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To: Chief Fiscal Officers

From: Steven J. Hancox, Deputy Comptroller
Division of Local Government and School Accountability

Subject: Securing Local Government Deposits and Temporary Investments

Please provide copies of this bulletin to others who may need this information.

In light of the ongoing turmoil in the country's financial system, we want to remind all local governments of their fiduciary responsibility to adequately secure their deposits and investments.

State law requires that all deposits and investments with banks or trust companies (e.g., checking accounts, time deposit accounts, certificates of deposit, etc.) in excess of FDIC coverage be properly secured. To the extent not properly secured by an eligible letter of credit, letters of credit issued by a federal home loan bank or an eligible surety bond, these deposits and investments must be collateralized by a pledge of eligible securities. These securities must have an aggregate market value equal to or greater than the aggregate amount of the local government's deposits and investments. Local governments utilizing investment "pools" must make sure their investments are secured by a pledge of a pro rata portion of a collateral "pool" having the proper aggregate market value.

The General Municipal Law requires that all securities pledged to deposits and investments be held pursuant to a written security and custodial agreement. Your custodial agreement must provide that the bank or trust company having custody of the collateral periodically revalue the pledged collateral and for the substitution of collateral when a change in the rating of a security makes it ineligible as collateral. These provisions help ensure adequate coverage in accordance with the security and custodial agreement. Recent downgrades and price fluctuations in the securities market make it imperative that local officials make certain that the market value and quality of securities pledged are closely monitored to ensure that their deposits are safeguarded.

It is also important that local governments remember to conduct the required annual review of their investment policies as established under the General Municipal Law so that appropriate standards and procedures continue to be met, such as adequate diversification and the credit worthiness of each counterparty firm.

If you have questions pertaining to this bulletin, or need technical assistance, please contact us as 518-474-5404, or via email at localgov@osc.state.ny.us. Legal questions can be directed to OSC's Legal Division at 518-474-5586.