

1 FINANCE AND ADMINISTRATION CABINET

2 Department of the Controller

3 Office of Financial Management

4 (Amendment)

5 200 KAR 14:091 Guidelines for money market instruments.

6 RELATES TO: KRS 41.610, 42.014(1), 42.500, 42.505-42.545

7 STATUTORY AUTHORITY: KRS 42.500(10), 42.520(2), 42.525

8 NECESSITY, FUNCTION, AND CONFORMITY: KRS 42.525, requires the State Investment
9 Commission to prescribe standards for the operation of the state's investment program. This
10 administrative regulation establishes the standards which shall apply to the use of certain money
11 market instruments which include bankers' acceptances, commercial paper and negotiable
12 collateralized and uncollateralized certificates of deposit.

13 Section 1. Definitions. (1) [~~"Commission" means the State Investment Commission.~~

14 ~~—(2) "Office" means the Office of Financial Management and Economic Analysis.~~

15 ~~—(3)] "Bankers' acceptance" means a short-term negotiable discount note drawn on and accepted~~
16 ~~by a bank or trust company which is obligated to pay the face value amount at maturity [which is~~
17 ~~rated in one (1) of the three (3) highest categories by a nationally recognized rating agency].~~

18 ~~___(2) [(4)] "Commercial paper" means an unsecured promissory obligation having a maturity of~~
19 ~~less than 270 days [and is originated by an institution that is rated in the highest category by a~~
20 ~~nationally recognized rating agency].~~

21 (3) "Commission" means the State Investment Commission.

1 (4) "NRSO" means "Nationally Recognized Statistical Ratings Organization", which is a
2 credit rating agency that is registered with the Securities and Exchange Commission, and which
3 provides its opinion on the creditworthiness of an entity and the financial obligations issues by
4 that entity.

5 (5) "Office" means the Office of Financial Management.

6 Section 2. Bankers' Acceptances. (1) The office may purchase bankers' acceptances if
7 [~~originated by a bank~~] rated in the [~~one (1) of the three (3)~~] highest short-term rating category
8 [~~categories~~] by an NRSRO [~~a nationally recognized rating agency~~].

9 (2) The purchase of these instruments shall be:

10 (a) Made on a delivery versus payment [~~versus delivery~~] basis; and

11 (b) Held in the Commonwealth's account in whatever depository shall be designated as eligible
12 by the commission.

13 (3)(a) Investment in bankers' acceptances shall be made for a period of no longer than 180 days
14 [~~six (6) months~~] per investment.

15 (b) The total amount of the investment in this security shall not exceed the amount of twenty-
16 five (25) [~~ten (10)~~] million dollars in one (1) institution at a time.

17 Section 3. Commercial Paper. (1) The office may purchase commercial paper [~~if originated by~~
18 ~~an issuer that is~~] rated in the highest short-term rating category by an NRSRO [~~a nationally~~
19 ~~recognized rating agency~~].

20 (2) The purchase of these instruments shall be:

21 (a) Made on a delivery versus payment [~~versus delivery~~] basis; and

22 (b) Held in the Commonwealth's account in whatever depository shall be designated as eligible
23 by the commission.

1 (3) The investments in commercial paper shall be made for a period of no longer than 270 days
2 [~~nine (9) months~~] per investment and the total amount of the investment in this security shall not
3 exceed the amount of twenty-five (25) million dollars by any issuer at a time.

4 Section 4. Negotiable Certificates of Deposit, Collateralized and Uncollateralized. (1) The
5 office may purchase collateralized [~~and uncollateralized negotiable~~] certificates of deposit if issued
6 by banks rated in one (1) of the three (3) highest categories by an NRSRO [~~a nationally recognized~~
7 ~~rating agency~~].

8 (2) The Office may purchase uncollateralized negotiable certificates of deposit if issued by
9 banks rated in one (1) of the two (2) highest categories by an NRSRO or subject to 200 KAR
10 14:200.

11 (3) The purchase of these instruments shall be:

12 (a) Made on a delivery versus payment [~~versus delivery~~] basis; and

13 (b) Held in the Commonwealth's account in whatever depository shall be designated as eligible
14 by the commission.

15 (4) [~~(3)~~](a) Investment in negotiable certificates of deposits shall be made for a period of no
16 longer than 270 days [~~nine (9) months~~] per investment unless specifically authorized by KRS
17 41.610.

18 (b) The total amount of investments in certificates of deposit shall not exceed the amount of
19 twenty-five (25) [~~ten (10)~~] million dollars in any one (1) institution
20 at a time.

Section 5. Limit of Money Market Instruments of the State's Total Portfolio. The aggregate investment in bankers' acceptances, commercial paper, and negotiable certificates of deposit shall not exceed thirty-five (35) [~~twenty (20)~~] percent of the Commonwealth's total investment portfolio.

