

## **Securities Lending Policy**

### **Eligibility:**

The financial institution or its parent corporation must have a long-term rating of A or higher by both Standard & Poor's and Moody's. The lending agent shall indemnify the Commonwealth from any borrower's failure to fulfill their obligations.

### **Collateralization/Reinvestment:**

**Principal:** The borrower of the Commonwealth's securities will be required to deliver to the Commonwealth a portfolio of eligible securities with a value of not less than 102 percent of the market value of the Commonwealth's securities lending portfolio. The borrower may, at its option, substitute cash equal to the value of the portfolio in lieu of eligible securities.

**Agent:** The lending agent may reinvest proceeds under the guidelines listed below.

**Investment Manager:** The lending agent shall immediately notify the Office of Financial Management of any change in reinvestment management personnel.

Reinvest guidelines:

Eligible securities must meet KRS 42.500 with the following additional limitations:

- a. Floating rate securities are limited to a legal final of two (2) years.
- b. Fixed rate securities are limited to a legal final of six (6) months.
- c. Total effective duration of the portfolio should not exceed sixty (60) days.
- d. Maximum amount owned by name is \$15 million. For ABS maximum of \$15 million per shelf. The lending agent should be aware of securities being held by the Commonwealth in their own account and not increase a name in total over \$25 million.

**Lending:**

Securities will only be lent to primary brokers that are included on the State Investment Commission approved broker dealer list.

The maximum permitted amount lendable to any one primary broker is \$200 million.

**Reporting:**

Daily reports should be available listing:

- a. Securities lent, by borrower
- b. Collateral portfolio holdings
- c. Average maturity of loans versus average maturity of cash collateral investments

Monthly reports:

- a. Total income from securities lending
- b. The percentage of the portfolio on loan
- c. Average spread between the loan rate and cash collateral investment rate

Immediate notification to the Executive Director of the Office of Financial Management and also the primary contact for the Securities Lending Program if the following occurs:

- a. Any borrower of the Commonwealth's securities has a change in credit rating or experiences a more severe credit event
- b. Any security owned in the Commonwealth's reinvest portfolio has a change in credit rating or experiences a more severe credit event

Dated: June 27, 2012