID, and any federal insurance per entity. The requested daily report is to provide the same level of detail that the depository currently provides to public depositors as of April 1, 2014. The daily report shall allow the Administrator to determine which public depositors have deposits with the eligible depository and the bank accounts associated with each public depositor, the bank account name, and the total amount of deposits per account and per public depositor, and summing the total deposits per entity.

For example, a public depositor that uses a county treasurer for banking purposes may be reported under the county treasurer’s taxpayer ID, but has separate accounts entitled in its name with the county treasurer. Account numbers should be truncated to the last 4 digits and the report shall be delivered in the following format (either csv or excel) and transmitted by secure log-in to the ASTO web page.

Depository name eg: Bank of America										
entity name	taxpayer id	account name and number	dd balance	ib balance	total deposits	federal insurance	net required collateral			
Example Entity	xxxxxx	xxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx		

If the Administrator determines that insufficient collateral has been posted on any business day based on either the summary report, or the detailed daily report requested by the Administrator, the

Administrator shall contact the depository institution promptly and request additional collateral to be posted no later than 3:00 p.m. EST each day. The depositor shall send a report to the Administrator listing the additional collateral with CUSIP, par value and market value that has been posted.

If an eligible depository fails to post additional collateral as requested, the Administrator shall notify the depository in writing by certified mail that, subject to rules to be adopted, it may commence a daily penalty of \$250 until the required collateral is posted. The eligible depository may request a hearing within five days of the return receipt of the certified notification before the Administrator prior to the civil penalty being imposed according to rules to be adopted. If an eligible depository fails to post the additional collateral by the deadline, the Administrator may promptly notify, via electronic means, the Superintendent of the Department of Financial Institutions and each public depositor with deposits in the depository of the shortfall of the required collateral. In addition, the Administrator may post on the State Treasurer's public web page that the depository is out of compliance with collateral requirements under the program and the specific day(s) the depository was out of compliance and the value and percentage of under collateralization.

All collateral posted for the program shall be recorded and regarded as a perfected security interest for each public depositor per Article 9 of the Uniform Commercial Code for secured transactions. Each Depository also needs to sign the Collateral Security Agreement that is posted on the Treasurer's web site.

Monthly Reporting

A monthly report shall be sent by each depository to the Administrator that details the deposit balance for each account of a public depositor in the same level of detail that the depository currently provides to public depositors as of April 1, 2014. The report is due at the same time such reports are currently provided, but not later than the 8th business day of each month. At the minimum, the monthly report shall list each public depositor sorted by taxpayer ID, the amount of deposits per taxpayer ID, and any federal insurance assigned per entity. The monthly report shall allow the Administrator to determine which public depositors have deposits with the eligible depository and the bank accounts names and numbers associated with each public depositor and the total amount of deposits, federal insurance coverage and collateral per account and per public depositor.

For example, a public depositor that uses a county treasurer for banking purposes may be reported under the county treasurer's taxpayer ID, but has separate accounts entitled in their name with the county treasurer. If a depository institution currently provides monthly low and high balances in its current report, the information shall be continued to be reported. The report shall be produced in such a fashion that the Administrator can forward the report to each public depositor separately.

The Administrator shall electronically forward the monthly report to each public depository within 5 business days after receiving the report, and also attest if the depository institution met the collateral requirements for that month. Each public depositor receiving the report shall have until the last business day of the month to email the Administrator about any discrepancies between the report forwarded from the Administrator and monthly statements sent to the public depositor by the bank. If no contact is received then the report is deemed to be accurate and complete. If discrepancies are reported, the Administrator shall work with the bank and the public depositor to reconcile the discrepancy.

Transition Reporting

Each depository institution shall provide prior to July 1, 2014, a list of contacts for each public depositor to whom the depository has been providing collateral reports, including the name, title, phone number, email address and mailing address. The list shall include all public depositors that are covered by the pooled program. The City of Phoenix, as allowed by law, as elected to not participate in the program.

Each depository is also asked to notify their public depositors about the Pooled Collateral Program that starts July 1, 2014. A copy of the June 30, 2014 monthly statements that are sent to each public depositor is to be forwarded to the Administrator by July 31, 2014. These statements include the account balances and names for each public depositor sorted by taxpayer I.D. as well as the monthly collateral statement for each.

Reporting Contingencies

In the event of technological problems that delay or prevent reporting to or from the Treasurer's web page, then the Administrator can receive information through other means necessary including facsimile transmission, email, or other measures.

Reporting for GASB 40

The Administrator is to work with the Auditor General's office to determine what information needs to be developed and available to assist in meeting the reporting requirements for Governmental Accounting Standards Board (GASB 40.) Once those policies are determined, a notice will be posted on the ASTO website.

Reporting Exemptions

Eligible Depositories doing business in the State of Arizona that do not have any public deposits pursuant to A.R.S. §35-1202 et seq., do not have to report to the Administrator but must sign a notarized statement supplied by the Administrator attesting to that fact.

Eligible depositories that have public deposits that do not require collateral (i.e. all deposits are federally insured) can in lieu of daily reporting fill out a notarized statement supplied by the Administrator listing the public depositors, deposit balances and insurance coverage of those public deposits. Annual reporting will still be required listing those deposits by taxpayer I.D.

Eligible depositories that only have public deposits that are time deposits with set maturities that require collateral do not have to report daily, but still must file monthly reports.

Special Requests

Within one business day of receiving the request from any public depositor, the Administrator shall have requested data for any single day's deposits and collateral posted by a depository from that depository and the depository shall respond to the request promptly.

Release of Excess Collateral

A depository can submit a request to the Administrator for a release of excess collateral. The Administrator shall approve the request as soon as practical and such consent shall not be unreasonably withheld, if the Administrator determines that the depository is holding excess collateral.

Holding of Collateral

A depository shall deposit the required amount of collateral with a qualified escrow agent. A qualified escrow agent is any bank or depository trust company. Each Depository shall execute a Collateral Security Agreement with the Administrator. The agreement is available for download on the Treasurer's web site. A depository may also ask the Administrator to use the Arizona State Treasurer's Office existing custodial contracts as a qualified escrow agent if the depository institution does not currently use a qualified escrow agent. For letters of credit issued by a Federal Home Loan Bank, the LOC must name the Arizona State Treasurer, acting as the Statewide Collateral Pool Administrator for and on behalf of the Pool Participants as the beneficiary, be irrevocable, and meet all other terms listed in A.R.S. § 35-312-A (4).

Collateral that is pledged to the United States Housing and Urban Development department at a minimum of 102% margin does not require further collateral to be pledged to the Administrator. Those public deposits that are HUD related do need to be reported to the Administrator with the collateral that is pledged to HUD.

Posting Excess Collateral

In order to ensure adequate collateral has been pledged, the Administrator may require depositories to post additional collateral during certain times when additional late day deposits are anticipated by public depositors. Public depositors may notify their depositories and the Administrator in advance of the anticipated increase in deposits. Notification shall be made via electronic means to the Administrator with a read receipt request that will notify the public depositor that the Administrator has received the notification. Once received, the Administrator, shall promptly notify the depositories of the anticipated increase in deposits. For same day notifications that occur prior to the close of the Federal Reserve wire, public depositors should notify their depositories first to ensure adequate collateral can be located.

Collateral for Public Deposits

Eligible collateral means any collateral authorized pursuant to A.R.S. § 35-323.

Pricing of Collateral

For all securities posted as collateral, the depository shall forward the pricing as reported by the escrow agent or independent third party pricing agent of the depository including the par and market value of each CUSIP and the pricing source for the valuation. The Administrator shall from time to time, test the market value of the collateral via independent means.

When a security or instrument pledged as collateral matures or is called for redemption, the cash received for the security or instrument shall be held in place of the security until the depository has obtained a written release or provided substitute securities or instruments.

Public Deposits and Depositors

Public deposits and depositors are defined in A.R.S. § 35-1201 (7,8) as public monies deposited in an eligible depository by the State of Arizona, or any county, city, town or other political subdivision of this state, including any commission, institution, committee, board or officer and any state court.

Eligible Depositories

Eligible depository means any:

(a) Commercial or savings bank or savings and loan association having either a branch in Arizona, or its principal place of business in Arizona and insured by the federal deposit insurance corporation, or its successor or any other insuring instrumentality of the United States according to the applicable federal law.

(b) Credit union that is insured by the national credit union administration, or its successor.

An eligible depository is not eligible to receive total aggregate deposits from this state and all of its subdivisions in an amount exceeding twice its capital structure as outlined in the last call of condition of the superintendent of financial institutions per A.R.S. 35-323 (C).

Fees

Subject to rules to be promulgated, the Administrator shall assess an annual fee to each depository based on its proportion of public deposits required to be collateralized for each annual period. The annual period shall be calculated from January 1 to December 31 of each calendar year and assessments for the following year will be issued by January 15th of the following calendar year, and payable by February 15th to the Administrator for deposit into the Public Deposit Administration Fund (Fund). For 2014, the annual period will be calculated from July 1, 2014 to December 31, 2014 and the assessment for 2015 will include expenses incurred by the Administrator in 2014 and expected expenses in 2015. One-time set-up expenses may be charged to eligible depositories prior to the commencement of the program on July 1, 2014.

The Administrator shall provide a detailed accounting of each depository's fees and assessments on the Treasurer's web page.

Any monies remaining in the Fund on December 31 will be used as a credit for fees due the following year as prescribed in A.R.S. § 35-1212. If a depository institution enters or exits the pool mid-year, partial fees will be assessed, or rebates granted on a pro-rata basis.

Penalties

The Administrator may assess penalties against eligible depositories for noncompliance pursuant to A.R.S. § 35-1211. Rules governing penalties will promulgated.

For each day that a depository fails to maintain with its qualified escrow agent the required collateral, the penalty up to \$250 may be assessed. For each day that an eligible depository fails to provide a daily summary report, a detailed monthly report, or a requested detailed daily report, a fine of \$100 may be assessed. The Administrator shall inform the eligible depository in writing by certified mail when a penalty will be assessed, and the eligible depository may request a hearing within five days after the date of the return receipt of the certified mail notification with the Administrator before the penalties are imposed. If after a hearing the Administrator imposes the penalties, they are due and payable within 30 days of notice by certified mail. If a penalty is imposed and the eligible depository fails to pay the penalties imposed pursuant to A.R.S. § 35-1211, the Administrator shall promptly notify via electronic means the Superintendent of the Department of Financial Institutions and each public depositor with

deposits in the depository of the shortfall of the required collateral. In addition, the Administrator may post on the Arizona State Treasurer's Office public web page that the depository is out of compliance with collateral requirements under the program.

Default or Insolvency

When a default or insolvency has occurred, the Administrator will first determine the amount of public deposits held by the defaulting or insolvent depository in excess of any deposit insurance. This determination will be made in cooperation with the Department of Financial Institutions, or the receiver appointed for the defaulting depository.

The Administrator shall enforce the perfected security interest of the collateral that had been held on behalf of the public deposits, take possession of the collateral, and inform the receiver and any and all regulatory agencies involved with determining the resolution of the defaulted or insolvent depository of that action. If the Administrator has had to take possession of the collateral from a failed depository, it shall notify each public depositor of the action.

If the receiver has found a new depository for the defaulted or insolvent depository and the new depository has agreed to accept the public deposits from the defaulted or insolvent depository, then upon execution of a perfected security interest with the new depository, the Administrator will transfer the collateral from the defaulted or insolvent depository to the new depository and notify affected public depositors of the amount of collateral transferred and the amount of demand deposits and interest bearing deposit balances associated with each public depositor

If there is no new depository found to accept the public deposits in the defaulted or insolvent depository, the Administrator shall then take possession of the collateral and liquidate the collateral in an orderly fashion and distribute the proceeds to the public depositors in a pro-rata basis to each entity based on each public depositor's percentage of deposits in the defaulted or insolvent depository as of default or insolvency date.

A public depositor has the option of receiving their pro-rata share of the seized collateral instead of cash proceeds, but only if the collateral is capable of being divided and segregated in such a fashion. If the collateral can be divided, an entity must request so in writing to the Administrator promptly after being notified by the Administrator of the failed depository. The request for collateral instead of cash shall include the name of the escrow agent and account numbers of the public depositor for the Administrator to transfer the collateral. The transfer of collateral shall occur promptly.

Revised 6/26/2014