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Money Management Act & PTIF Update, Frauds & Scams

Utah Association of Public Treasurers Spring Conference
May 17, 2017

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Discussion Outline

- PSA: Unclaimed Property
- Money Management Act Essentials Refresher
- Money Management Act Amendments
- PTIF update
- Risk du jour: Governance, ethics, & internal controls
- Ideas to mitigate risks

Unclaimed Property

- Protection of Individual Property Rights
 - Priority 1: Reuniting funds with rightful owner – over \$21MM annually
- Benefit should inure *to the general public*, not the incidental holders of properties
 - Priority 2: Public benefit (\$15MM - \$20MM annually) to the **Uniform School Fund**





The seal of the State of Utah Treasurers is a circular emblem. It features an eagle with its wings spread, perched atop a pedestal. The pedestal is supported by a base that resembles a scale of justice. The words "STATE OF UTAH" are inscribed in an arc at the top, and "TREASURERS SEAL" is inscribed in an arc at the bottom. The year "1896" is positioned below the eagle. Two stars are placed on either side of the eagle's head. The entire seal is rendered in a light gray, semi-transparent style.

Money Management Act Essentials

Who Can You Deposit or Invest With?

Certified Dealers

Qualified Depositories

Certified Investment Advisers

Settlement

-Delivery vs. payment



Section 51-7-3, 2, 28, 3, and Section 51-7-11

Objectives for Deposit & Investment

Safety of principal

Need for liquidity

Yield on investments

- Operating vs other-purpose (i.e. permanent) funds
- Maturities of investments

Prudent Person Rule

“Investments...shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment considering the probable safety of their capital, as well as the probable benefits to be derived and the probable duration for which such investment may be made.”

[Paraphrased, not cited directly from the Act]

Eligible Securities

- Certificates of Deposit
- Agencies or Instrumentalities
- Repurchase Agreements
- Corporate Obligations
- Commercial Paper
- Municipal Bonds
- Banker's Acceptance
- Money Market Mutual Funds
- U.S. Treasuries
- Variable Rate Securities

Section 51-7-11

Certificates of Deposit

Bank deposit for a specified term that earns interest at a specified rate

- 360 day basis

May be issued by either a “qualified” or “permitted” depository

May be negotiable or nonnegotiable

May be variable rate

- Must be repriced at least semiannually

- Remaining term to maturity less than 2 years

No maturity limit on fixed rate CD's with qualified depositories

Commercial Paper

- Unsecured promissory notes issued by a corporation
- Must be “first tier” paper
- Sold on a 360-day basis
- Maturity ranges from 1-270 days*
- Sold as discount or interest-bearing instruments
- Rule 17 details issuer concentration limits

-Portfolio size driven, tiers at \$10MM, \$10MM-\$20MM, \$20MM+

Credit Ratings

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1	P-2	A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3		A-		A-		
Baa1	P-3	BBB+	A-2	BBB+	F2	Lower medium grade
Baa2		BBB		BBB		
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1	Not prime	CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely speculative
Caa3		CCC-				In default with little prospect for recovery
Ca		CC				
Ca		C				
C	D	/	DDD	/	In default	
/			DD			
/			D			

Variable Rate Securities

- Must be rated “A” or higher by two NRSRO’s
- Must be publicly traded
- Must reprice at least semiannually
- Must have a remaining term to final maturity not to exceed three years, or are subject to a hard put at par value or better within 365 days
- May not be mortgages, mortgage-backed, mortgage derivative products, or any security making unscheduled periodic principal payments

Money Market Mutual Funds

Shares or certificates in an open-end managed investment fund

-Must comply with the quality, diversification and maturity requirements of SEC Rule 2a-7

-May not assess a sales load nor a deferred sales charge

SEC Rule 2a-7 & MMMF Reform

Effective May 5, 2010	Effective October 14, 2016
WAM 90 days → 60 days	Floating NAV
WAL restricted @ 120 days	Gates
10% one day liquidity	Fees
30% one week liquidity	
Portfolio stress testing	



Implications

- PTIF s/t re-allocation, prime to govy
- Temporary shift in PTIF liquidity
- Nominal yield offset to LIBOR trend
- Forced demand for government securities
- Decreased liquidity in corporates

Money Management Council

- Five member committee appointed by the governor
- Consists of public treasurers and private sector individuals
- Meets at least quarterly
- Advises public treasurers about investment policies
- Provides a list of certified dealers
- Cooperates with the Commissioner of Financial Institutions

Reports to the Council

Semiannual deposit and investment report detailing:

- Amount of public fund in the treasurer's control
- Nature and extent of the deposit and investment of those funds
- Rate of return on each deposit or investment
- Nature and extent of interest rate contracts

The seal of the State of Utah Treasurers is a circular emblem. It features an eagle with its wings spread, perched atop a wooden structure that resembles a mine cart or a similar piece of equipment. The eagle is set against a background of a mountain range. The words "STATE OF UTAH" are arched across the top of the seal, and "TREASURERS SEAL" is arched across the bottom. The year "1896" is positioned at the bottom center of the seal. Two stars are placed on either side of the eagle's head. The entire seal is rendered in a light gray color.

D&I Reporting via Eform: Discussion

Pre-2017 Amendments To The Act

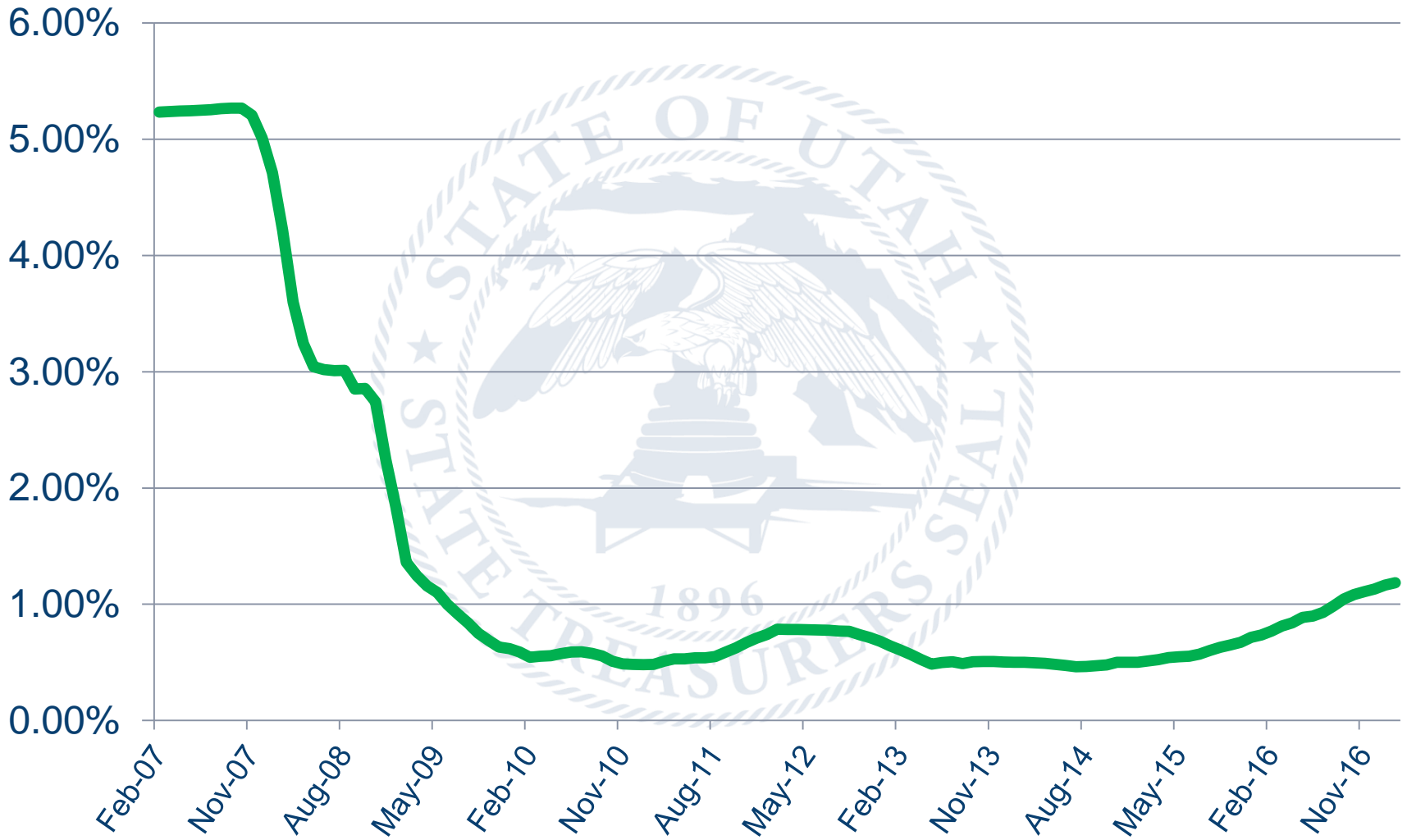
- Corporate floaters' remaining term to final maturity 3 years
- Fixed rate corporate notes' remaining term to final maturity 15 months
- Added 4(2) ("private placement") CP
- Caps on final maturities of treasuries, agencies, Utah munis
 - General provision: 5 years
 - 10 years for cities & counties of the first class
- State treasurer approval of interest rate derivatives

2017 Amendments: HB 268

“The 7th bill in 8 years”

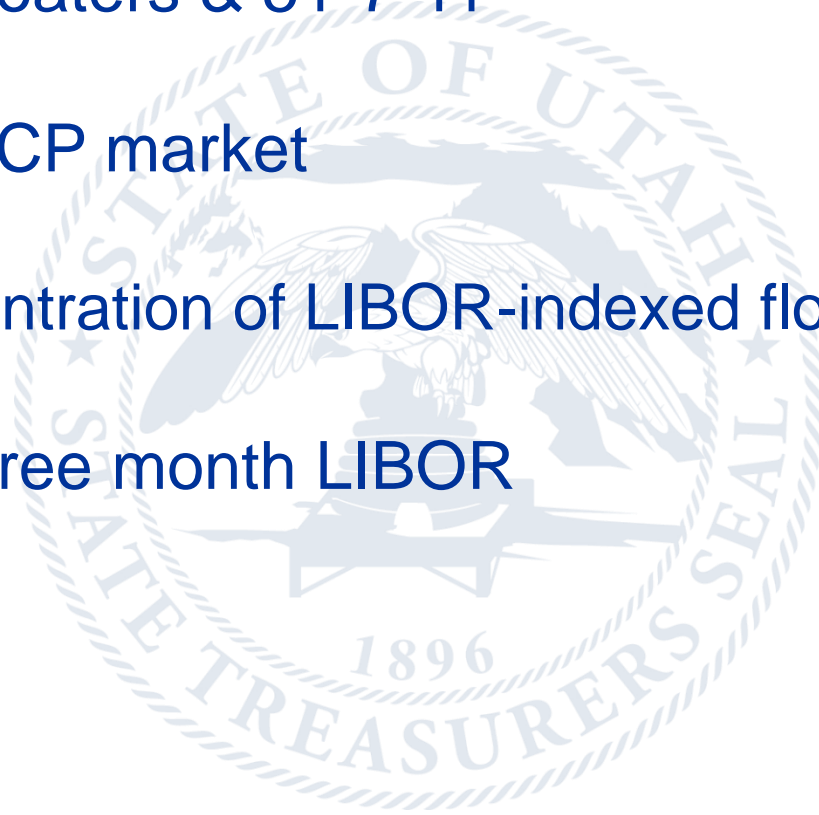
- **Caps on final maturities of treasuries, agencies, Utah munis**
 - 20 years for public agency insurance mutuals
- **Certified investment adviser’s dealer list**
 - (Rules 15 and 19 to be amended)
- **Crime/theft insurance alternative to bond (Amending Rule 4)**
- **Council given discretion to authorize exceptions to maturity caps**

Recession and the PTIF

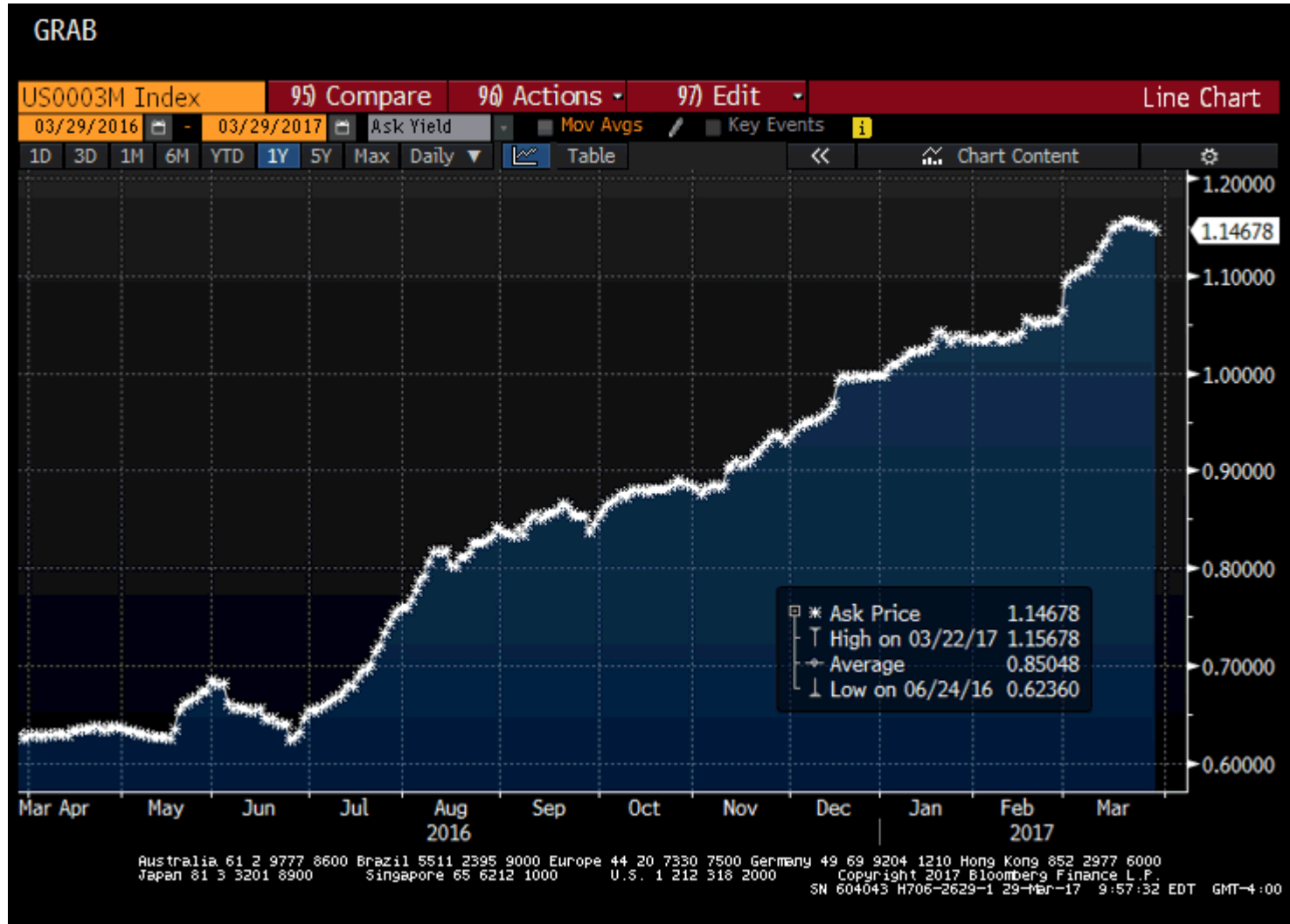


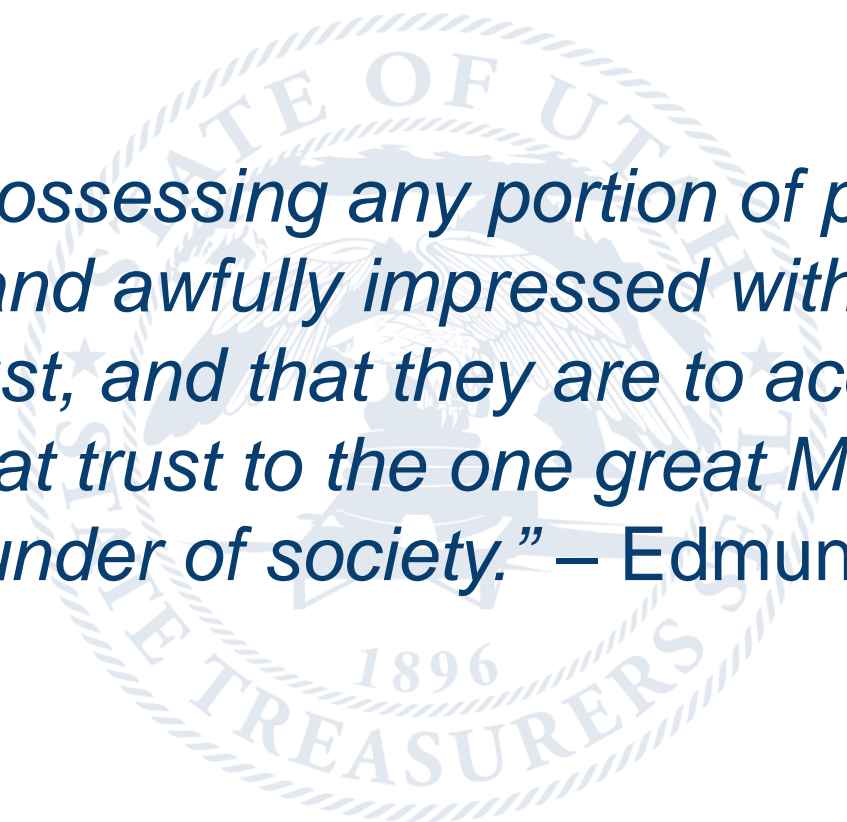
PTIF - Catalysts

- Corporate floaters & 51-7-11
- Diminished CP market
- ~80% concentration of LIBOR-indexed floaters
- Trends in three month LIBOR



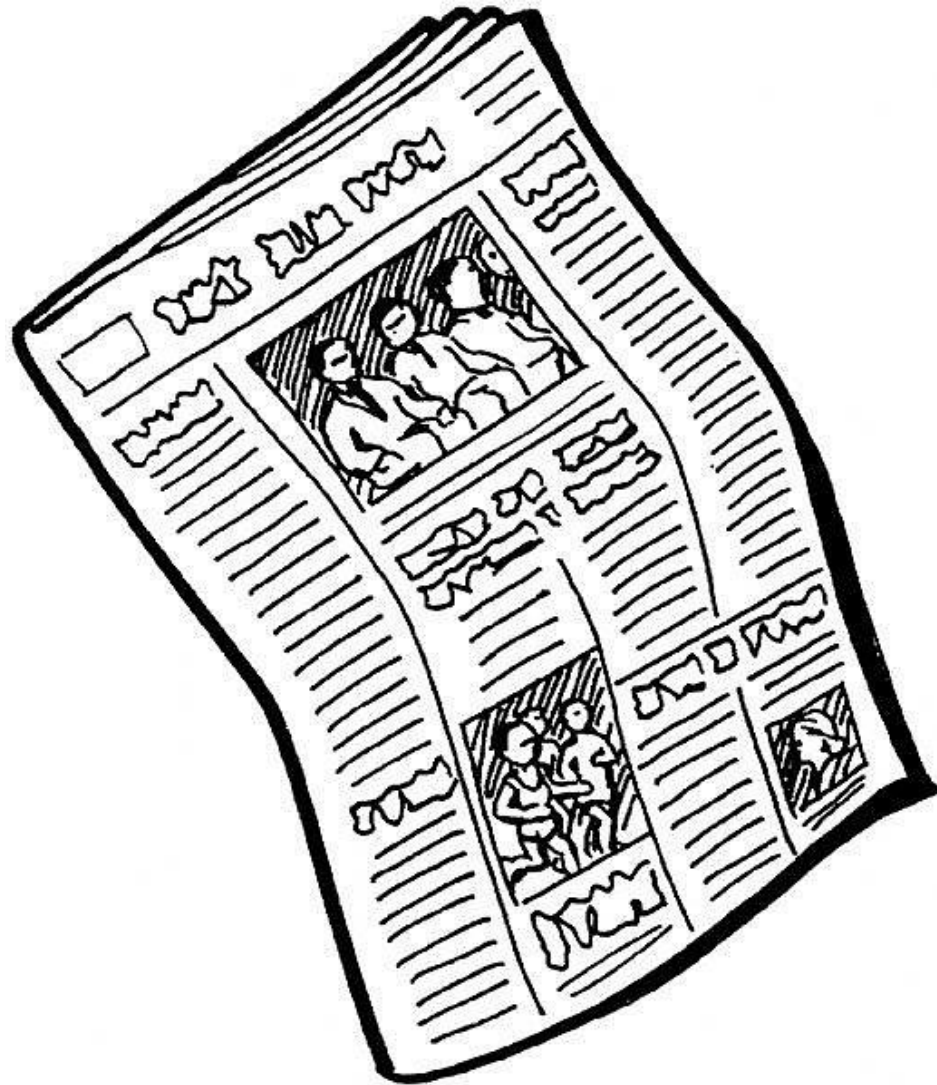
Three Month LIBOR





“All persons possessing any portion of power ought to be strongly and awfully impressed with an idea that they act in trust, and that they are to account for their conduct in that trust to the one great Master, Author, and Founder of society.” – Edmund Burke

2016 Headlines



2016 Headlines

Utah Communications Authority	<ul style="list-style-type: none">• Upwards of \$1MM stolen• Corporate credit card• Policy in effect but not enforced• Transaction review – paper statements
Kane County	<ul style="list-style-type: none">• \$91,000 or more missing• Elected treasurer under investigation for misappropriation of funds• Transfers to personal accounts• Missing cash deposits
School for the Deaf and Blind	<ul style="list-style-type: none">• At least \$67,000 missing• Numerous records “missing”• Unauthorized credit card use
Emery County	<ul style="list-style-type: none">• \$38,700 BEC Fraud
Public Lands Commission	<ul style="list-style-type: none">• Grand America stays• Hefty bar tabs

Headlines And The Public Trust

- Your reaction?
- What can we gain from it?



Addressing Fraud And Theft

- Careful study of breaches and their cause(s)
- Finer versus Friedrich
- Cultural foundations
 - The prescriptive benefit of core values
 - Functional role of a code of conduct
- Comprehensive internal review
 - Policies
 - Procedures
 - Roles
 - Separation of duties – critical delineations
 - Compensating controls

Addressing Fraud And Theft

- Documentation and revision of P&P
- Staff training
- Protocol for ongoing oversight
- Wire transfer authorization protocol
 - Telephone callback procedure?
- Are banking processes optimal & secure?

Banking Technologies

- Information reporting
- Payment controls
 - Positive Pay/Reverse Positive Pay
 - Purchasing card vs petty cash, MCC restrictions
 - “One cards” only for frequent travelers
 - Use of online reporting & administration
 - ACH block & filter
 - Check block
- Positive pay/reverse positive pay
- Wire transfer authentication

“There are all kinds of devices invented for the protection and preservation of countries: defensive barriers, forts, trenches, and the like... But prudent minds have as a natural gift one safeguard which is the common possession of all, and this applies especially to the dealings of democracies. What is this safeguard? Skepticism. This you must preserve. This you must retain. If you can keep this, you need fear no harm.” – Demosthenes



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