

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

POLICY NUMBER: 10.310

EFFECTIVE DATE: September 23, 2022

TITLE: Custodial Bank

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: July 20, 2022

#### I. Custodial Bank

- A. The Board has the authority to procure and select the Custodial Bank. The Executive Director shall prepare a competitive selection process to be used in solicitation and selection of a Custodial Bank after which, the Executive Director shall negotiate a contract.
- B. The Board acknowledges the complex and substantial role of the Custodial Bank and the associated custodial credit risk specific to the custodial bank relationship.
- C. The purpose of this Policy is to describe the range of services provided, establish the minimum qualifications for respondents, and establish requirements to help mitigate risks.
  1. Risk in this context is the event of failure of the financial institution in possession of the Board's assets whereby the state is not able to recover the investments or collateral securities.
  2. This risk is not limited only to the Custodial Bank; there may be sub-custodial banks particularly in foreign countries that may not be affiliates of the primary Custodial Bank.
- D. The Custodial Bank provides a range of services including, but not limited to:
  1. Safekeeping securities and settlement services including global and domestic U.S. custody,
  2. Processing global and domestic cash including foreign exchange,
  3. Accounting and reporting securities,
  4. Providing participant (transfer agent) accounting and reporting,
  5. Reporting investment performance and analytics,
  6. Lending custodial securities or facilitating non-custodial securities lending at the Board's option, and
  7. Providing and maintaining a comprehensive online accounting system to account for the Board's entire portfolio and all transactions.
- E. Given the complex role, responsibility, and trust associated with the Board's Custodial Bank, the Board specifies the following *minimum* qualifications for respondents. Respondents must:
  1. Have been providing domestic and global master custody services for at least ten (10) years,
  2. Have under custody at least \$1 trillion in assets at fair value, \$500 billion of which must include international foreign currency assets,
  3. Have been providing domestic and global master custody services for at least ten (10) public or corporate pension funds, each with assets of at least \$10 billion, at fair value for a minimum of five (5) years,
  4. Have provided securities lending services for public pension and non-pension funds for a minimum of ten (10) years,

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5. Have daily average of \$40 billion in fair value of securities on loan during the twelve (12) preceding months,
  6. Be able to perform all procedures necessary to convert from the current Custodial Bank's system to the new Custodial Bank's system of record. Offeror must have completed transitions of at least five (5) public funds with diversified assets totaling at least \$25 billion at fair value,
  7. Be able to provide participant (transfer agent) accounting and reporting (mutual fund type accounting) and be able to demonstrate to the Board's satisfaction its ability to provide such accounting,
  8. Be able to provide on-line comprehensive securities accounting and be able to demonstrate to the Board's satisfaction its ability to provide such accounting,
  9. Allow Board staff to customize reports and provide an electronic interface for such reports,
  10. Be able to provide a direct interface between its securities accounting system and the Board's Financial Asset and Investment Management System (the Board's trade order management system),
  11. Be able to provide assurance through a third party, in writing, that its internal control reviews are conducted in compliance with applicable audit standards, including, but not limited to Report on Controls at a Service Organization, and
  12. Have in place an internal audit staff who consistently evaluates all internal control systems and risks associated with master trust/custody services.
- F. In addition to the above minimum qualifications, respondents must be able to demonstrate to the Board's satisfaction:
1. Organizational resources, technology and staffing securities safekeeping, and core servicing securities,
  2. Settlement, accounting, cash reporting, and exposure management,
  3. Foreign exchange securities lending, and
  4. Comprehensive accounting system including transfer agency performance measurement and portfolio risk analysis transition and conversion.
- G. The Board acknowledges that the Custodial Bank shall generally have investment and deposit options available to the Board. To mitigate risk, the Custodial Bank must:
1. Demonstrate it has sufficient financial strength to protect the interests of the Board,
  2. Be rated at a minimum at the sixth (6<sup>th</sup>) highest investment grade rating by at least two (2) nationally recognized statistical rating organizations, and
  3. Hold any cash balance deposits of Custodial Bank or sub-custodial banks in the name of the Board. All cash balances may be held for short periods while awaiting proper instructions.
- H. The Board designates the Custodial Bank as the investment 'book of record' but, the Board reserves its fiduciary responsibility to assure accurate records regarding both holdings and performance.
- I. The Board acknowledges and allows that some of its fiduciary assets are by their nature held elsewhere, other than by the Custodial Bank, and by cross-reference to Policy 30.400, directs and requires the Chief Investment Officer to set appropriate due diligence and control standards to provide for the prudent safeguarding of assets such as:
1. Index Funds,
  2. Private equity and real estate ownership interests, and
  3. Any commingled funds held within managed accounts (these would include use of any ETF's or proprietary commingled funds in the form of an institutional trust vehicle).

Authority: Montana Constitution, Article VIII, Section 13  
Section 2-15-1808, MCA  
Section 17-6-101, and -201, MCA

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