Approved:

F. Thomas Howard by Jeff Malley

F. Thomas Howard, Executive Director
Department of the Controller
Office of Financial Management

9/12/12

Date

PUBLIC HEARING AND PUBLIC COMMENT PERIOD

A public hearing on this administrative regulation shall be held on October 24, 2012, from 10:00 a.m. to 12:00 p.m., in Room 383, Capitol Annex Building, Frankfort, Kentucky 40601. Individuals interested in being heard at this hearing shall notify this agency in writing at least five (5) workdays prior to the hearing, of their intent to attend. If no notification of intent to attend the hearing is received by the required date, the hearing may be cancelled. This hearing is open to the public. Any person who wishes to be heard will be given an opportunity to comment on this proposed administrative regulation. A transcript of the public hearing will not be made unless a written request for a transcript is made. If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted until October 31, 2012. Send written notification of intent to be heard at the public hearing or written comments on the proposed administrative regulation to the contact person.

CONTACT PERSON: DeVon Hankins, Policy Advisor, Office of General Counsel, Finance and Administration Cabinet, 392 Capitol Annex, Frankfort, Kentucky, 40601, (502) 564-6660 (telephone), (502) 564-9875 (fax).

REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Administrative Regulation #: 200 KAR 14:091

Contact person: DeVon Hankins, Policy Advisor and Legislative Liaison, Office of General Counsel, Office of the Secretary, Finance and Administration Cabinet, 392 Capitol Annex, Frankfort, Kentucky, 40601, (502) 564-6660 (telephone), (502) 564-9875 (fax)

(1) Provide a brief summary of:

(a) What this administrative regulation does: This regulation provides the direction for investment of state funds required by KRS 42.500 (10).

(b) The necessity of this administrative regulation: This regulation is required to place limitations on investment activities in order to limit the risk of loss of state funds through imprudent investment decisions.

(c) How this administrative regulation conforms to the content of the authorizing statutes: KRS 42.500 (10) specifies particular requirements for this administrative regulation such as limits on the maturity of investments. This regulation specifies those particular limitations.

(d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This administrative regulation provides guidance on the investment of state funds and requires prudent investment activities which will limit the exposure of state funds to investment losses.

(2) If this is an amendment to an existing administrative regulation, provide a brief summary of:

(a) How the amendment will change this existing administrative regulation: This amendment establishes consistency of exposure limits across various asset types while restricting the eligible investments to more credit worthy issuers, establishes maturity limitations that conform to Securities and Exchange Commission Rule 2a-7, and conforms terminology with current market standards.

(b) The necessity of the amendment to this administrative regulation: This amendment brings the regulation up to the standards adopted by the State Investment Commission.

(c) How the amendment conforms to the content of the authorizing statutes: The amendment is compliant with KRS 42.500 (10).

(d) How the amendment will assist in the effective administration of the statutes: The amendment further clarifies investment activities to reduce the risk of loss of state funds.

(3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: This regulation only affects actions by the Office of Financial Management.

(4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:

(a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment: Personnel in OFM will need to assure investment purchases meet the newly modified requirements set forth in this amendment.

(b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3): No costs.

(c) As a result of compliance, what benefits will accrue to the entities identified in question (3): This amendment clarifies certain requirements for the Office of Financial Management and brings regulation into conformity with Securities and Exchange Commission Rule 2a-7.

(5) Provide an estimate of how much it will cost the administrative body to implement this administrative regulation:

(a) Initially: 0\$

(b) On a continuing basis: 0\$

(6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: None needed

(7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new or by the change if it is an amendment: No increase needed.

(8) State whether or not this administrative regulation established any fees or directly or indirectly increased any fees: This amendment does not establish or increase any fees.

(9) TIERING: Is tiering applied? (Explain why or why not): There is no tiering because it is not applicable.

FISCAL NOTE ON STATE OR LOCAL GOVERNMENT

Regulation Number: 200 KAR 14:091

Contact Person: DeVon Hankins, Policy Advisor, Office of General Counsel, Finance and Administration Cabinet, 392 Capitol Annex, Frankfort, Kentucky, 40601

Phone number: (502) 564-6660 (telephone), (502) 564-9875 (fax)

(1) What units, parts, or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation?

This regulation only affects the investment actions of the Office of Financial Management

(2) Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation.

KRS 42.500 requires the State Investment Commission to promulgate this regulation. Additionally, the regulation requires that the Limited Term pool be managed consistent with SEC Rule 2a-7 as required by current government accounting standard.

(3) Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect. None.

(a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year?

None.

(b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years?

None.

(c) How much will it cost to administer this program for the first year?

No cost

(d) How much will it cost to administer this program for subsequent years?

No cost

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-):

Expenditures (+/-):

Other Explanation: