

TITLE 12—DEPARTMENT OF REVENUE
Division 10—Director of Revenue
Chapter 43—Investment of Nonstate Funds

12 CSR 10-43.030 Collateral Requirements for Nonstate Funds

PURPOSE: This rule establishes collateral requirements for nonstate funds collected and invested by the Department of Revenue. These requirements are designed to guarantee that nonstate funds are secured against loss while they are being invested in safe, competitive yield investment instruments prior to distribution of principal and earned interest to local political subdivisions.

- (1) Any depository investing nonstate funds as an investment agent of the director of revenue must guarantee there will be no deficiencies in daily transactions, or losses in any principal or interest due to the department on investment transactions.
- (2) Any depository investing nonstate funds as an investment agent of the director of revenue must be subject to examination by—the Federal Deposit Insurance Corporation (FDIC) or other like federal government agency, the Securities and Exchange Commission (SEC), the Missouri Division of Finance or other like state agency, and independent auditors. The investment agent also shall have an internal audit program which meets the specifications of the Department of Revenue Investment Group.
- (3) Any depository investing nonstate funds as an investment agent of the director of revenue must adhere to the following rules governing collateral:
 - (A) Before the investment agent places deposits with depository institutions, the investment agent must require that the institutions pledge collateral security. The following general procedures will be used:
 1. Only securities that are issued or guaranteed by the United States government or its agencies or are at least A rated from one of the Nationally Recognized Statistical Ratings Organizations and are accepted as collateral by the Treasurer of the State of Missouri are acceptable to secure nonstate funds;
 2. The entire value of the nonstate funds on deposit with the depository, including accrued interest, must be covered by the market value of securities pledged less applicable FDIC or other like insurance;
 3. The investment agent may not disburse funds for investment until it is assured that adequate and proper collateral has been pledged. Telephone confirmation of securities pledged from a third-party custodian is acceptable pending receipt of the actual safekeeping document;
 4. Securities may not be released until deposits, including accrued interest, are received from the depository institution;

5. The investment agent may allow substitution of acceptable collateral securities with equal or greater market value if the substitution occurs on a simultaneous basis. That is, the new collateral must be received before or at the same time the old collateral is released;

6. Excess collateral may be released if it is reasonable as determined by the investment agent. The investment agent will determine the market value of all collateral every two (2) weeks and compare that to the amount of deposits at each deposit institution. When the value of collateral falls below the amount of deposits, the investment agent must immediately demand additional collateral. If the depository institution fails to post the additional collateral within two (2) days of the day requested, the investment agent will request withdrawal of all deposits at that institution; and

7. The director of revenue, upon the recommendation of the Department of Revenue Investment Group, may require an institution pledging collateral to use a different third-party custodian which will be acceptable to the director;

(B) Repurchase Agreements and Reverse Repurchase Agreements will be handled in a manner similar to the state treasurer's procedures and are restricted as follows:

1. Transactions will be on an overnight basis or for a period not to exceed thirty (30) days;

2. Market value of collateral securities must be at least equal to one hundred and two percent (102%) of the repurchase agreement;

3. Securities will be priced daily before they are accepted and weekly thereafter; and

4. No more than twenty-five percent (25%) of the total market value of the portfolio may be invested in repurchase agreements with any one issuer, unless specified otherwise;

(C) The investment agent must provide adequate collateral security for department funds in the investment agent's custody and control. These funds consist of each day's deposits plus any uncollected funds and any other non-invested funds; and

(D) The investment agent's collateral system must be subject to on-line electronic access by the department's employees. This system must include the following features:

1. The investment agent will price all securities as they are placed on the system. The investment agent will ensure that securities are acceptable and marketable and will periodically review securities for these features;

2. On a daily basis, the investment agent will compare collateral security to all deposited funds;

3. The investment agent will generate appropriate exception reports. These will include, at a minimum, identifying those securities for which the safekeeping receipt has not yet been received. The investment agent will immediately follow-up on any deposit for which the safekeeping receipt is not received within five (5) working days; and

4. The investment agent will produce a report identifying deficiencies in collateral. This report will be produced daily and the investment agent will follow up on a same-day basis to ensure that adequate collateral is pledged.

*AUTHORITY: section 136.120, RSMo 2016. * Original rule filed May 2, 1986, effective Aug. 11, 1986. Amended: Filed April 21, 1987, effective July 23, 1987. Amended: Filed June 14, 1988, effective Oct. 27, 1988. Amended: Filed Jan. 18, 1989, effective June 11, 1989. Amended: Filed Aug. 28, 1990, effective Dec. 31, 1990. Amended: Filed Jan. 14, 1992, effective May 14, 1992. Amended: Filed Aug. 12, 1999, effective Feb. 29, 2000. Amended: Filed Feb. 8, 2002, effective Aug. 30, 2002. Amended: Filed Sept. 11, 2006, effective April 30, 2007. Amended: Filed Sept. 19, 2008, effective April 30, 2009. Amended: Filed Oct. 17, 2011, effective March 30, 2012. Amended: Filed Jan. 24, 2023, effective Aug. 30, 2023.*

**Original authority: 136.120, RSMo 1945.*